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IDEAS ON LIBERTY

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IDEAS ON LIBERTY

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PERSPECTIVE

Score One for Tribalism

Throughout its brief history, the idea of individualism has animated much good that has come about in society. It has also generated volumes of nasty criticism. Among the critics Marx was perhaps the most fervent. He claimed there is nothing more to the belief in the value of the individual human being than a ploy to get people to produce with all their energy. Once this vigorous production bore fruit, the idea of the value of the individual could be abandoned for the myth it was and the real truth could be told: "The human essence is the true collectivity of man." Marx thought we are what he called "specie beings," that is, parts of humanity, with humanity the locus of true value. It is only by service to humanity that our worth is established, he argued.

The tribal mentality—always a major factor in how human beings acted—is still a powerful force today. In America communitarians advocate a tribal humanitarianism rather than socialism which is becoming useless as an inspiring ideal because of its very bad reputation. Individualism continues to be assaulted from both the right and the left. Conservatives see it as too readily opposing tradition and custom, the vote of the historical majority. Modern liberals just find humanity much more lovable than actual individual human beings.

In the process of denouncing individualism, critics have perpetuated all sorts of distortions. Most notable is the one where individualism is represented as claiming that every human being is supposed to be an isolated, totally unique, self-sufficient, or atomistic individual. As if the position held that we each come into the world ready made, unrelated to others, free to abandon our fellows and flourish, nevertheless. Such abstract individualism has been the target of innumerable critics. On this mythical view has been blamed crime, poverty, child molestation, divorce, decadence, hedonism, violence, hate, racism, greed, and what have you. Every scourge of the world is laid at the feet of individualism by these critics who are usually inspired by Marx, even when they only use this portion of his thinking (realizing that the rest has been shown to be a mistake).

Two can play at this game of smearing views by isolated, misconceived example. Indeed, it is arguable that what troubles tribalism is far worse than any of the pitfalls of individualism.

This all was brought home to me when I heard about the vicious killing of Colombian soccer star Andrés Escobar, who had the misfortune of accidentally scoring into his own team's goal in the World Cup game against the team from the United States. Three thugs gunned him down as he emerged from a club in Bógota, with one gunman shouting "Goal, goal" as the shots were fired, or so it was reported.

If the team is all, if the group is supreme, if the country or race or sex or ethnic collective is placed above everything else, well then, perhaps, when someone bungles big in a crucial game, even if only accidentally, off with his head. He needs to be liquidated, the team purified, not unlike the ethnic purification going on elsewhere on the globe where folks think that the group reigns supreme over the individual.

Who ever heard of individual rights in such a situation? It is nonsense, is it not, just as the greatest collectivist thinkers through the ages have claimed. One of these, Auguste Comte, the father of sociology and the thinker who coined the term "altruism," made the point this way:

> [The] social point of view . . . cannot tolerate the notion of rights, for such notion rests on individualism. We are born under a load of obligations of every kind, to our predecessors, to our successors, to our contemporaries. After our birth these obligations increase or accumulate, for it is some time before we can return any service. . . . This ["to live for others"], the definitive formula of human morality, gives a direct sanction exclusively to our instincts of benevolence, the common source of happiness and duty. [Man must serve] Humanity, whose we are entirely.

Not that people who elevate the group above the individual all advocate treating individuals with no regard for their well-being, with no attention to their rights. But for them individual rights are subsidiary to the group's purposes. So if the group is all worked up about winning soccer games, why should they not treat any individual badly who does not follow suit? Why spare that person?

This may not be the fairest point to raise against those who advocate communitarianism, socialism, or other forms of groupism or collectivism. But these thinkers are far from fair when it comes to characterizing individualism and what may be expected from a society where individualist values are well respected. Fair or not, my criticism is not off the mark. The Colombian hoods were not alien to the tribal way of political and social thinking when they eliminated Mr. Escobar. Their social point of view could not tolerate the idea of individual rights either.

—TIBOR R. MACHAN

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Freedom

The degree of freedom possessed by those having the least power and influence is the true measure of freedom in a nation.

The powerful, having a false sense of freedom through the exercise of power over others, can too easily and inadvertently give up a free nation's foundation of freedom and thus almost unknowingly give up their own basis of power.

—JOHN V. WESTBERG

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Ludwig von Mises (1881–1973): A Prophet Without Honor in His Own Land

by Bettina Bien Greaves

An understanding of the principles of human action makes it possible to distinguish "good" government policy from "bad," to recognize government programs that will foster peace and prosperity and to spot the flaws in those that will be destructive. Reasoning on the basis of sound principles, Ludwig von Mises was able to anticipate the direction, if not the timing or extent, of the changes a specific government action would bring about.

* * *

The year was 1921. It was near midnight. Economist Ludwig von Mises was guiding some visitors through Vienna's dimly lit inner city. The city was asleep. All was quiet except for the sound of the men's muted conversation and the clop of their footsteps on the cobblestone streets. The men had just come from an economic conference where they had been discussing the disastrous effects of inflation. Prices were rising rapidly in most of the countries of post-World War I Europe. Germany and Austria, especially, were facing hyperinflation. In Austria, the economy was in the doldrums. Large numbers of industrial firms were idle throughout the land, while others were working only part-time.

As the men approached the center of the city, the still of the night was broken by "the heavy drone of the Austro-Hungarian Bank's printing presses." Their Viennese host, Mises, explained that those presses "were running incessantly day and night, to produce new banknotes." Throughout the land only the printing presses stamping out banknotes were operating at full speed. "Let us hope," Mises told his guests, "that industry in Germany and Austria will once more regain its pre-war volume and that war- and inflation-related industries, devoted specifically to the printing of notes, will give way to more useful activities."

Mises had been concerned about inflation even as a young man. After receiving his doctorate in 1906, he wrote a number of serious studies on money and banking. Former Austrian Minister of Finance Ernst von Plener, a leading economist, called Mises to his office one day to discuss one of his papers. "I don't know why a young man like you is interested in inflation," Plener said. "True, inflation was a serious problem in the past. But," he went on, "all the

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Mrs. Greaves, Resident Scholar at The Foundation for Economic Education, attended Professor Mises' seminar at New York University for many years and knew both him and Mrs. Mises well. The remarks attributed to Professor Mises in direct quotation marks are based on his own writings, interviews, and notes taken at his seminar and lectures.

civilized countries in the world are now on the gold standard. Can you imagine England, France, or Germany, going off the gold standard?"

Ludwig, then only 26 years old of medium height, serious, prim and proper, with a military bearing, was respectful. But he begged to differ. "I see a movement in those countries," Mises said, "that can't be called anything but 'inflationist.' The books of their economists express enthusiasm for inflation, even for unlimited inflation. Sooner or later, the ideas of those inflationist economists will influence public opinion. And that must lead to inflationist government policies." (Mises' anticipation was borne out during World War I when England, France, and Germany all went off the gold standard.)

Mises served in the Austro-Hungarian cavalry on the eastern (Russian) front in World War I. When he returned to Vienna, he found that inflation had compounded the destitution of the people. Men and women who had worked and saved for decades discovered that the value of their pensions was evaporating; the savings of a lifetime could pay for only a few streetcar rides. Merchants could not replace inventories with the receipts from their sales. A shoe dealer, for instance, with an inventory of 10,000 pairs of shoes in 1914, saw his assets dwindle each year as the cost of shoes went up with the inflation, until finally his receipts from a year's sales could pay for only one pair of shoelaces.

An Austrian emigre, who went to the United States before 1900 and became wealthy, bequeathed his fortune to establish an educational institution for orphans in Austria. Under Austrian law the dollars had to be invested in Austrian government bonds until arrangements for the institution could be made. World War I intervened. By the end of the war inflation had made the government bonds worthless and nothing was left for the orphans.

Economist Mises realized that inflation hurt some people at the expense of others. Those who were industrious, conscientious, and responsible, who worked hard and saved, were "losers," as the inflation eroded their savings. Those who borrowed to live beyond their means and spent lavishly were "winners" as they were able to repay their creditors with worthless paper money.

In 1922 Ignaz Seipel became Chancellor of Austria. Dr. Seipel, a Roman Catholic priest, honest and conscientious but naive about finance, was not the usual politician. Mises, by then a government adviser, and Wilhelm Rosenberg, a lawyer friend who was an expert in financial questions, convinced Seipel that for the good of the people the printing of superfluous banknotes should be stopped. Then Mises realized Seipel expected that halting the inflation would bring prosperity right away. Mises didn't want to deceive Seipel. "Stopping the inflation will bring economic improvement in time," Mises told Seipel. "But not immediately. . . . Its first effect will be to cause a 'stabilization crisis,' that will bring about serious, though short-run, economic hardship." Mises went on to explain why: "The people have come to expect ever-rising prices. They have adjusted to the inflation so far as they were able. Halting the flow of banknotes will come as a shock. Those who have anticipated further inflation will find their plans frustrated. Thus, the *immediate* effect of stopping the inflation will not be to benefit you and your political party. I don't say you will have serious difficulties. . . ."

Seipel interrupted. "But you say this is necessary, that this is the moral thing to do. If so, it doesn't matter. The party must do not only what is popular in the short run; it must also do what is best for the country." Thanks to Seipel the Austrian inflation was then brought to a halt in Austria in the fall of 1922, one year before Germany's catastrophic post-World War I inflation came to an end. And, in spite of the opposition of socialist opponents, Monsignor Seipel and his party won their next (October 1923) election.

Mises' Attack on Communism

Mises' first serious attack on Communism, or socialism as it was often called, was in a 1920 article. Then two years later, Mises shocked his contemporaries with a book, *Socialism*, in which he explained that if the Communists wanted to do away with private property, they would be unable to calculate and thus unable to plan production. In a Communist society, he said, in which all property was communally owned, the planners would have to rely on soldiers and hangmen to enforce their edicts.

Without private property, there would be no private owners bidding for goods and services, no exchanges among real owners. Without private owners, each of whom was being guided by the desire for profits and a fear of losses, there would be no market prices to indicate what people wanted and how much they were willing to pay for what they wanted. Without market prices, there would be no competition and no profit and loss system. And without a profit and loss system, there would be no network of interrelated consumer-directed, independent producers. Without private property, competition, market prices, and a profit-and-loss system, the planners would not know what to produce, how much to produce, or how to produce it.

Except as the planners could observe and copy production going on in non-socialist lands, they would find themselves "floundering in the ocean of possible and conceivable economic combinations without the compass of economic calculation." Thus a Communist society would be rife with economic waste, malinvestment, production bottlenecks, surpluses of some things, shortages of others. Certainly it would be no utopia.

When *Socialism* appeared in 1922, pro-socialist post-World War I Europe was not ready to accept his rigorous critique of Communism and all varieties of socialism. The book was criticized severely, not only by socialist polemicists but also by learned professors. For decades apologists for Communism energetically defended the U.S.S.R. and its economic system, arguing that the nation, supposedly a Communist society, obviously existed. Moreover, it was functioning. In 1957, the Swedish sociologist (and future Nobel laureate) Gunnar Myrdal, ridiculed Mises, saying that the very type of economic planning Mises had said was "impossible," was actually being carried out in almost all underdeveloped countries and "often with the competent guidance of economists."

For decades the U.S.S.R.'s society stumbled along, its edicts enforced, as Mises had predicted, by soldiers and hangmen, and often with the assistance of massive subsidies from abroad. For 72 years from the Revolution of 1917, its people endured economic shortages and bottlenecks, tolerated shoddy merchandise, and suffered deprivation. For 72 years the Soviets struggled to copy foreign production processes and foreign prices. Then finally the *coup de grace*. In 1989, the Communist regimes of Eastern Europe and the U.S.S.R. collapsed. Widespread economic waste and continuing malinvestment throughout those 72 years in the U.S.S.R. and its satellite nations were their undoing, eloquent testimony to the truth of Mises' 1920 thesis. In spite of the thousands of words devoted to trying to refute Mises, the U.S.S.R.'s central planners had really *not* been able to calculate after all. Mises had been right.

When in 1989 Mises' 98-year-old widow learned that the Berlin Wall had been knocked down and the Communist regimes of Eastern Europe and the U.S.S.R. had been toppled, she wished her husband had lived to see that day. "But," she said, "he had known that one day Communism would come tumbling down."

The Rise of Nazism

Mises was a Jew in a society that was becoming increasingly anti-Semitic. As an economist who understood the principles of human action he saw the handwriting on the wall as early as 1927. He realized that the interventionist policies that several European governments were following would bring disaster to the Continent and its inhabitants. Mises foresaw the end of freedom in Central Europe. But the world didn't listen to his warnings.

Adolf Hitler had been a failure in his native Austria. He had fought with the Germans during World War I and had then stayed on in Germany. Not long after the War, Hitler gained control of the German Workers' Party and transformed it into the anti-Semitic National Socialist German Workers' Party. By the 1930s, Hitler's movement was gaining adherents in large numbers in Germany.

At a garden tea party in September 1932, during a meeting in Bad Kissingen, Germany, of the Society for Social Policy (Verein fuer Sozialpolitik) Mises suddenly asked: "Do you realize that we are gathered together for the last time? Hitler's rise to power will put an end to such meetings as this." At first the members of Mises' audience were aghast at his remark. Then they laughed! Mises continued: "Hitler will be in office in twelve months." The others present thought that unlikely. "But even so," they asked, "even if Hitler *does* come to power, why shouldn't the Society meet again?" Hitler, Mises said, wouldn't tolerate gatherings of intellectuals who might someday become his opponents.

Hitler came to power in Germany in March 1933, about six months after the Society's September meeting. And as Mises had anticipated, the Society did *not* meet again until after the end of World War II.

Mises served for many years in the Austrian government's chamber of commerce as economic adviser to the national parliament. He was a part-time, unsalaried lecturer at the University of Vienna, receiving as pay only the fees of students. In 1927 he established the Austrian Institute for Business Cycle Research. By dint of his prodigious output—books, articles, and lectures—Mises acquired a reputation in Europe as a serious scholar and earned some international recognition.

Mises also conducted in Vienna a private seminar for young Ph.D.'s who were interested in economics. Mises and his seminar students did serious work, but they also joked, dined together, and sang lighthearted songs about economics composed by one of their number, Felix Kaufmann.

Standing at the window of his office one day, Mises mused aloud to one of his young economist friends, Fritz Machlup. "Maybe our civilization will end, maybe grass will grow on the Ringstrasse," referring to Vienna's wide street which had been built on the site of the medieval fortifications that circled the inner city. "Maybe we will all have to leave Austria. But where shall we go and what can we do? For what jobs are we qualified?" Mises speculated that he and his friends might wind up in a Latin American country and he considered the kind of work each might do. "You, Fritz," he said, "being friendly and sociable, might become a dancer in a night club, giving young ladies and old a good time." Mises suggested various roles his other friends might fill in that night club, as actors, singers, waiters, hostesses, and bartenders. When Mises considered his own talents, he said, "Unfortunately, I am no good as a dancer or singer, and I don't think I would be a good waiter. I will have to be the doorman standing in a uniform in front of the place."

Mises' Viennese friends heeded his warning and were able to leave Austria before the Anschluss in 1938, when Hitler's forces marched into Vienna. Most came to the United States and in time found positions, not as waiters and bartenders, but as professors at prestigious colleges and universities.

An Economist in Exile

Mises himself, foreseeing the threat of Hitler's totalitarian regime, left Vienna in 1934 to take a position at the Graduate Institute for International Studies in Geneva, Switzerland, although still retaining his old apartment in Vienna and his professional ties with the Institute for Business Cycle Research and with the Chamber of Commerce.

Ludwig, a very private person, seldom talked about his personal affairs. His friends and colleagues in Vienna considered him a confirmed bachelor. Yet in the 1930s he was quietly courting a glamorous former actress, Grete (or Margit) Herzfeld Sereny. Margit

Ludwig von Mises, circa 1925

Sereny, a widow, was struggling to raise two young children alone. Mises visited Vienna in February 1938 to make arrangements for their marriage. When Hitler's forces invaded Austria that March, confusion reigned. Margit in Vienna managed to telegraph Ludwig, by then back in Geneva, "no need to come." She and her daughter, Gitta (Margit's son was already out of the country, studying in England), finally succeeded in obtaining the necessary papers and railroad tickets, left Austria and traveled to Switzerland, where Margit and Ludwig were quietly married. Mises' apartment in Vienna was ransacked, his books and other property destroyed by Austrian Nazis soon after March 1938, when Hitler took over Austria.

Professor and Mrs. Mises spent their first few years together in Switzerland, enjoying the intellectual life of Geneva. However, when the Germans conquered France and entered Paris, they decided it was time to leave Switzerland and go to the United States. They fled by bus with other refugees across southern France. It was a harrowing trip. The driver was frequently forced to change his route to avoid running into German soldiers. Turned back at the small town of Cerberes on the Spanish border because their visas were no longer valid, Mises was able, by taking a 4 A.M. train for Toulouse, to get new visas. The next day the bus with its passengers crossed into Spain. The refugees then took a train to Barcelona, a plane to Lisbon, and from there finally, after a 13-day wait, a ship to the States.

The Mises arrived in New York in August 1940. At 59, he had to start over in a new land, writing, lecturing, and teaching to a new audience in a new language. During his years in the United States, he taught at New York University Graduate School of Business Administration and wrote many important books. Although his books were often criticized severely when they appeared, his analyses of market operations, money, inflation, government intervention, and Communism, all firmly based on human action principles, live on and are gaining increasingly serious attention from scholars. Mises may very well prove to be, as one admirer described him, "the greatest economist of the century—the next century." □

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Invasion of the Mind Snatchers

by Nelson Hultberg

The collectivists have not abandoned their ultimate goal—to subordinate the individual to the State.
—Barry Goldwater

It has been said that there is a conspiracy in America among powerful elitist bankers to manipulate the political levers of the nation and move our system into a form of government that resembles Communism. For years this has been a common theme among many conservatives. While I doubt such a "Communist conspiracy theory" is a realistic way to view politics, it is fair to say that there is a "collectivist ideological movement" working in America today—a concentrated desire on the part of many people to drastically change America's concept of limited government.

A political movement, possessed of the size and sophistication that modern *collectivism* enjoys (whether in the form of socialism, fascism, or welfarism) could not possibly be sustained purely by a lust for power or duplicity among a nation's political-economic elite. History does not move on so narrow an axis. The human drama is a vast mosaic of personalities, ambitions, ideals, revolutionary technologies, motivational and practical blunders—all intertwined with and driven by ideology.

No group of powerful men has the capacity to move a country toward despotism at will. Political shifts that nations make are only part of the larger cultural direction that their civilization is making. And the cultural direction of a civilization is largely determined by ideological forces that are laid down in the people's minds by the most prestigious thinkers of the preceding centuries.

As Ludwig von Mises told us decades ago:

> 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. The sensational events which stir the emotions and catch the interest of superficial observers are merely the *consummation of ideological changes*. There are no such things as abrupt sweeping transformations of human affairs. What is called, in rather misleading terms, a "turning point in history" is the coming on the scene of forces which were already for a long time at work behind the scene. New ideologies, which had already long since superseded the old ones, throw off their last veil and even the dullest people become aware of the changes which they did not notice before.[1]

The "collectivist ideological movement," operating in America today, exists on a number of levels. Its roots go deep into the human psyche. For example, the collectivist mindset is most prevalent in the academic, media, and entertainment fields, where anti-capitalist ideas can be instilled into unsuspecting minds, prompting them to desire a regimented society, or as Aldous Huxley put it, a "Brave New World," populated by slaves who do not have to be coerced because they love their servitude.[2]

An Alien Force

A popular and frightening science-fiction movie from the 1950s, called *Invasion of the Body Snatchers*, gives us an appropriate

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metaphor for what is taking place in our country. Today's collectivists are like the aliens in the movie. They are everywhere, and they are not after just our bodies, but the enslavement of our minds. Conceptual sophistries and moral inversions are the mysterious pods that these ideological aliens leave in their wake. They are aliens because they wish to destroy our system of free enterprise and limited government. And even though they believe what they are doing is right, they are not exactly innocent, for they have chosen to ignore the horrendous ramifications of their actions.

They have chosen to ignore the consequences of collectivism by suppressing and disregarding the vast body of literature that explains those consequences and shows how past thinkers have falsified history. They have chosen to promote a government-regimented world in which an all-powerful state dominates. They have chosen to propagandize for a society in which individuals are not allowed to make their own choices, not allowed to spend their earnings as they wish, and not allowed to educate their children as they see fit. This is a slave society, and those who would make excuses for such a society are either of dictatorial or servile inclination. They either want to rule, or to be ruled. But in either case, they are not men and women of the American mold.

An Ideological Shift

The cause of America's shift to collectivism this past century is not political, but *ideological*. False ideas in philosophy, economics, and history have seeped into our culture to reshape our world view, our ethical sense, and our economic understanding.

Ironically it is becoming fashionable in certain intellectual circles these days to de-emphasize this power of ideas in the determination of our culture. It is not just conspiratorialists who feel there are other forces more potent in the unfolding of our history. We are told by numerous conventional pundits that technology, pragmatics, diseases, emotional needs, the structure of elites, classes, and ethnic identities are equal—if not more significant factors—in the ultimate construction of social reality.

The anti-ideological argument contends that because of liberalism's continued entrenchment, abstract principles should be pushed aside strategically in favor of more populist factors. But what such a view fails to consider is that philosophical ideas must first be formulated correctly, and the timing of their entrance on history's stage must be right. Men are indeed "rationally absorbing" creatures and will respond to the timeless abstracts, but those abstracts must be clearly formulated in light of modern outlooks, and the mass of citizens must be ready for them.

A rudimentary study of history shows us that until the social order is ready for a set of ideas, they will lie dormant and will be rejected when presented, despite the clarity of their truth. Such ideas, if not openly suppressed, will be ignored until the influential citizenry has retreated from all the blind exits and has fully tasted the sourness of life in the absence of those ideas. America has not yet sampled sufficiently the misery of life in the absence of the timeless truths.

The Importance of Ideas

Of course, ideas are not the sole factors responsible for the construction of an era's cultural and political institutions, but they are far and away the most important factors.

It would be wise to keep Huxley's admonition on this issue always in mind: "It is in the light of our beliefs about the ultimate nature of reality that we formulate our conceptions of right and wrong; and it is in the light of our conceptions of right and wrong that we frame our conduct, not only in the relations of private life, but also in the sphere of politics and economics. So far from being irrelevant, our metaphysical beliefs are the *final determining factor* in all our actions." [emphasis added]

Mises' premise, then, still stands: "Ideas, theories and doctrines" are the prime determinants of a culture's direction.

Ideological falsehoods, spawned in nineteenth-century Europe, have infiltrated the collective consciousness of America over the past century to profoundly alter our moral visions of what life is, and what it should be.

Such ideological falsehoods have brought about ethical and psychological turmoil in the minds of people everywhere, a turmoil that has created three powerful forces that have manifested themselves in the collectivist movement. These three forces are *moral guilt*, *envy*, and *greed*.

Moral guilt was formally introduced into the ranks of the intellectual elite (as Ayn Rand has shown) by Auguste Comte's philosophy of altruism, which extols *sacrifice of the individual to the collective* as man's highest moral purpose. Envy and greed are just two of the psychological vices of humans, lurking always beneath the surface of their natures to be inflamed by the right mixture of irrational ideas.

Altruism

Auguste Comte (1798–1857) was a French philosopher and founding father of sociology, which he believed would become the "Queen of all Sciences." He advocated substituting the worship of Humanity for God, and preached that man's highest moral duty was to sacrifice his desires for Humanity's good. He coined the term *altruism* for his moral vision. This vision has dominated generation after generation of intellectuals, inculcating in them extreme distaste for any policies that advocate the primacy of the individual, and creating in them moral guilt for their possession of individual wealth, power, and status. If one wishes to grasp the reason for the extreme enmity that collectivist liberals exhibit toward America and capitalism today, here lies one of its strongest roots. Altruism dominates the collectivist mind.

The collectivist ideological movement that prevails today thus draws its strength to a great degree from two dominant personality types of the twentieth century: those overcome by profound feelings of *moral guilt* because of their superior talent, brains, energy, and resultant social status, and those overcome by profound feelings of *envy* and *greed* in the unfolding realities of life.

The *guilt-driven* group is comprised of academics, writers, artists, publishers, politicians, media personalities, movie stars and directors, foundation heads, old money heirs (like the Kennedys, Rockefellers, and Fords), and a great many successful first-generation businessmen.

The *envy-greed driven* group is comprised of increasing numbers of indolent men and women throughout the middle and lower classes—what earlier generations referred to as "sluggards" or "idlers"—those able-bodied citizens who resent the fact that in a free society they must endure years of hard, productive work to achieve security and elevated social status.

There are, of course, many men and women in both the middle and lower classes of society who are noble, hard-working, highly motivated citizens—the "strivers" of the world, who accept the moral law that one gets out of life what he puts into it. "Strivers" are possessed of strong characters and properly *suppress* inherent envy and greed, while "idlers" are possessed of weaker characters, and eagerly *indulge* their envy and greed, allowing such emotions to form their political policy.

The collectivist ideological movement works in this way: Large numbers of highly talented humans, driven by intense guilt over the status and wealth their talent has gained them, have tacitly formed a powerful faction with those who are weak-minded and easily susceptible to envy and greed.

The number of idlers in America used to be fairly small. Throughout the early part of our history, envy and greed were shameful emotions to indulge. Young people were taught the moral law that a man gets out of life what he puts into it. Thus they became "strivers" as they grew into adults. But since the turn of the century, the number of young people growing into "idlers" has been rapidly expanding due to socialist justifications in the schools, moral confusion in the churches, and material bribes in the political arena.

As a result, strivers are now in the minority in America, and because our country has shifted during the twentieth century into much more of a pure democracy where the largest gang of voters gets to dictate its desires to the rest of the populace—the collectivist vision has become especially virulent. Sluggards, due to their numerical strength at the polls, now have the ability to vote themselves endless entitlements and favors from the pockets of the strivers.

The *guilt-driven* thus form a tacit union with the *envy-greed driven* to extirpate their respective personal demons. Liberal elites and the non-producers join together to milk the nation's productive men and women.

This is the real evil that is destroying America—the union of liberal elites and the masses to politically collectivize our economy. Its primary causes are the malevolent *envy* and *greed* that human beings are so susceptible to, and which are being propagandistically inflamed by the talent-laden establishment because of its own feelings of *moral guilt*—feelings which have evolved out of philosophical misconceptions, such as altruism, handed down in our universities over the past 100 years.

Anyone who doubts this analysis need only ask himself: Why are those on the political left not content with merely correcting the flaws of the original American vision? Why are they not satisfied with merely assuring equal rights for all minorities and all women? Why do they also advocate massive redistribution of individual wealth and the regimentation of our economy through stifling bureaucracies? If they were really champions of freedom, prosperity, and justice, then should they not fight for equal rights and free enterprise, rather than the forced collectivization of society into a centralized welfare state?

The historical evidence is abundantly clear by now. Capitalism works! It produces phenomenal wealth and allows men and women to be free to live as they please. As any objective study of history and economics shows, all the problems attributed to capitalism (inflation, depressions, monopolies, shortages, corruption) are not caused by the free market, but by government intervention into the marketplace.

Why would anyone of genuine intellect and integrity wish to eradicate such a free and prosperous society? The only conclusion is that despite their vehement fight for the liberation of blacks and women from the "shackles of the nineteenth century," advocates of the liberal welfare state are, at heart, loathers of freedom. All the values that sustain civilized life (freedom, strength of will, independence, honor) are now endlessly denigrated with sophistries designed to make us socially accept sloth, servility, and weakness. The world of sanity and rationality gives way to the regimental nightmares of Orwellian "newspeak" and "political correctness."

History is tossed down the memory hole by our "intellectuals" whose perspectives extend no further than the previous decade. Oliver Wendell Holmes' "one-story intellects"—the fact-mongers, memorizers, statisticians, and calculators—wheel and deal from the corridors of power and TV talk shows, spewing out prescriptions for government confiscations of our earnings and absurd partnerships to merge government bureaucracies, incapable of creativity with highly innovative private companies.

Communism fell to the only fate its nature could have produced—brutal starvation and political chaos. Yet our intellectual class still claims *they* can get the socialist utopia right the next time. We now can have freedom without risk, plenty without work, and hope without heartache.

Such are the illusions of modernity's *short-range* mentalities. Such is the fate of those who believe knowledge is numbers and truth a remnant of primitive times, that technology is a substitute for values and security more precious than liberty. But these tyrannical pretensions did not just accidentally come about. Mises' "consummation of ideological changes" is upon us. □

1. Ludwig von Mises, *Socialism: An Economic and Sociological Analysis* (London: Jonathan Cape, 1951), pp. 566–67.
2. Aldous Huxley, *Brave New World* (New York: Bantam Books, 1967), p. xii.
3. Aldous Huxley, *Ends and Means: An Inquiry into the Nature of Ideals* (New York: Harper & Brothers, 1937), p. 11.

THE FREEMAN
IDEAS ON LIBERTY

Tacit Consent: A Quiet Tyranny

by Bowen H. Greenwood

To the student of liberty, John Locke has always been an important philosopher. His doctrine of rights, especially property rights, has always struck the imagination. On the other hand, John Rawls is thought of by many who value freedom as a dangerous philosopher. His concern with fairness often seems to override the claims of freedom. Yet, one concept which is expressed in Locke's famous *Second Treatise of Government* opens a door in Locke's thinking which brings him dangerously close to Rawls. This is the doctrine of tacit consent.

Locke argues that a government can only be legitimate when its citizens have consented to it. In response to the obvious claim that not everyone has consented to the government under which they live, Locke offers the idea of tacit consent. He claims that if anyone accepts the benefits of a government, he has tacitly consented to the burdens that government imposes on him. In this essay, I will argue that the essence of this argument is that one cannot justly claim benefits without incurring an obligation. Thus, accepting the benefits of society imposes a certain duty on one.

Rawls, on the other hand, argues that a government would be legitimate only if its citizens consent to its fundamental principles from behind a veil of ignorance. Only principles of justice chosen without knowledge of one's own circumstances can be tenable. When one emerges from the veil of ignorance, though, consent becomes a different issue. In fact, without the veil, consent no longer matters. Merely by living in a society organized on principles chosen behind the veil of ignorance, one incurs a duty to that society.

Locke begins his argument by claiming that all men are naturally free. In his state of nature, men are free to "Order their actions, and dispose of their possessions, and persons as they think fit, without asking leave, or depending on the Will of any other Man."[1]

Yet, in a government, some people obviously come to have power over others. How? Locke claims that the state gains those powers when the citizens give them to the society. "[H]e authorizes the Society, or which is all one, the Legislative thereof to make laws for him as the publick good of the society shall require."[2] The state governs by consent. Only when a citizen authorizes it to govern his life does the government have that power.

Of course, many people live under a government who have never authorized it to make decisions for them. So how can a state legitimately have that power? Locke's answer is the doctrine of tacit consent. When a person receives the benefits of a society, Locke contends that he is accepting the obligations that society imposes. Locke writes, "[E]very man, that hath any Possession, or Enjoyment, of any part of the Dominions of any Government, doth thereby give his tacit Consent, and is as far forth obliged to Obedience to the laws of

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that government, during such enjoyment, as any one under it."[3] Thus, if one receives benefits, one incurs obligations.

The Lockean Argument

Locke's argument for this claim is vague, but seems to have two parts. The first is that, if a person came to acquire property in accordance with Locke's theory of just acquisition (by mixing his labor with it), when that man entered civil society by consent, and agreed to be under its laws, it would be irrational for him to leave his property out of the society, and not subject to the laws.[4] After all, the property is his because part of himself—his labor—is invested in it, therefore his joining the society would imply that the property came with him. Then, when the original owner of the property dies and wills the property to his son, that son lives on and enjoys the same land which has already been put under the jurisdiction of the state. So, by living there and not leaving, he grants his tacit consent to the state's claim to make laws for him. Since the state has already been given the right to make laws on that land, by living on the land the son gives the state the right to make laws for him.

There seems to be something more to Locke's argument, though. He appears to claim that it is simply irrational to receive benefits without expecting to have an obligation in return. If someone gives me something, I am said to owe a debt, in at least some sense. The tacit consent theory argues that the thing given is the protection of the state, and the debt owed in return is obedience to the laws.

Rawls' Theory of Consent

This argument is very similar to that of Rawls. In *A Theory of Justice*, Rawls describes his theory of consent. Where Locke is interested in whether men actually would consent to a government, whether explicitly or tacitly, Rawls asks whether or not men *would* consent to this form of government from a fair original position. Rawls then claims, similarly to Locke, that if a state is just (is chosen in a way Rawls considers just), then anyone who lives under it, and receives its benefits, is obligated to obey its laws.

Rawls defines a fair perspective from which to choose principles of justice, and calls it the original position. In this perspective, men are behind a veil of ignorance, where they are ignorant of their place in society, class position or social status, natural assets or abilities, intelligence, strength, etc.[5] This state Rawls calls the original position, and claims that it corresponds to the state of nature in more traditional contractarian theory.

Rawls claims that whatever principles men choose in this position are just, because this is a fair place from which to choose principles. As he puts it, "no one is advantaged or disadvantaged in the choice of principles . . . no one is able to design principles to favor his particular condition." The original position is fair, according to Rawls, because no one is able to take advantage of a superior condition and choose principles which he knows will benefit him. Therefore, he claims of the original position, "the fundamental agreements reached in it are fair."[6] This demonstrates Rawls' fundamental sense of the importance of fairness in consent theory.

It is significant to note that Rawls is not at all interested in consent expressed outside of the original position. Once principles of justice have been chosen in the original position, men have no right to opt out of them from outside that position. As Rawls says, "Each is bound to these institutions independent of his voluntary acts, performative or otherwise. Thus even though the principles of natural duty are derived from a contractarian point of view, they do not presuppose an act of consent, express or tacit, or indeed any voluntary act, in order to apply."[7] If a society is structured in accordance with just principles, one has no choice but to obey the laws of that society.

Thus, Rawls' ideas about consent are apparently different from those of Locke, but on closer inspection there are similarities. For, although he claimed above that his principles of justice presupposed no act of consent, Rawls nonetheless accepts the Lockean idea of tacit consent, and argues in favor of it. He writes that one is bound to a society if the society is just, and

> one has voluntarily accepted the benefits of the arrangement or taken advantage of the opportunities it offers to further one's interests. The main idea is that when a number of persons engage in a mutually advantageous cooperative venture according to rules, and thus restrict their liberty in ways necessary to yield advantages for all, those who have submitted to these restrictions have a right to similar acquiescence on the part of those who have benefited from their submission.[8]

Thus, like Locke above, Rawls believes that voluntarily accepting benefits incurs an obligation. It is fair to say that this belief stems from the importance Rawls places on fairness in a political system. What he seems to be saying above is, in effect, "it wouldn't be fair for you to benefit from my actions, and not assume a duty as a result."

In two important ways, Rawls has lessened the importance of actual, explicit consent. To begin with, it is not even important to him whether a person consents actually to a measure. It is only important that one would consent in the original position. Furthermore, though, he also claims that simply receiving benefits voluntarily implies consent as well, and allows the state to make demands on one regardless of whether one consents in fact.

Striking Similarities

Although Locke would reject the claim that a person's actual explicit consent does not matter, he would agree with the claim that receiving benefits voluntarily gives the state the right to make laws for one. The similarities between his theory of tacit consent and Rawls' are striking; so much so that one is tempted to suspect Rawls was guided entirely by Locke in formulating his. The question, though, is whether or not Locke could reject the first of Rawls' claims—that if one would consent to x in the original position, it does not matter whether one consents to x in reality—without also rejecting the concept of tacit consent. I argue that underlying the theory of tacit consent is a belief in the importance of fairness, or justice, as Rawls would say. When Locke claims that tacit consent obliges one to obey laws, he is really making the claim that it wouldn't be fair to take from the state without giving to the state. Thus, he would have to agree with Rawls' claim that a fair institution must be obeyed regardless of whether one consents to it or not.

Defenders of Locke might protest this, claiming that Locke gave a logical defense of his theory of tacit consent, and does not need to rely simply upon the idea of fairness. This, of course, is the above-mentioned claim that property, once brought into a state, remains under the state's control, regardless of the wishes of future owners. Let us examine this claim more closely, for it will appear weaker under light.

The man who originally acquired the land, according to Locke's theory of property, had the right to do whatever he wanted with it, except to let it go to waste. Yet, the son who inherited it, who is alleged to give his tacit consent to the activities of the state, acquired the property in another manner. He was given it as a gift. So, the question becomes, does this form of ownership confer the same rights as acquiring it originally?

Nozick's Views

Some light can be shed on this question by turning to the philosopher Robert Nozick. According to him, the son's ownership does in fact confer the same rights as the father's. In his book *Anarchy, State and Utopia*, he claims that a person is entitled to a holding (has just ownership of it) if he either acquires it justly or has it justly transferred to him.[9] Both methods of gaining entitlement to a property carry the same rights. Locke would most likely accept this argument. In the state of nature, people are entitled to do almost anything to which all parties involved in the act consent. There is no reason to assume that this list of permissible contractual actions would not include transferring ownership of property. Thus, when the father gave the property to his son, the son became owner of the property in the same sense his father was.

Yet Locke's defenders might ask whether the son's ownership of the property gives him the right to remove it from the state's control. Although the father acquired property which was without previous obligation, the son is acquiring property which is already under the control of the state. Thus, the son cannot acquire the right to take the property out of the state's control.

However, it is not correct to assert that the father acquired land which was without obligation, whereas the son acquired land which was already under control of the state. According to the Lockean theory of property, original acquisition of property transfers that land from a communally owned state to a privately owned state. The father's land was, in fact, under obligation before he acquired it, just as it was under obligation when the son acquired it. Thus, it would seem that the same arguments Locke uses to justify the father being able to acquire complete ownership of the land would also apply to the son.

Furthermore, if the son does not have the right to take the property out of the state's control, how can he truly be said to own it? As Nozick points out, "the central core of the notion of a property right in X . . . is the right to determine what shall be done with X."[10] Therefore, if the son is to be said to own the land, then he must have the right to decide what to do with the land. This must, by definition, include taking it out from the state's control. If it did not, then the state would retain the right to decide how the land is used, not the son, and therefore he would lack the fundamental right of ownership.

Thus, Locke's argument that tacit consent springs from living on land which is already under state control is invalid. If the father truly gave the land to the son, then in order to have the right to make laws for that land the state would have to get the same consent from the son as it did from the father. In fact, there is no other ground on which the theory of tacit consent can rest than that of simple fairness.

Having accepted the idea of fairness as a justification for imposing obligations, is Locke forced into accepting the Rawlsian position that a society grounded on fair principles does not require the consent of those who participate in it? At this point, we have seen that Rawls claims that (1) if you accept benefits you incur obligations because that's fair, and (2) a fair society does not require consent. Locke, on the other hand, after analysis of the tacit consent argument, appears to claim that (1) if you accept benefits you incur obligations because that's fair, (2) any society requires consent, and (3) accepting benefits and thereby incurring obligations is an acceptable demonstration of consent.

Obligation?

However, Locke's argument breaks down into a claim that by accepting benefits from a society one obligates oneself to that society. The investigation must now focus on whether it is possible for Locke to draw a distinction between this claim and that of Rawls that one is obligated to any fair society, consent or no.

A first attempt to answer this question comes from pointing out the fact that fairness is the obligating factor in both situations. Thus, Locke's claim about tacit consent can be reworded as "The fact that it would be unfair to take benefits without incurring obligations means one is obligated if one takes benefits." Similarly, Rawls' claim, that a fair society obligates one, can be reworded as "The fact that the society is fair obligates you." This places the two claims logically very near to each other.

Yet, they are still definitely not the same claim. Locke's claim has an "if" involved, which Rawls' claim lacks. That is, no matter how much he believes in fairness, Locke still places an obligation on one only after one commits a voluntary action. He does not say that you must always do what is fair, only that in this case, it would be unfair of you not to do x, so you must do it. Rawls, on the other hand, claims that one must always do what is fair. So at this point, Locke still appears able to avoid the Rawlsian trap of fairness obviating consent.

Yet, Locke's reasoning must again be called into question. How can it be just for fairness to obligate in this one circumstance, but not in another? Perhaps Locke is claiming that by voluntarily playing an active part in any equation, one activates fairness as a binding force. That is, as long as one just sits around, the fact that a particular action is fair does not require one to perform that action. However, once one receives certain benefits, the fact that a certain action is fair does require one to perform that action.

Passive Benefits

The problem with this claim is that receiving benefits is passive, not active. You can just sit there, without taking any action, and the state can give you certain benefits without any action on your part. The North American Air Defense Command (NORAD), for example, defends me from assault without my needing, asking, or even taking notice. Locke's doctrine of tacit consent would mandate that I assume an obligation to the state because of this.

Since Locke's doctrine of tacit consent does not actually require any active participation from one, we can see how fairness can quickly become obligating in all circumstances rather than just in one. Any person giving one a benefit would seem to incur a corresponding obligation from one. Just as I am obligated by fairness to pay taxes for NORAD because it defends me, I could be made to pay someone who washed my windshield on the street, whether I consented to it or not. After all, it would be unfair for me to benefit from his action without giving him something in return.

What one sees here is that the factor which makes fairness obligatory in Locke's tacit consent theory has nothing to do with the one being obligated, and everything to do with external factors. A person who washes another's windshield, or defends him has the power to make a demand on him by virtue of fairness. This situation can easily be expanded to make fairness universally obligatory. One benefits from clean air, so one could be said, under this same Lockean theory of tacit consent, to be obligated to protect the environment.

In short, it is impossible for Locke to defend a claim that fairness obligates only in the case where he wishes to use it, and nowhere else. The way he has conceived of fairness as obligatory allows it to be used in almost any case. Thus, Locke cannot, in fact, avoid Rawls' claim, that fairness is universally obligatory.

Locke and Rawls both make the claim that one who benefits from society is obligated to it. That is, both share a theory of tacit consent. But Rawls at first appears to be making a larger, and completely different claim. However, a closer examination reveals that Locke's tacit consent cannot be defended except on the basis of fairness. Locke's acceptance of fairness on this ground forces him into a situation where he must choose between keeping his theory of tacit consent, and accepting the Rawlsian claim that consent does not really matter as long as the society is fair; or abandoning the idea of tacit consent, and retaining a contractarian framework where individual consent to society matters. In the end, the doctrine of tacit consent cannot be supported while placing any value at all on actual consent. □

1. John Locke, *Two Treatises of Government*, ed. Peter Laslett (Cambridge: Cambridge University Press, 1992), p. 269.
2. Locke, p. 325.
3. Locke, p. 348.
4. Locke, p. 348.
5. John Rawls, *A Theory of Justice* (Cambridge: Harvard University Belknap Press, 1971), p. 12.
6. *Ibid.*
7. Rawls, p. 115.
8. Rawls, p. 112.
9. Robert Nozick, *Anarchy, State, and Utopia* (New York: Basic Books, 1974), p. 151.
10. Nozick, p. 171.

How Important Is Your Vote?

The November 1994 election campaign has thankfully come and gone and once again we had to listen to a familiar whine: "Isn't it simply awful that so few people vote. What we need are laws that make it easier to vote or laws that penalize people if they don't."

Don't get me wrong. I cherish the right to vote—so much so that I don't want it belittled by those who think that just showing up at the polls is all it takes to assure the survival of representative government. There are some people who should vote, and then there are others—millions of them, unfortunately—who would do representative government a big favor if they didn't.

Imbedded in the popular complaint about the decline of voting among the American electorate is at least one assumption that is demonstrably false: that higher voter turnout is needed to somehow "make democracy work."

In the first place, "democracy" is perhaps the most oversold political concept, drummed uncritically into our heads at an early age as the moral high ground of governance. Some measure of public participation in whatever government we have is certainly preferable to dictatorship but not because it carries with it any assurance of *good* or *limited* government. It does not guarantee a *free* society. An electorate can *democratically* vote itself into bankruptcy and slavery. Americans, in fact, have been doing that for most of this century.

What people commonly think of as "democracy" is preferable to dictatorship because it permits changes in government policy without the need to shoot, hang, or guillotine anybody. Those changes, however, will be in whatever direction public opinion is blowing at the moment—good or bad, smart or stupid, helpful or destructive.

Besides, America is not a pure democracy anyway—and was never intended to be. There are some things our Founders wisely felt should not be subject to majority vote such as individual rights to life, liberty, and property.

In the first half-century of America's experience as a nation, voter turnout was often much lower than it is today—frequently less than 20 percent of adult males actually cast ballots. Part of this is explained by the presence of property requirements for voting in many states. Most of our Founders and early leaders believed that people ought to have a direct and personal stake in the system before they could vote on who should run it. The fact that in those years we managed with low voter turnout to elect the likes of Washington, Jefferson, Madison, and Adams suggests that maybe we should make voting more *difficult*, not easier—a privilege to be *earned*, not an unbridled right to be abused.

Then there are those who want to make it so easy to vote that you wonder how any-

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thing so costless could be the least bit meaningful. Three years ago, I read a blurb about a Colorado organization called "Vote by Phone." I don't know if the group is still around, but the idea still is—allowing Americans to cast their votes on election day by telephone from home instead of at local polling stations.

Under the plan, all registered voters would be given 14-digit voter identification numbers. Voters would call a toll-free number from touch-tone phones, punch in their ID numbers, and vote on candidates and ballot issues by punching other numbers.

Whether or not the science exists to resolve the inherent technical, security, and privacy questions, there exists no reason at all to make voting any easier than it currently is. Low voter turnout does not endanger our political system. Here's what does: politicians who lie, steal, or create rapacious bureaucracies, voters who don't know what they are doing, and people who think that either freedom or representative government will be preserved by pulling levers or punching ballot cards or making phone calls.

The right to vote, frankly, is too important to be cheapened and wasted by anyone who does not understand the issues and the candidates. The uninformed would be doing their duty for representative government if they either became informed, or left the decisions at the ballot box up to those who are. How did the idea that voting for the sake of voting is a virtue ever get started anyhow?

Our political system—resting as it does on the foundations of individual liberty and a republican form of government—is also endangered by people who vote for a *living* instead of working for one. H. L. Mencken had them in mind when be described an election as "an advance auction of stolen goods." They use the political process to get something at everyone else's expense, voting for the candidates who promise them subsidies, handouts, and special privileges. This is actually anti-social behavior that erodes both our freedoms and our representative form of government by conferring ever more power and resources upon the politically well-connected and the governing elite. I don't know about you, but I don't want these people to have it so easy that all they have to do is pick up a phone to pick my pocket.

Surely, the right to vote is precious and vital enough to be worth the effort of a trip to the polling place. Anyone who won't do that much for good government isn't qualified to play the game.

Moreover, politicians who bemoan ever lower voter turnout shouldn't be so critical of non-voters. If a non-voter's excuse is that he doesn't know what he should to vote intelligently, he should be thanked for avoiding decisions he's unprepared to make and encouraged to educate himself. If a non-voter is simply disgusted with lies and broken promises, or just doesn't want to choose between Scarface and Machine Gun Kelly, then maybe it's the *politicians* who should listen and learn; the non-voters are trying to tell them something.

Sure, it would be nice if more people voted—but only if they know what they're doing and if they're not doing it to grab something that doesn't belong to them. There's nothing about voting by telephone or other such schemes that makes people smarter or more honest, and there's nothing about stuffing the ballot box with more paper that assures either freedom or representative government. □

THE FREEMAN
IDEAS ON LIBERTY

Private Property Ownership

by Albert R. Bellerue

According to the Fifth Amendment to the U.S. Constitution, no person shall be "deprived of life, liberty or property, without due process of law; nor shall private property be taken for public use without just compensation." This clause, known as the eminent domain reservation, gives the state the legal right to take private property for public use without the consent of the owner. But, the owner has a right to his day in court to insure "just compensation."

The Fourteenth Amendment states that no state shall "deprive any person of life, liberty, or property, without due process of law; nor deny to any person within its jurisdiction the equal protection of the laws." This simply extends legal property protection from all of the amendments in the Bill of Rights down to local government protection of private property ownership.

But just what is private property ownership? *Property* is anything subject to ownership and *private* relates basically to an individual. Ownership relates to a possessory interest in a property. This is the right to exert control over the uses of property to the exclusion of others.

The Bundle of Rights

In real estate, the ownership-rights theory is compared to a bundle of sticks wherein each stick represents a separate right-to-use. For example, a property owner can sell his mineral rights usage to one person and lease his surface rights to another. Likewise, an aerial or scenic easement can be granted wherein the underlying rights of use may be retained. But, each time a use is granted away, the bundle of rights shrinks.

Government power further reduces the number of sticks in the bundle of rights through taxation, escheat, eminent domain, and police power.

In matters of *taxation*, the federal government is precluded from direct taxation of real property. This right of taxation is reserved to state and local governments. But local encroachment also removes a number of sticks from the ownership bundle.

Escheat deals with the state taking over ownership of property if the property owner dies without a will.

As previously explained, *eminent domain* limitations set out in the Fifth and Fourteenth Amendments at the very least prohibit government expropriation without payment for the taking.

Police power relates to government regulation of property in accordance with that ambiguous term "general welfare." Examples of major government intrusions into the right to private property ownership are planning and zoning ordinances; building codes; air and land traffic regulations; and health, safety, and sanitary regulations. Some of these make sense; others are downright damaging to the right to life, liberty, and property ownership.

It is in this latter group of police powers assumed by political government that private property ownership rights are being

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ignored. More and more sticks have been expropriated from the bundle by regulation or negation of proprietary uses. Such damaging political action often reduces the owner's property value without just compensation. The proper term for that is "extortion."

If there is any question about the act of protecting and maintaining rights rather than property per se, a statement by U.S. Supreme Court Justice George Sutherland should provide clarification: "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."

Legal Plunder—The Law Perverted

Morality, or proprietary relations between people, cannot exist without a basic understanding of the birthrights of everyone to life, liberty, and property. Basically, human rights are nothing more than property rights.

Currently, throughout the world, nation after nation is in chaos because of trespass upon human property rights.

The United States is no exception. Increasingly, our people are at odds with political governments because of disregard for these rights. Yet, recognition of participation in these trespasses should first be placed at the doorstep of the people who unconscionably take part in this legal plunder.

The City of Mesa, Arizona, recently refused to grant a permit for a residential subdivision located two miles distant from Williams Airport. The basic reason given was that noise from the aircraft would annoy future residents. An aerial easement which would have offset future liability was never suggested.

No mention was made of the fact that the hundreds of existing Capehart Homes on the old Air Force base remain occupied. The emphasis was placed upon the City Planning and Zoning projections calling for industrial usage to surround Mesa's newly-to-be-acquired airport.

No exceptions were to be made in spite of the fact that there is no present demand for industrial usage in the surrounding agricultural area. Nor is there any assurance that the federal property will be transferred soon because of Indian claims to some of the property. It may be years before industrial demand surfaces.

The original sticks existing in this owner's bundle of rights that gave him a prior right to use his property for residential subdivision have been taken from him by city police power with no just compensation.

The only legal use remaining to him now is industrial, the likely market demand for which he may never see in his lifetime. Through police power of local government regulation, this octogenarian's retirement nest egg has been legally plundered.

No longer do local governments use eminent domain's Fifth Amendment where they must compensate the owner for partial loss in property value. Instead, they fall back upon police power through planning and zoning regulation. This permits them to take property without compensation: legal plunder! The bundle of ownership rights to private property keeps shrinking.

Frederic Bastiat (1801–1850), a French economist-statesman, brilliantly and presciently described this encroachment by government: "The law perverted! And the police powers of the state perverted along with it! The law, I say, not only turned from its proper purpose but made to follow an entirely contrary purpose! The law became the weapon of every kind of greed! Instead of checking crime, the law itself guilty of the evils it is supposed to punish!"

City and county planners and zoners in

Arizona have become tyrannical in their unconstitutional takings because judicial decisions have favored local government trespasses upon private property ownership for nearly half a century.

Local officials continue to manipulate the legal use of real property for maximum political benefit to themselves, at the expense of the owners of private property.

Supreme Court Takes Favorable Stand

Hopefully, the tide may be changing. After many years of wishy-wash, the U.S. Supreme Court has finally come out with a ruling in favor of private property rights. On June 14, 1994, the importance of individual property ownership was revived in a decision in *Dolan vs. City of Tigard, Oregon.*

The court ruled in favor of the petitioner, Florence Dolan, saying that land-use regulations cannot be based upon the political theory that desirable ends justify any means to restrict the freedom of the property owner. Mrs. Dolan had proposed replacement of her 9,700 square-foot plumbing-supply store with a much larger commercial building on her 1.67 acre lot. But in order to obtain a permit the city of Tigard required her to donate 10 percent of her property to the city for the City Drainage Plan in order "that it be preserved as greenways to minimize flood damage."

While the Oregon courts had ruled against Mrs. Dolan, in favor of the local government taking, the U.S. Supreme Court reversed these rulings. Chief Justice William Rehnquist wrote: "We see no reason why the takings clause of the Fifth Amendment, as much a part of the Bill of Rights as the First Amendment or Fourth Amendment, should be relegated to the status of a poor relation." His reference related to the questionable practice of local governments using planning and zoning regulation to take private property without "just compensation."

The decision also stated that the local government did not show a "rough proportionality" between the effects of the proposed development and the proposed government uncompensated taking. Henceforth the burden of proof will fall directly upon the local government rather than the property owner.

There is much more in Rehnquist's *Writ of Certiorari* than just items relating to abuses by the City of Tigard. Many of the supporting cases bring to mind comparable land-use regulation abuses throughout Arizona.

Richard A. Epstein was the lawyer who won the Dolan decision. In his book *Takings*, which explores private property and the power of eminent domain, he states: "The sole function of police power is to protect individual liberty and private property against all manifestations of force and fraud."

Since government land use regulation is police power and since many Arizona planning and zoning enforcements smack of force and fraud, who is to protect individual liberty? Most property owners can't afford to fight city hall and city and county attorneys are more interested in politics.

Perhaps this question provides the answer to why the Phoenix *Gazette* took an editorial position in support of Proposition 300, the state regulatory takings bill wherein the office of the Arizona Attorney General would review a "taking's impact analysis" of all proposed takings. (The proposition was defeated in the November 8 election.)

This sounds like a good proposal, provided that the Attorney General's Office also reviews questionable local planning and zoning regulations that might be in violation of the Fifth Amendment.

Since the concept of private property ownership provides the basis for morality, maybe *Dolan vs. City of Tigard* will help us recover some of the sticks in the bundle of rights that we keep losing. It may, in the long run, help to reduce crime—both legal and illegal varieties. □

THE FREEMAN
IDEAS ON LIBERTY

Private Property and Government Under the Constitution

by Gary M. Pecquet

The economic concept of private property refers to the rights owners have to the exclusive use and disposal of a physical object. Property is not a table, a chair, or an acre of land. It is the bundle of rights which the owner is entitled to employ those objects. The alternative (collectivist) view is that private property consists merely of a legal deed to an object with the use and disposal of the object subject to the whims and mercies of the state. Under this latter view, the state retains ownership and may at any time regulate or even repossess the property it temporarily cedes to individuals.

The Founding Fathers upheld the economic view of property. They believed that private property ownership, as defined under common law, pre-existed government. The state and federal governments were the mere contractual agents of the people, not sovereign lords over them. All rights, not specifically delegated to the government, remained with the people—including the common-law provisions of private property. Consequently, the constitutional rights regarding free speech, freedom of religion, the right of assembly, and private property rights are all claims that individuals may hold and exercise against the government itself. In brief, private property refers to the rights of owners to use their possessions which are enforceable against all nonowners—even the government.

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The Economic Concept of Ownership

"We may speak of a person owning land and using it as a factor of production," writes Nobel laureate Ronald Coase in his essay on "The Problem of Social Cost," "but what the owner in fact possesses is the right to perform certain (physical) actions." These "rights to perform physical actions," called private property, constitute the real factors of production and the real articles of trade. Legal title itself means nothing. At best, a title or deed amounts to proof of ownership, not the rights inherent in ownership.

Many people confuse the economic concept of ownership with the mere holding of legal title. Often, title and ownership coincide, but not necessarily. Sometimes businesses lease equipment from manufacturers under circumstances which transfer all of the meaningful rights of ownership to the lessee while title remains with the manufacturer. Here are two examples: if a lease approximates the useful life of the equipment or if the lease itself contains an option to buy the equipment outright for a nominal sum. In both cases the lease transfers ownership in the true economic meaning of rights to employ the equipment without actually changing title. Proper accounting principles, in such cases, require the lessee to record the equipment on its books as an asset and the lease itself becomes a method of financing the purchase. The manufacturer although still retaining title to the equipment no longer "owns" the property and, accordingly, should not include it as an asset.

In other cases, the "bundle of rights" to use an object may be separated and sold apart from the title. Once again, here are two examples: landowners may lease property for a specified period of time while retaining the residual rights to the land upon termination of the contract or the same landowner may sell only the mineral rights, while retaining title along with most of the "sticks" in the property rights bundle. The validity of these contracts implies that ownership refers to the many legitimate uses and disposal of things, rather than title to the object itself.

The economic view of property consisting of primarily actions, rather than things, is also compatible with intellectual property, such as copyrights and patents. The right to publish a book or construct a machine may be reserved to the author/inventor. These species of private property do not refer to any specific objects at all, but are legitimate articles of property nonetheless.

The Common Law Boundaries of Private Property

The British common law has established the legal limits to property rights through case precedents, reflecting the practical needs of trade long before the North American colonies even existed. The common law provided a clear picture of ownership to the Founding Fathers.

The common law has three pillars: private property, tort liability, and the law of contract. Property and tort liability are inexorably intertwined. No one has a right to infringe upon the legitimate rights of others. If one uses his possessions to create a health hazard or nuisance to others, he is fully liable for damages. In some instances, an injunction may even prevent an unlawful action before it causes damages to others. The very boundaries of private property are defined by common law liabilities. For example, if Mr. A erects a six-foot fence at the border of his land and this fence blocks the sunlight to Ms. B's garden, does Ms. B have a common law right to access the sunlight? If so, she would have a claim under tort law. If not, Mr. A may construct the fence and Ms. B either relocates her garden or persuades or compensates Mr. A to move his fence away from the established boundary. The point is that a reasonable and efficient result should occur under either rule. What is important is for the liability limits to property be well-established and clearly defined. After many case precedents the common law courts begin to sharply define the boundaries of private property. Owners may then negotiate, mutually reaching an arrangement, without going to battle in court over a legal ambiguity or seeking a new statute.

The "bundle of rights" we call private property comprise the subject matter for all contracts. Every time goods exchange hands, land is purchased, and an employment contract is signed, "bundles of rights" to resources are exchanged. All commerce, and the prosperity which it generates, depend upon the security and certainty of property rights. If an urban area has a notorious high crime rate, local businesses will tend either to relocate or increase prices. If the courts do not establish consistent liability rules, then litigation costs increase and the basis for agreements is undercut. If the legislature threatens to regulate business, then potential competitors may be frightened away. If the potential uses to which property may be employed are subject to regulation by a governmental body, then the value of property declines. Men like James Madison and Alexander Hamilton understood that prosperity depends upon the security and certainty of property rights and designed the Constitution accordingly.

The common law does evolve slowly to reflect changes in both technology and social mores, but it provides a stable set of rules of conduct. Moreover the common people on juries decide common law cases, not kings, not legislatures. This establishes an important rule-making authority outside of any centralized government.

The English Whigs on Property and Government

Our American forefathers did not develop their political theories in an intellectual vacuum. More than a century before the American Revolution, a Civil War raged in Britain. It pitted the Monarchy against Parliament. Among the opponents of the Monarchy were the seventeenth-century English Whigs. Over the course of a few decades, English Whig intellectuals expounded their theories about property and government. These thinkers, including John Locke, Algernon Sidney, and Thomas Gordon, taught America's founders much about property and government.[1]

Prior to the rise of the English Whigs, the "divine right of kings" had held that all rights, liberties, and properties actually belonged to the king. The king merely permitted his subjects to use their possessions. The king, however, might regulate the use or even seize these possessions outright at his whim. The people had no claims or rights which could be exercised against the sovereign. Their possessions were at the mercy of the government.

By contrast, the English Whigs believed that the fountainhead for all rights was the sanctity of the individual, not the divinity of the state. John Locke contended that human rights were "natural rights" which preexisted government. The original owners of the land were the real sovereigns, not the king. Remember the old English saying, "A man's house is his castle and every man is king." Owners, however, might consent to give up a small part of their liberty and property to government in order to institute criminal law and national defense and to perform certain other specifically delegated tasks. Legitimate government is formed by contract and may never acquire more rights than delegated by the property owners who institute it. The authorities must never exceed their narrow constitutionally delegated authority—lest they become despotic.

According to the Whig view, legitimate government is an agent, a servant, a mere convenience charged with certain specific tasks. Moreover, even elected governments tend to become despotic as the British Parliamentary experience illustrated. Most of the descriptions of political power during colonial times were negative. Thomas Gordon discussed the issues of the day in *Cato's Letters*. Power was often shown as a "clutching grasping hand" or described as a "cancer that eats away at the body public."

It is also relevant that the Whigs expressed all rights in terms of property. Each man owned his own person and labor. Slaveholders were condemned as man-stealers, the lowest sort of thief who stole the whole person, not merely part of his labor. Whenever the Whigs argued for freedom of religion, the teachers of our forefathers referred to "property in one's conscience." When they opposed Sabbatarian laws, prohibiting certain activities on Sunday, they referred to "property in one's time." The Whig view equated property and liberty, once again reflecting the economic concept that property refers primarily to freedoms to act.

The Founders and Framers on Property and Government

The best way to examine the importance of private property to our forefathers and its place under the law is to study the words of the founders and framers themselves: men like Thomas Jefferson, James Madison, and Alexander Hamilton. In the passage below Jefferson argues that the colonial landholdings had always been held free and clear of the British crown. Throughout American colonial experience, the British crown ex-acted a small fee called a quit-rent upon all landholders. The quit-rent often went uncollected and never raised much revenue, but it remained on the books as a legal assertion that all land titles were held subject to the crown. In 1774, Jefferson disputed this kingly claim. Jefferson's reasoning gave historical teeth to the Whig view that sovereignty belongs to individuals and that property pre-exists government. Therefore the United States government formed two years later would be established by free men, not serfs. Neither could the new government claim to be the recipient of any superior monarchial rights or claims to private landholdings. According to Jefferson:

> That we shall at this time also take notice of an error in the nature of our landholdings, which crept in at a very early period of our settlement. The introduction of the feudal tenures into the kingdom of England, though ancient, is well enough understood to set this matter in its proper light. In the earlier ages of the Saxon settlement feudal holdings were certainly altogether unknown, and very few, if any, had been introduced at the time of the Norman conquest. Our Saxon ancestors held their lands, as they did their personal property, in absolute dominion, disencumbered with any superior. . . . William the Conqueror first introduced That system [feudalism] generally. The lands which had belonged to those who fell at the battle of Hastings, and in the subsequent insurrections of his reign, formed a considerable proportion of the lands of the whole kingdom. These he granted out, subject to feudal duties, as did he also those of a great number of his new subjects, who by persuasions or threats were induced to surrender then for that purpose. But still much of the land was left in the hands of his Saxon subjects, held of no superior, and not subject to feudal conditions. . . . A general principle indeed was introduced that "all lands in England were held either mediately or immediately of the crown": but thus was borrowed from those holdings which were truly feudal, and applied to others for the purposes of illustration. Feudal holdings were therefore but exceptions out of the Saxon laws of possession, under which all lands were held in absolute right. These therefore still form the basis of the common law, to prevail whenever the exceptions have not taken place. America was not conquered by William the Norman, nor its lands surrendered to him or any of his successors. Possessions are undoubtedly of the [absolute disencumbered] nature. Our ancestors however, were laborers, not lawyers. The fictitious principle that all lands belong originally to the king, that they were early persuaded to believe real, and accordingly took grants of their own lands from the crown. And while the crown continued to grant for small sums and on reasonable rents, there was no inducement to arrest the error.[2]

In *The Federalist Papers*, James Madison and others argued that the proposed U.S. Constitution would protect the liberty and property of the citizens from usurpations of power from the federal government. Power in the new government was to be divided into three branches: legislative, executive, and judicial. This would create a system of checks and balances necessary to hinder the unwarranted expansion of political power. The division of power would also make it more difficult for a majority to oppress a political minority and political stability would more likely result. In the following passage James Madison discusses the problems of "mutable policy" (governmental activism). Madison believed that the new Constitution would establish a consistent, stable set of laws necessary to promote prosperity. Otherwise, he warned,

> The internal effects of a mutable policy are still more calamitous. It poisons the blessings of liberty itself. It will be of little avail to the people that the laws are made by men of their choice if the laws be so voluminous that they cannot be read, or so incoherent that they cannot be understood; if they be repealed or revised

before they are promulgated, or undergo such incessant changes that no man, who knows what the law is today, can guess what it will be tomorrow. Law is defined to be a rule of action; but how can that be a rule, which is little known, and less fixed?

Another effect of public instability is the unreasonable advantage it gives to the sagacious, the enterprising, and the monied 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 the laws are made for the few, not the many.

In another point of view, great injury results from an unstable government. The want of confidence in the public councils damps every useful undertaking, the success and profit of which may depend upon a continuance of existing arrangements. What prudent merchant will hazard his fortunes in any new branch of commerce when he knows not but that his plans will be rendered unlawful before they can be executed? What farmer or manufacturer will lay himself out for the encouragement given to any particular cultivation or establishment, when he can have no assurance that his preparatory labors and advances will not render him a victim of inconsistent government? In a word, no great improvement or laudable enterprise can go forward which requires the auspices of a steady stream of national policy.[3]

Alexander Hamilton contended that the new federal Constitution would protect private property and liberty from abuses arising at the state level. Between the end of the Revolutionary War in 1781 and the ratification of the Constitution in 1788 state governments faced debtor uprisings, such as Shays' Rebellion. State legislatures sometimes granted debt relief or "stays" on the payments of debts. Hamilton believed the proposed Constitution had "precautions against the repetition of those practices on the part of the State governments which have undermined the foundations of property and credit."[4] He referred to Article I section 10 of the Constitution which explicitly protects creditors by forbidding states to pass laws "impairing the obligation of contract" or even devaluing debt obligations by making "any thing but gold and silver a tender in payment of debts."

The "impairment of contract" clause remains effective today. New state laws affecting long-standing agreements may only alter future contracts, not existing ones. This protects interstate commerce, such as insurance and banking, from potential abuses by state and local politicians who may be tempted to rewrite contracts to redistribute income from outsiders to local constituents.

In the body of the Constitution, Article I sections 9 and 10, also expressly forbids both federal and state governments to grant titles of nobility. This prohibits the establishment of a formal, hereditary class in the United States. In England, the titles "Prince," "Duke," and "Earl" consisted of much more than a prefix to a name. Nobility also laid feudal claim to the land held by the common people. Feudal titles, such as Prince of Wales and Duke of York, pretend ownership to the entire realm, subordinating the rights of the landholdings of commoners. America's framers hated the European class system and the feudal pretense to the land that it represented. The united states are forbidden to ever establish feudal land tenures to lands because sovereign landholdings are essential to a free "Republican form of government."

The U.S. Constitution contained a number of flaws, most notably, the official sanctioning of slavery. Nor did the Constitutional framers advocate laissez-faire capitalism. Some of the framers, including Alexander Hamilton, believed that the government should actively encourage economic growth through protective tariffs. Nonetheless, the framers all held private property in high esteem. Indeed, commercial prosperity seems to be the chief end of good government to them. The economic system under the Constitution is capitalism with a very few specific exceptions explicitly delegating limited powers to Congress, i.e., coin money, establish a Post Office, lay customs duties, etc. James Madison summarized, "The powers delegated to the federal government are few and defined."[5]

The Bill of Rights on Private Property

Many people were fearful that the Constitution still concentrated too much power in the hands of the federal government. The electorate in key states insisted upon a "Bill of Rights" lest they would reject the proposed Constitution. These amendments soon became incorporated into the new Constitution. Six of these ten amendments pertain either directly or indirectly to private property rights.

The Third Amendment states, "No soldier shall in times of peace be quartered in any house, without consent of the owner, nor in times of war, but in a manner prescribed by law." This amendment grew out of abuses by the British, who had forced people to allow troops into their homes. The amendment clearly protects the rights of homeowners, but is too specific for wider applications.

The Fourth Amendment includes the clause, "The rights of people to be secure in their persons, houses, and effects against unreasonable searches and seizures shall not be violated and no warrants shall issue, but upon probable cause . . ." The "search and seizure" clause has been interpreted to pertain primarily to criminal cases, but the stated intent of this statement is to make people secure in their persons and possessions. In civil cases law enforcement officials presently are able to seize property without a warrant and place the burden of proof upon the owner to show that he did not commit a crime. In fact, some local governments now use civil seizures to supplement their budgets.

The Seventh Amendment requires that for civil cases in federal courts, "no fact tried by a jury, shall be otherwise reexamined in any court of the United States than according to common law." The common law, as we have seen, rests upon three pillars, including private property rights. This indirect recognition of private property only protects individual owners against other private parties. These common law property claims become enforceable against the federal government under the Ninth and Tenth Amendments.

Amendment Nine states, "The enumeration of certain rights, shall not be construed to deny or disparage others retained by the people." Amendment Ten further stipulates, "The powers not delegated to the United States by the Constitution, nor prohibited by it to the states are reserved to the states and the people." The original intent of the "enumeration" and the "reservation" clauses clearly reaffirm the contract theory of government held by John Locke and James Madison alike. All "powers not delegated to the federal government" includes any and all private property rights described under the common law. Historically, however, U.S. courts have never used the "reservation" clause to decide important cases.

The most explicit recognition of private property comes in the Fifth Amendment which states "Nor shall [anyone] be deprived of life, liberty, or property without due process of law; Nor shall private property be taken for public use without just compensation." The first clause is called the "due process" clause while the second part is referred to as the "takings" clause.

Until the middle of the twentieth century, the "due process" clause was often used to strike down regulations imposed on private property especially if they amounted to confiscation by regulation or if they exceeded the federal government's constitutionally delegated authority. For example, when President Franklin Roosevelt's National Recovery Act required all trades and businesses to form trade associations, restrict entry, and establish minimum wages and prices, the Supreme Court overturned this wholesale reorganization of U.S. industry as a violation of the "due process" clause. This prompted President Roosevelt to threaten to "pack" the Supreme Court. Although Roosevelt failed to gain congressional approval to expand the Supreme Court from nine to fifteen members, the Court no longer overturned New Deal policies. Subsequently, Courts have created an artificial distinction between "property liberties" and "personal liberties." Rarely, do Courts use the "due process" clause to uphold "property liberties" anymore. Current judicial theorists argue that the Constitution does not prescribe a particular economic system (capitalism). Therefore, private property liberties are not protected while "personal liberties" such as First Amendment guarantees of free speech are still upheld under the "due process" clause.

The "takings" clause requires all levels of government to justly compensate owners for property taken for public use. Whenever land is condemned or taken for highway construction, military bases, and so forth, courts must estimate the fair value of the property to be paid to the owners. The "takings" clause also requires governments to compensate owners when confiscatory taxes are imposed or regulatory acts render property worthless.

The "takings" clause was intended to prevent the government from forcing a few property owners to bear the burdens of legislative measures intended to benefit the general public. It reduces the uncertainties of property ownership arising out of the political system, helping to mitigate the problems of "mutable" policy alluded to by Madison. Requiring government to compensate owners for the resources that it takes for public use also enhances proper cost-benefit planning on the part of policymakers; but the primary purpose of this clause is to protect property owners from arbitrary governmental power, not to assist bureaucratic planners—or else the framers would have added a "givings" clause entitling the State to be compensated for the public benefits it claims to generate.

Until the twentieth century, U.S. courts never applied the "takings" clause to regulations falling short of transferring legal title to the government. Courts, however, did respect private property. Owners could find relief under the "due process" clause which could overturn state and federal legislation altogether. Indeed, the failure to apply the "due process" clause in property cases places the "takings" clause as the final barrier to full governmental supremacy over private property rights.

At present, courts are evolving their opinions regarding the "takings" clause. They are willing to allow the regulation of property to some extent, but if the regulation goes too far it may become a taking. The current legal uncertainty results from the clashing views on the nature of private property. Does property constitute the rights of individual owners to actions which enjoy constitutional protections against arbitrary government actions or is the government supreme? In our forefathers' day, the latter view was known as "the divine right of kings." During the middle of the twentieth century, the economic system which allows ownership on paper while the government made all of the important decisions regarding the uses of property was called fascism. Today, in the United States government supremacy over individual property owners means that the government may temporarily permit us to hold title to certain of its possessions and use them in limited ways at its pleasure. So far, the opponents of constitutional property rights have refused to give their system a new name, but it amounts to the same old system called tyranny.

The essence of private property is the bundle of actions which owners may rightfully perform. Logically, any legislation restricting these ownership acts amounts to a regulatory "taking" and the owner ought to be entitled to be compensated for the decline in value of his assets. The Constitution did not establish unlimited majority rule. Even the legislature must be subject to the rule of law.

Nevertheless, many regulations would not involve compensation under the Fifth Amendment because they either do not involve a regulatory "taking" or measurably reduce the fair market value of property. For example, if landowners have a right to be free of pollution under the common law of nuisance and the owners are too disorganized to protect their rights against polluters, a governmental statute may empower the executive to bring the polluters to court under the common law and even impose special statutory penalties upon them. Since the right to pollute did not exist, no "taking" is involved and the government is merely performing its legitimate role in defense of private property. Other regulations, such as Civil Rights public accommodations cases, the regulatory requirement to serve all patrons would not adversely affect the value of the property. Zoning laws often increase land values. No compensation would be required unless the value of the "takings" is measurably reduced.

Under any interpretation, the "takings" clause is a comparatively weak protection of private property. The government may still impose taxes and acquire resources for public use. Courts must still determine "fair" value by making very imprecise approximations. Finally, some government regulations inhibit trade while actually augmenting the value of certain properties. For example, a zoning ordinance which severely restricts the land available for commercial use might increase the value of the property already employed in trade. Although such laws stifle growth and commercial liberty, the "takings" clause offers no relief to prospective businessmen who are unable to enter the market. The broad interpretation of the "takings" clause is no substitute for the judicial protection of "property liberties" under the "due process" clause.

Following the Civil War, the Thirteenth Amendment ended slavery and the Fourteenth Amendment extended the application of the "Bill of Rights." Section 1 of the Fourteenth Amendment reads, "All persons born or naturalized in the United States, and subject to the jurisdiction thereof, are citizens of the United States and of the State wherein they reside. No State shall make or enforce any law which shall abridge the privileges or immunities of citizens of the United States; nor deny any person of life, liberty, or property, without due process of law; nor deny to any person within its jurisdiction the equal protection of the laws."

The application of the "due process" clause to the states gives to individuals and businesses the same Fifth Amendment grounds to challenge state regulations as they already possessed against federal law. The "equal protection" clause extends the basic rights of citizenship to all Americans, regardless of race and sex. Both clauses were specifically intended to protect the property and liberty of blacks from outrageous actions on the part of southern states. It obviously outlaws the old southern "separate but equal" segregation laws. Thanks to the Fourteenth Amendment, all citizens are joint heirs to the old Saxon and English Whig concepts of liberty and property.

Where Have All Our Property Rights Gone?

The constitutional history discussed above clearly shows that the founders did take private property seriously and designed the Constitution accordingly. In order to limit the potential for tyranny the framers: (1) Divided the powers into three separate branches (legislative, executive and judicial). (2) Further separated the functions of government between federal and state levels, giving the federal level only a few enumerated powers. (3) Incorporated a "Bill of Rights" which specifically listed some of the most important applications of individual rights for all people to read and the courts to uphold.

The constitutional protections of our liberties have withered over the years. The division of powers within the federal government may have checked the expansion of one part of the federal government into the domain of another, but there is no protection for the people and states against collusions and the conspiracies among the different branches to exceed the delegated powers of federal authority. For example, the Constitution does not grant the federal government jurisdiction over education, housing, agriculture, or energy, but these functions have been elevated to cabinet level status in Washington by Congress, administered by the executive branch and approved by the courts.

Federal regulations have become so extensive that Congress often delegates its rule-making powers to numerous, nonelected agencies, such as the FTC, FDA, OSHA, SEC, and EPA. These agencies combine executive and judicial functions with their rule-making authority—subverting the division of power concept becoming laws unto themselves with feudal-like dominions in command over the private property held by commoners. James Madison condemned "the accumulation of all powers legislative, executive, and judicial in the same hands, whether of one, few or many and whether hereditary, self-appointed or elective, may justly be pronounced the very definition of tyranny. Were the Constitution chargeable with this accumulation of power or with a mixture of powers, having a dangerous tendency to such an accumulation, no further arguments would be necessary to inspire a universal reprobation of the system."[6]

Most recently, the federal government's appetite for power exceeds its capacity to raise revenues. Instead of taxation and spending, Congress prefers to subvert the rights of private property owners by imposing unfunded mandates upon them, such as "family leave" and employer mandates or forced "contributions" to proposed healthcare legislation. The words of Madison decrying the problems of "mutable" policy have been drowned out amidst a flood of ever wider calls for new government powers.

The usurpation of powers and rights belonging to the states and people by the federal government is partly due to defects in the Constitution itself. The framers, unfortunately, never established an effective check or balance that state governments could invoke against the encroachment of federal power into their proper domains. Ever since the Civil War, the threats by states to secede or nullify laws are not taken seriously, no matter how intrusive federal regulations become. Abuses of federal power may only be addressed in federal courts, hardly an independent or adequate restraint on federal authority.

The unfortunate legacy of slavery also made it more difficult to defend both private property and federalism. The framers granted the same constitutional protections to slave-holding as it accorded to legitimate private property. This has led to the mistaken notions among scholars, including noted Civil War historian James McPherson who called the abolishment of slavery in the Thirteenth Amendment as representing one of "the greatest seizures of property in world history." In fact, no one can ever legitimately own another human being. The English Whigs understood that the first right was self-ownership. The emancipation of slaves recognized the legitimate claims by southern blacks to self-ownership. The United Stated did not "seize" the slaves as third world governments take over factories. The Thirteenth Amendment set the captives free.

Following the Civil War, the southern states frequently violated the property rights and liberties of black people. The Fourteenth Amendment gave the federal Congress the power to protect their civil rights. This amendment was necessary, but it also established a precedent, "a hook" which the federal government has used to exceed its legitimate powers. Today, federal usurpation of the domain belonging to the states and people goes unchecked. "Liberal" scholars consider private property rights to be government grants of privilege—to be tolerated when convenient to the government, but no longer as a significant human right in itself. The concept of "states' rights" holds even less respect because it reminds one of past injustices committed by states, rather than as safeguards against the centralization of power.

The "Bill of Rights" provides very explicit words guaranteeing the rights of the common people. Unfortunately, words are not self-enforcing. The constitutional contract between the people and the government must provide incentives, counterforces, etc. to ensure that politicians remain the servants of the people, rather than the other way around. Even the most ingenious constitutional safeguards will wither and die if the public no longer appreciates the importance of liberty and property and if they can be made to believe that the crises of the day invariably requires extra-constitutional remedies.

Modern intellectuals do not take private property seriously, nor do they wish to constrain the makers of public policy. Ever since the "New Deal" of the 1930s, "liberal" scholars have rejected the belief that any economic system is proper for all periods of history. To them, political economy does not reveal any enduring set of legal principles. Political economy instead molds itself to the crises of the moment. The Great Depression, The War on Poverty, Projected Environmental Disasters, and the Health-Care Crisis, all supposedly require radical reorganization of the economy. Property rights and the rule of law must give way to the reformers.

In truth, no crisis is ever bigger than the Constitution. A solid education in economics would teach that private property and markets normally align the interests of property owners with the public. Most of the attempts by government to eliminate poverty, regulate prices, control macroeconomic fluctuations, or otherwise manage the economy have proven very costly and usually counterproductive. It is also probable that many of the recent ecological scares are scientifically unfounded. Real world problems can usually be addressed within the context of private property and market economics.

Infrequently, a government regulation may provide a convenient route in mitigating a particular problem of the day, but the benefits of infringing property rights are small compared to the sheer costs of government and the uncertainties found in the law today. Moreover the Constitution contains an amendment process to handle situations where the need to act is great and normal remedies appear to be inadequate. This amendment process, however, is a slow, deliberate one which enables the people and the experts alike to investigate, study, and analyze the problem and the costs of alternative remedies. Prudent, reasoned solutions require time.

Neither the Constitution, nor the rule of law can long endure the blight of a misinformed public. As friends of liberty, our eternally vigilant task must be an educational one. The people must ever remember the words of the founders, the wisdom of economists, and the lessons of history. Let us endeavor to turn back the regulatory lords in Washington, the twentieth-century pretenders to our property. □

1. Bernard Bailyn, *The Ideological Origins of the American Revolution* (Cambridge: Harvard University Press, 1967).
2. Thomas Jefferson, "A View on the Rights of British America" (1774) in *The Portable Jefferson*, Merrill D. Peterson (editor), pp. 17–18.
3. James Madison, *The Federalist Papers*, no. 62, pp. 381–82 (New York: 1961).
4. Alexander Hamilton, *The Federalist Papers*, no. 85, p. 521.
5. James Madison, *The Federalist Papers*, no. 45, p. 292.
6. James Madison, *The Federalist Papers*, no. 47, p. 301.

NOTES FROM

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Repeal, Repeal, Repeal

Even if the course of the Federal Juggernaut does not change significantly in the coming months, we are pleased to see a change of drivers. The reins of power when held for long periods of time breed inefficiency, arrogance, corruption, and many other vices. To change the drivers is to recondition the monster and make it run more efficiently. But a renovated Juggernaut may be even more predacious than one which bungles and lumbers frequently. Therefore, we are hoping for much more than a new team of eager drivers. They must brake the terrible force, halt it, and dismantle it. They must repeal the laws and regulations which built the Juggernaut.

The American people have entrusted Republicans with control of Congress only twice since 1930, in the elections of 1946 and 1952, and returned it to the Democrats each time after one term. In both cases the Republican Congress did not deviate from the given course by a single degree. On November 8, 1994, the people gave the Republicans one more chance to guide the political process along the lines of a legislative plan called "Contract with America."

The Contract envisions a Constitutional amendment that would mandate a balanced budget. An equality of revenue and expenditure obviously does not signal a change of direction. Given the deficits of hundreds of billions of dollars, it may necessitate expenditure cuts and tax increases. When forced to choose, most politicians prefer to increase the taxes on business, which is rather defenseless at the polls. To reduce expenditures is to revoke entitlements which are legislative promises made to large numbers of constituents. It takes conviction and courage to reduce or even rescind such entitlements—more conviction than most politicians ever had and more courage than they can muster.

Balanced budgets do remove the pressures of deficit financing from capital markets and may lower interest rates. Yet, no matter how virtuous such a balance would be, the call for a Constitutional amendment raises many questions of politics. To wait for a Constitutional amendment is to spend time and energy and much political capital on constitutional reform rather than on the spending predilection itself. If the Republicans have the courage to cut expenditures and balance the budget, they can start right away without a Constitutional amendment—as they used to do so admirably before the dawn of the New Deal and New Republicanism. During the 1920s Presidents Warren Harding and Calvin Coolidge retired one third of the World War I debt.

A Constitutional amendment cannot impart temperance, prudence, and self-reliance on people who prefer self-indulgence, folly, and dependence. Politicians bent on spending would easily circumvent the restraint through backdoor, off-budget spending. They would create agencies that are federally owned or controlled but deleted from the budget. Or they would spend freely through a great number of privately owned enterprises that conduct government programs such as the Federal Home Loan Bank System, the Federal Home Loan Mortgage Association, and the Farm Credit System. No political scheme or device can impose integrity on people who prefer profuseness, dependence, and debt.

It is significant that the Contract promises various tax cuts but carefully avoids any reference to spending cuts. It promises to reduce the capital gains tax and even gives hope of index adjustments for inflation profits, but remains completely silent about reductions in transfer spending. Republican leaders even reassure their voters that the very pillars of the transfer system—President Roosevelt's Social Security System and President Johnson's Medicare System—are untouchable. These remain off the cutting table, as President Ronald Reagan used to put it.

To freeze federal spending or limit its growth to the rate of inflation does not reverse the path of the Juggernaut; it merely permits it to coast and gather strength for another dash in the future. It raises no questions on either suitability or the morality of a spending program, but rather affirms it with new allocations of funds at the given rate. To freeze federal expenditures on international development and humanitarian assistance at the 1994 budget estimate of $7.325 billion or the 1994 general science and basic research expenditure at $4.445 billion is to reaffirm those programs. Yet foreign handouts visibly impede economic development by financing government enterprises and political largess. The post-World-War II recovery of the European countries, for instance, was inversely proportional to the sums of Marshall aid received. Great Britain, the most favored recipient, experienced a painfully slow recovery; West Germany, the vanquished recipient with the smallest per capita aid, recovered miraculously. In recent years, Chile, with General Pinochet in power, was cut off from all U.S. handouts; unhampered by political largess, its economy grew by leaps and bounds.

Economists always return to the question of suitability: does the program actually achieve what it sets out to achieve? Their answer is universally negative. Political intervention in economic life invariably makes matters worse by disarranging the production process. Political coercion always impairs voluntary cooperation. Yet, it may be rather popular with those individuals who expect to benefit from the coercion. It is dear to the heart of every legislator and regulator who wields the lash of coercion.

The question of morality, which deals with the principles of right and wrong, while often maligned and belittled, does overshadow all political action. It wants to know, for instance, whether the 1995 federal outlays of $11.828 billion for higher education or the $156.135 billion for the Medicare program are right and proper. The architects of these transfer systems obviously argue for the righteousness of such transfers. The critics deplore and condemn their sponsors for engaging in raw political plunder. In their judgment, transfer policies force most Americans who labor without the benefit of higher education to subsidize an educational elite whose working and living conditions by far exceed those of the workers who are forced to support them. It is political evil which brings forth ever more evil.

The Medicare program raises a similar question of political morality. Is it fair and proper for the working population which is struggling to raise a new generation to pay some $156 billion in medical bills for a leisure class of retirees whose personal wealth visibly exceeds that of the working class? Is it moral to seize income and wealth from any individual for the benefit of other individuals?

The Republican Congress must raise these questions if it aspires to dismantle the terrible force. It must unhesitatingly reject all political plunder and dismantle the transfer system with all its entitlements and mandates. It must rid the country of affirmative action policies which alienate and disintegrate, and eliminate all special privileges based on race, gender, disability, and sexual orientation. It must rescind all laws and regulations which strangle business and torment businessmen. In particular, it must repeal the Disabilities Act, the Clean Air Act, and other regulatory acts passed in recent years, and liquidate the FDA, FTC, EEOC, OSHA, EPA, HHS, HUD, BATF, CPB, NEA, and many other regulatory authorities. In short, it must dismantle the task forces of the federal Juggernaut.

Human history must be understood as a theater of diverse groups of individuals guided by incompatible ideals and values and pointing in opposite directions. Our theater is managed by the forces of political power and legislative and regulatory command; the forces of individual freedom and private enterprise have barely been audible in the din of command politics. The November 8th election has given them another opportunity to be heard in the coming session of Congress. History will judge them not by the speeches they will give and the number of new laws they will pile on the mountain built by their predecessors, but by the number of laws they will repeal. To be discernible in American history they must repeal, repeal, repeal.

Hans Sennholz

Hans F. Sennholz

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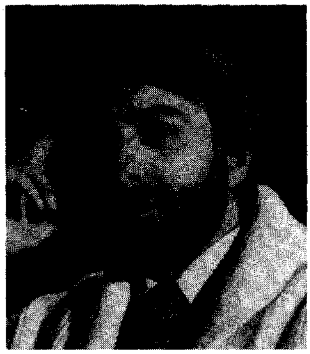

The Second American Revolution?

In the November 1994 *Notes From FEE,* Dr. Hans Sennholz predicted a coming "turning point:" "Liberalism is intellectually bankrupt and has nothing going for it but its willingness to apply brute force and crude deception. . . . The forces of freedom will have another opportunity to turn the ship around."

I doubt that he, or any of us, knew just how soon that opportunity would present itself. That same month, voters across the land handed liberalism a stunning repudiation at the polls. Everywhere, aging champions of the welfare state were sent packing by young insurgents who campaigned *explicitly* on platforms of cutting taxes, slashing spending, reducing the size of government, repealing regulations, and unleashing free market forces. (The few exceptions were in states where challengers ran as vacuous moderates, or where questions of personal character clouded the choices.)

The 1994 mid-term elections were a watershed ideological referendum on the size and scope of government. Veteran liberal icons in Congress, holding the highest positions of power, campaigned openly on their commitment to redistributionist programs, their political clout, and their ability to deliver pork to their constituents. They also used tried-and-true fear tactics, declaring their opponents would cut Social Security and Medicare.

By contrast, their challengers campaigned openly on a sweeping anti-statist agenda—a signed pledge to cut taxes, regulations, social welfare programs, foreign aid, and government employees, while enacting constitutional amendments to balance the budget, limit taxes, and terms of office.

The results? Asked to choose between more government or more liberty, voters repeatedly chose liberty. The purveyors of pork were routed; the most senior liberal leadership in Congress, decapitated.

Ballot initiatives confirmed the message. Term limits and tougher anti-crime measures were enacted in state after state. In California, a measure to cut off government assistance to illegal immigrants won handily, while the same voters repudiated an initiative to impose Canadian-style socialized medicine, by a 3–1 margin. Even in leftist bastions such as San Francisco and Berkeley, voters enacted tough new measures to control homeless vagrants; and in liberal Massachusetts, the electorate abolished rent controls, rejected a graduated income tax, and imposed term limits.

Exit polling data made the voter mandate clear. Asked in an NBC/*Wall Street Journal* poll, "Who do you want to take the lead role in setting policy for the country—President Clinton or the [new] Congress?", voters

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Criminal Justice? The Legal System Versus Individual Responsibility, *edited by Mr. Bidinotto and published by FEE, is available at $29.95 in cloth and $19.95 in paperback. Please see page 64 for details.*

answered "Congress" by a 55–30 margin. Two-thirds of them said President Clinton should abandon his own agenda, and instead compromise with Congressional Republicans. Voters preferred the policies of Congressional Republicans on crime, taxes, Social Security, and Medicare—even health care, the President's pet issue.

Years of patient educational efforts by free-market intellectuals are finally paying off, resulting in a sea change in public attitudes about the relation of the individual to the state. The leading insurgents now taking office are not old-school politicians. Some are even former teachers of history and free-market economics, who bring a principled underpinning to their policy prescriptions. They understand their philosophy and their mandate, propose a radical agenda to downsize government, and assert a feisty unwillingness to compromise.

On their agenda: adding property rights protections to all environmental laws; liberalizing foreign trade; even replacing the federal income tax. Off the table: socialized medicine; new tax and spending initiatives; and the dispatching of American Marines to every nation whose name ends in a vowel.

What's left of the Left is quaking. A *Newsweek* headline: "Goodbye Welfare State."

But that (unfortunately) is an overstatement. Though in disarray, the forces of the Statist Quo won't surrender their power and perks easily. Rome wasn't built in a day—and won't be dismantled in a day. In fact, the biggest barriers to reform are likely to arise from within the Republican Party itself.

The GOP stands precariously on deep philosophical fault lines, and already we're hearing rumblings of coming tremors that could shatter the revolutionary coalition. Arrayed against the free-market forces within the party are at least three pro-interventionist factions, determined to take the tastiest items off the anti-statist reform menu.

The *value liberals* in the GOP endorse liberty on social issues, but want more government intervention in our economy. The *value conservatives* endorse economic liberty, but think government should police our personal and social values. (Nationalist and populist sub-factions also would curtail free trade and immigration.) In the muddle-of-the-road are *business pragmatists*, the "mainstream" ballast of the Republican Party. These corporatists, country-clubbers, and supply-siders reject laissez-faire, and would instead wield state power on behalf of business and special interests.

Sadly, no prominent Republicans consistently oppose state encroachments on liberty. Even the best of them, the free-market conservatives, who are quite principled on economic and property matters, still pay lip service to the need for some moral interventions into the private lives of individuals.

These free-market insurgents are concentrated largely in the House of Representatives. But the fate of the election—and the resurgent Republican Party—will be sealed when their reform wish list passes that body, and goes to the Senate. What will the more pragmatic Senate leaders then do? Will they get in line behind it—or compromise it all away, proclaiming "bipartisanship," egged on by special interest constituencies?

We truly may be on the threshold of a Second American Revolution. But if the reforms fizzle, as they did under Reagan, voter rage will boil over. Then both major parties will find themselves justly discredited and hounded from office.

Yes, this is an unrepeatable opportunity. But what the new Republican Congress does about its own favorite pork programs (such as farm subsidies) will become a litmus test of its real commitment to principled reform.

In the meantime, we must continue our job of education. The voters' preference for liberty and limited government is still more implicit than explicit. They need intellectual ammunition to fight off future counterattacks from collectivists, who are sure to regroup. Our job is to arm them.

How? By continuing to stand firm on principle. We must buoy those who might waver in the coming battles, and—in George Washington's immortal words—raise a standard to which the wise and honest may repair. □

THE FREEMAN
IDEAS ON LIBERTY

The First Atomic Age: A Failure of Socialism

by Rodney Adams

The first Atomic Age began with high hopes, but it has languished, being replaced in succession by the Space Age, the Computer Age, and the Information Age. Atomic planes, trains, and remote power stations discussed by 1940s visionaries were never built. Atomic powered ships, able to operate for years without refilling their fuel supply have seen limited civilian and military application. Most are now museums or being laid up as anachronisms. Nuclear submarines, powered by compact engines able to push their massive bulk at high speeds for years without any atmospheric intake or exhaust are widely thought to be expensive Cold War relics with no real mission or lesson to offer.

Following twelve years of service in the Navy's Nuclear Power Program, Mr. Adams founded Adams Atomic Engines, Inc. He resides in Tarpon Springs, Florida. Says Mr. Adams, "I believe in the power of a competitive market to encourage the kind of problem-solving thinking that has allowed men like Edison, Bell, Ford, and Gates to produce revolutionary products." In June 1994, he published an article in the U.S. Naval Institute Proceedings titled, "Submarine Engines of the Future."

Hype Versus Reality

Was it all hype? Were Dwight Eisenhower, Al Gore, Sr., Isaac Asimov, Alvin Weinberg, Leo Szilard, Enrico Fermi, Lewis Strauss, and H.G. Wells all wrong in their predictions for a new source of abundant energy? If not, how did the present stagnation in the industry happen?

First the facts. Uranium is abundant. One indication of the enormity of the resource is that the United States has an existing stockpile of enriched uranium large enough to fuel over 1000 Trident class submarines for fifteen years. Another indication is that the price of natural uranium has fallen so low that domestic mining companies are crying for protection from foreign "dumping."

Uranium, thorium, and plutonium are concentrated energy sources. One pound of any of them contains as much potential energy as 2,000,000 pounds of oil or 2,600,000 pounds of high grade coal.

Uranium, thorium, and plutonium have all been used as fuel in fission reactors. Fission waste products weigh less than the initial metal used for fuel and are compact enough to be completely retained within the reactor core. Each year, we produce approximately 4,000 tons of spent fuel from all 108 nuclear electric plants in the U.S. while a single 1,000 megawatt electric (MWe) coal station produces that much ash every day.

A 1,000 MWe nuclear power plant uses about seven pounds of fuel each day and produces no carbon dioxide. A 1,000 MWe coal plant burns 11,000 tons of coal and produces 42,000 tons of waste gas every day.

A total of three people have been killed by nuclear accidents in the United States in the forty years that we have been operating power reactors. All three were killed in a single accident at an experimental military reactor in the early 1960s. Not a single person has ever been killed handling the waste from a nuclear power station.

The Atomic Age was not stopped by protesters, mismanagement, technical hurdles, economic hurdles, or heavy regulations. All of these may have played a role, but they were more symptoms than causes.

The true reason that atomic power has not yet fulfilled its promise is that the industry was established and operated as a socialist enterprise. Like all other experiments that prevent innovation, experimentation, and individual rewards it was doomed from the beginning.

Nationalized Atom

By 1946, the power available in the nucleus of certain heavy metals was well known. The extent of the heavy metal resource was not fully understood, but there were indications that there were extensive deposits. The means for using the power were not yet known, but scientists and engineers were confident that the heat produced by fission could be put to good use. If atomic power had been like other technological developments, there should have been rapid innovation and eventual commercialization.

Unfortunately, politicians thought that atomic power was different. Although the basic science had been developed over a period of decades with most work taking place in European laboratories, American congressmen, secure in their belief that the United States was the world's only remaining technological power, claimed atomic energy as domestic property. They also decided that no one but the government could be trusted with the awesome power contained in tiny atoms and nationalized the whole industry.

All nuclear knowledge was declared secret and U.S. scientists were forbidden to discuss their work with even such notable colleagues as Niels Bohr, whose liquid drop model of the nucleus had helped explain how fission worked, and Bertrand Goldschmidt, a French chemist who developed a plutonium extraction process as part of the Manhattan Project. Uranium gained a new name as "special nuclear material" and was declared to be federal property. Inventors of devices designed to use special nuclear material were required to give their patents to the government who would then decide on just compensation.

A commission was established to decide how best to proceed with the development of atomic energy. The commission was given the responsibility for the national laboratories that had developed atomic bombs. They took several years to decide how to organize themselves. Most of the scientists and engineers involved with the Manhattan Project returned to their pre-war duties while the Atomic Energy Commission was figuring out their priorities.

Within three years the Soviet Union exploded their first atomic weapon, making it obvious to the world that atomic energy was no longer a U.S. monopoly. It took five years for Congress to recognize this and take action to loosen some of the controls established by the Atomic Energy Act of 1946.

Socialized Atom

Bureaucracies relinquish control reluctantly; many onerous provisions of the Atomic Energy Act of 1946 were retained when the new act was passed in 1954. The government maintained ownership of all special nuclear material and provided a means to license it to users who would then pay a "reasonable" fee to the government for its use. Of course, the fee was determined by bureaucrats based on complicated formulas and obscure cost accounting.

About the same time that the Atomic Energy Act of 1954 became law, the USS Nautilus reported that she was "[u]nderway on nuclear power." Her performance during the subsequent demonstration period made headlines. Her builders gained head of the line privileges at the Atomic Energy Commission which had to approve and license any new reactor designs.

Although the Nautilus's power plant was functional, it had many limitations. It depended on keeping water under extreme pressure so that it would remain a liquid at temperatures far above the normal boiling point The hot, high pressure water was a potential hazard with even small leaks in the lengthy piping systems. The valves, pumps and piping required specialized materials since hot water is an excellent solvent and is quite corrosive. The reactors needed fuel with a higher concentration of U-235 than was found in natural ores, requiring the use of a complex process of isotope separation.

Despite the difficulties, the pressurized water system was probably the best that could be rapidly produced under the technology constraints existing in 1950. It was suited for the specialized application of a submarine because it was far more capable than diesel engines combined with batteries for underwater operation and because the enrichment plants were already built and producing products for the weapons programs. There was no way that the submarine system could compete economically with engines burning oil costing less than $2.00 per barrel, assuming that air and exhaust space was freely available.

The President and certain congressmen who were interested in using the new form of energy for civilian applications decided it was in our national interest to encourage the nuclear industry. From their point of view, the natural customer would be the electrical generating industry, one they were familiar with from the government's involvement in public power projects. They invited some utility industry representatives to Washington to discuss their needs.

The contractors who had built the Nautilus, the Seawolf (a submarine with a sodium-cooled reactor plant), and the land based prototypes were invited to the government discussion because of their nuclear experience. The contractors involved in the government work were mammoth companies, used to doing things in a big way. Their governing economic philosophy was similar to those of the state agencies in the Soviet Union, i.e. if a piece of machinery is not economically competitive, make it bigger. This matched the economy of scale concept that the utility companies had been taught by Samuel Insull.

These three groups, utilities, contractors and government bureaucrats, decided where best to concentrate their efforts to develop civilian nuclear energy. The decisions seemed right to the queried group; light water reactors would be developed because they were proven energy producers, and they would be made bigger, assuming that would make them cheaper. The U.S. monopoly on enrichment services might have played a role in this decision. Some effort would be made to produce sodium-cooled breeder reactors, based on the Seawolf technology and on plutonium extraction technology from the weapons programs. These would also be made economical by increasing their size.

Bigger Is Better?

Of course, many people with an interest in energy production were left out of this decision process. There were no farmers, railroad executives, airline operators, ocean shippers, steel mill operators, gold miners, or aluminum smelters at the table even though their industries are highly dependent on energy inputs. No invitations were issued to entrepreneurs or inventors. Because of the government's secrecy about the technology, most of them did not even know that nuclear energy existed or that it could be used to meet their needs. Most of the mentioned groups still have no idea what nuclear fission could do for them.

The results of the socialistic decision are now clear. The bigger the plants got, the more complex they became. They became more complex to build because the increased size of critical components like pressure vessels, reactor coolant pumps, containments, and steam generators made fabrication, inspection, and transportation uniquely difficult compared to other energy production systems. They became more complex to finance because the huge electricity factories required multi-company partnerships, large bond offerings, and a whole coalition of banks. Raising billions for a single project is a time-consuming and costly endeavor.

They became targets of intense opposition that seemed to intensify in the mistrust of government and major industry prevalent in the 1970s. Compared to other regulated industries, they became a nightmare for bureaucrats. Proof of safety became a difficult issue with heavy reliance on complex computer modeling techniques. Unlike commercial airliners, for example, reactors are simply too big and expensive to fully test. Regulators, given only the responsibility to ensure public safety, appear to feel that the best way to do their job is to make licensing as difficult as possible.

Because nuclear power plants are almost universally viewed as huge, capital intensive, risky, and potentially hazardous no new plants have been ordered in the United States since Gerald Ford was President.

Things might have turned out differently if atomic energy had been developed by entrepreneurs.

Entrepreneurial Atom

Suppose there had not been a Hitler or a Mussolini active in 1938 when Otto Hahn announced that he had found barium in the sample of uranium he had bombarded with neutrons. Maybe Enrico Fermi would have stayed in Europe and continued his work, perhaps forming a research partnership with Leo Szilard, who had already filed a patent for a power producing reactor. Being scientists, they would have widely published the results of their experiments, demonstrating to the world that uranium was a potent new source of energy. Even if they had gone on to other projects, others might have taken up the research.

A smart money man, perhaps one who had spent his life finding oil in difficult places, or one who had cut his teeth in a coal mine, or one who had spent a lifetime eking out small efficiency gains in oil-burning steamships might have recognized the significance of a compact energy source and seen a way to turn this scientific knowledge into a useful and profitable product. He might have been enough of an inventor to see that fission could be a heat source able to function in any system normally heated by burning coal or oil. He would have recognized that some applications would be entirely new since fission needs no oxygen supply or means for routine dispersal of waste products.

An entrepreneur would keep his risks as low as possible. He would not have government insurance or contracts to bail him out if he failed. Any engines would be based on natural uranium since the enrichment process would be viewed as too risky and expensive to attempt. He would test his new product to ensure adequate safety. He might concentrate on finding premium markets where high margins would allow him to write off development costs in the shortest possible time.

He would do extensive research, seeking to determine where his product could beat the existing competition. He would base his decisions on both study and "gut feeling" from extensive personal experience of how the world uses energy. A market for an atomic engine that would have been familiar to a 1940s entrepreneur would have been a high speed ocean liner, like the Queen Mary, which burned approximately 1,000 tons of fossil fuel per day during Atlantic crossings.

Using the proceeds from sales to premium markets, he would push his developers to design products that could serve the widest possible market, knowing that diverse customers increase income and protect against cyclic economic pressures. Instead of moving toward bigger plants, he would have realized that smaller engines would find more customers. He might have tried limited enrichment at this point in order to reduce the size of his engines.

The money man would have understood that he had to tell people about this fantastic new product. Magazines, newspapers, television, radio, and billboards would all have been full of advertisements trumpeting the ability of atomic engines to push stackless, smooth running ships across the ocean for years without needing new fuel.

The entrepreneur would arrange special demonstrations for dignitaries and influential members of the media. He would work to attract additional investors for his capital-hungry endeavors. He would develop partnerships and arrange for lease purchases of his engines for customers unwilling or unable to afford the initial capital expense.

Competitors would have surely appeared after seeing the success of the initial pioneer. They would develop better systems that could lure customers away from the established company. They, too, would look for ways to broaden the market. Some design standards would have been established to take advantages of the installed base of trained operators and suppliers while still allowing room for product differentiation.

The industry would have been attacked. There would have been people genuinely concerned about potential hazards and others more selfishly concerned about their jobs and investments with existing energy suppliers. The enormous industry involving the supply, transportation, storage and marketing of coal, natural gas, and oil would have been particularly vocal and possibly violent. The adolescent nuclear industry might have decided to form an industry group to lobby for its own interests and to refute bogus claims from the competition. They would commission studies and ensure that their advertising outlets provided balanced coverage of the hazards of their industry versus the competition.

There would probably have been some people who saw the leftovers from reactor operation as potent new raw materials and made arrangements to take the waste off the hands of the reactor owners. The reactor operators would probably have taken whatever price was offered by this budding scrap industry, preferring to concentrate on figuring out ways to take advantage of the new systems that were being offered by the engine manufacturers. The engine manufacturers might have become customers of the scrap industry for raw materials for new engines.

There would have probably been some notable accidents during the early phases of this new industry. The industry would have learned from the accidents and figured out ways to prevent their recurrence. Engineering societies would have played a strong role in establishing construction and operation codes. There might have been several pioneering companies that collapsed because of lack of vision, poor management, failure to recognize competition, or inability to correct design faults. This is probably the point where the government would have become involved. Up until then, the government would not have recognized what was going on in the exciting new industry.

This whole business might have gone on for years before anyone mentioned that the incredible energy available in uranium could be released fast enough for a militarily useful explosive. By that time, it would have been far too late to attempt to impose a government-owned monopoly of "special nuclear materials."

Lessons

The above is speculative hindsight, of course, but it holds important lessons for us in 1995, as we work on new information systems, flat screen display panels, and options to fix a supposed crisis in medical care.

Even democratic governments are poor managers of new technology. They are worse when they choose a socialistic model for their enterprise. Governing bodies respond better to existing interests than they do to people with fresh ideas who want to alter the status quo. Because of their competing interests and regular changes of the guard, bureaucrats are doomed to fail in a pioneering effort that requires singleness of purpose and continuity of effort.

The solution is for the government to allow innovation to occur, keeping in mind its responsibility to respond to dangers to the common good. Whenever governments begin to protect chosen industries or work to encourage their development, they inevitably make decisions that have impacts they did not intend.

Perhaps it would be beneficial to fully open the debate about nuclear energy, this time allowing all interested parties to participate. The best forum for such a debate is the free market with its competition and ability to handle more decisions at one time than any politically selected management body. Although it is not recognized as such by liberals, the market is an ideal body for making tough decisions. □

THE FREEMAN
IDEAS ON LIBERTY

Nuclear Power: Our Best Option

by Mike Oliver and John Hospers

With monotonous regularity over the last generation, the American people have had the following statements so constantly drummed into them by the media that most Americans, it seems, have come to believe them:

1. Fossil fuels, such as coal and oil, are dangerous pollutants, and anyway we are running out of them.

2. Nuclear power is so dangerous that it cannot safely be used; indeed, the nuclear facilities already in existence represent such a mortal danger that they should be shut down.

3. But there is one hope: power derived from the sun and winds. These are infinite in quantity, or at least indefinitely great; and they are also safe and clean. All we need is a few years in which to develop this kind of power, and our energy needs will be taken care of.

Only the first of these three statements is true, with some qualifications. The second and third statements are utterly false, although it is popular to believe that they are true.

Mr. Oliver is a retired engineer living in Carson City, Nevada. Dr. Hospers, this month's guest editor, is professor emeritus of philosophy at the University of Southern California, and is the author of numerous books such as Understanding the Arts, Human Conduct, *and* Introduction to Philosophical Analysis. *He was the first Libertarian Party candidate for U.S. President (1972).*

Fossil Fuels

Thus far, most of our energy needs have been met by fossil fuels: coal, oil, and natural gas.

Almost half the coal in the world lies under the United States. For more than a century American locomotives were fueled by coal, and even today coal is a major source of energy. Fortunately it is one commodity that America does not have to import.

But coal lies underground, and digging for it is dirty and dangerous. We can all remember reading of accidents in coal mines, with miners trapped far below the earth till they died of starvation or thirst, or were asphyxiated by lethal gases. And even after it is above ground, coal is a dirty fuel. Since 1907, 88,000 miners have died in accidents and from effects involved in American coal mining. The 1952 London fog that killed 3,900 people was the combined result of innumerable coal fires.

Oil is somewhat less dangerous to extract from the earth than coal is, but it is far more dangerous to transport and store. Oil storage tanks often catch fire. The city of New York was endangered several times by such fires, and loss of life was prevented by rain and change of wind direction. Large trucks filled with oil sometimes are involved in accidents on highways, killing not only the people who have volunteered for the dangerous job of transport, but passengers in other vehicles who happened to be in the vicinity of the burning oil trucks.

Are we running out of oil? Gradually, not very rapidly. In 1930 it was widely publicized that there was only enough oil for American cars for another ten years. Now it is 1995, and the world is still awash with oil. Oil continues to be discovered at numerous places around the world. Tremendous amounts of oil and natural gas were discovered near Prudhoe Bay in Alaska, but the wells were capped and the discoveries were stopped, in line with the general policy of the Carter administration to place most of Alaska off limits to development. (The dramatic story of the discovery of this oil and gas, and the decision not to use it, is told in Lindsey Williams' book, *The Energy Non-crisis*.)

In spite of its prevalence around the world, we can't keep on using oil and gas forever; we are using it up about a million times faster than it takes nature to form it. Perhaps it is wise to husband our resources and use the foreign oil first. But this does not appear to have been the thought in the minds of the U. S. government regulators who descended on the Alaska pipeline as it was being built and interfered with its construction endlessly, officially to protect the environment, but actually to prevent the completion of the pipeline. (This story is also well told in Williams' book.) A few examples will suffice: All work on the pipeline was stopped when birds were nesting nearby. All waste materials had to be bagged and shipped to Anchorage, where nobody wanted them, instead of remaining on the tundra, where they would have been harmless or even beneficial. "Caribou passages" were mandated, to enable the animals to pass the pipes without touching them, although, as it turned out, the animals preferred the warm spaces around the pipes and experienced no difficulty when they did have to jump over them. A thousand and one legal obstructions were erected to bankrupt the companies building the pipeline before its completion; it was all done in the name of the environment, though the obstructions in no way helped the environment, and in fact the enforcers constantly violated the very rules that they forced upon those who were building the pipeline: no workman could kill a native animal, but the regulators did so all the time. All this, of course, added considerably to the cost of the oil (from the pipeline) that was consumed by Americans.

Even more expensive in its consequences for Americans is our reliance on foreign oil supplies. In 1979 the Shah of Iran abandoned his throne at the urging of the American government. With this major source of oil cut off, there was an oil shortage in the United States, and millions of Americans stood in line at gasoline pumps. The price of oil increased from $15 to $32 a barrel—a major factor in the increased cost of living. And even today we still protect with our servicemen's lives the foreign oil supplies that are controlled by hostile sheiks and ayatollahs. If we did not rely so heavily on this oil, we could thumb our noses at such monarchs. Meanwhile, our energy use is constantly increasing, and it is more important than ever to stop relying on foreign energy sources if we don't want a far worse replay of 1979.

Besides all this, fossil fuels are detrimental to our atmosphere. The more of them we use, the more we help to destroy any chance of a clean non-toxic environment. It is, indeed, imperative that we find some alternative to the fossil fuels we have always used in the past.

Solar Power

Americans have been told to believe that since fossil fuels are a non-renewable resource, and dangerous to handle and to obtain, the search for other energy sources is imperative. Thus far they are correct. But as to the kind of energy source we should try to develop, the popular belief is that nuclear energy is too dangerous for us to develop further, and that the real answer lies in "natural" energy sources (as if they were not all natural!) such as sun and wind, as well as geo-thermal sources such as hot springs, and fossilized fertilizers such as guana. But this last belief is the exact opposite of the truth: the solar and other "natural" sources can never be more than a tiny portion of our total energy source, and the nuclear can not only be a principal source, but by far the least dangerous one.

The idea of cultivating the sun and wind as sources of human energy is aesthetically appealing. It appeals to our impulse to "return to nature." Sun and wind are clean, aren't they? They don't make a mess, they don't pollute, and they certainly don't appear to be dangerous. Isn't it just a matter of waiting a few years until we develop the required degree of solar and geothermal technology?

It is a thankless job to dispel an appealing and popular delusion. It's not as if this were a new idea, which is only now dawning on the human race. Wind power, in the form of windmills, has been used for many centuries. People have used hot springs as a heat source when it was available, which isn't in very many places in the world. All these so-called "alternate energy sources" together fill less than one half of one per cent of our energy needs. If we relied on them, the lights of civilization would go out. They play almost no role in providing power for the cities of the world, or even for farms and villages.

This is not for any lack of attempts. It is because of basic facts of nature which every physicist knows but which people don't want to believe because the idea of solar power is so appealing. It's not our technology that is the source of the problem; if it were, *that* could be developed in time. The problem is not with technology but with the laws of physics themselves, which as far as we know never change. The simple fact is that solar power comes to the earth at the very dilute rate of 1 kilowatt per square meter, at best. The amount of energy emanating from the sun to the earth, and the facts about its dispersal, have been known for many years; they are constant from year to year, century to century. Nothing that human beings can do can change this.

Nor is this the end of the problem. Consider what would have to be done to make actual use of the sun's energy to create electric power. To heat one sizable swimming pool with solar power, you need a set of heat-collectors spread out over your roof or lawn. The area required to provide this heat is truly staggering. A 1,000-million-watt power plant, whether nuclear or fossil-fueled, needs about 25 acres for the plant plus storage facilities. But "a solar plant producing that same amount of power (with 10 percent efficiency and 50 percent spacing between the collectors) would need *50 square miles*."[1] To provide sufficient electric power for New York City, at its present rate of use, would require collectors spread out over 300 square miles—a considerable part of Long Island (and what would the present inhabitants of Long Island do, and where would they go, if they were about to be replaced by such collectors?).

But the situation is worse than this. The sun's rays are not strong during cloudy days, and aren't received at all at night; so any solar plant would have to be designed for a much higher capacity than has just been described. (Anyone who depends on solar heat for his swimming pool knows this at first hand.)

The same is true of the wind: it doesn't blow all the time, and when it doesn't, ordinary windmills are useless. Wind systems would have to have unimaginable large and expensive storage systems. The upkeep alone on these systems would be prohibitive, as well as the hazards to health and environment from the use of the chemicals required to keep the collectors clean and functioning. And as for wind power, covering the United States with 40,000,000 windmills (or thousands of miles of solar equipment), plus the extraction and processing of the enormous quantities of materials needed for such systems (we might soon run out of them), would precipitate an ecological disaster of unparalleled proportions. Those who have been "out in the field" with these "alternative energy sources" know the result well enough: officials in California complained that the windmills produced superb tax shelters for "alternate energy" suppliers, but very little electricity.

It is time that this hoax was laid to rest. Proponents of solar, wind, and geothermal energy have yet to produce a single shred of real evidence that solar energy would ever be feasible on the scale required to provide power for the inhabitants of a planet whose very existence depends on the use of energy. It is not too much to say that 95 percent of America's population would perish without the availability of modern energy to operate our farms, hospitals, factories, schools, and other facilities. Perhaps this would please some ecologists, but are they willing to sacrifice themselves on this altar, or do they claim that there are too many of "you others"?

Nuclear Power

Our best energy option for the indefinite future is nuclear power. It is already in use without mishap in other nations: about 70 percent of France's energy source is nuclear (France has almost no oil or coal, so there wasn't much choice—go nuclear or go without energy). But there have been no nuclear mishaps in France.

About 25 years ago, newscaster Edwin Newman told the American people in an NBC broadcast that our rivers would boil within a decade because of the thermal pollution from nuclear power plants. Jack Anderson once claimed that a white nuclear cloud was descending on Denver. The *Las Vegas Sun* converted a one-millirem leak near Beatty, Nevada, into a full-blown nuclear cloud, which was descending on the community about five miles away. By the time it reached Beatty the millirem was distributed through about 500 cubic miles of air. We get about fifty times that much radiation from a simple X-ray distributed over the puny volume of a single human being.

In the face of such concerted propaganda, it is no wonder that Americans are fearful of nuclear power. They are not told the facts of the case, nor even of places where nuclear power is successfully and safely used. It is fortunate that the facts are as they are, rather than as they have been painted to the American people, for if they were as painted, we would soon have to go without most of our light, heat, and electric power. The energy source that has been advertised to us (sun and wind) is a delusion; if we had to depend on that we would be doomed. But the energy source that we have been told is fraught with mortal danger is, fortunately, and contrary to popular opinion, cheap, clean, and comparatively safe. In it lies our best hope for the future.

Meanwhile, the "alternate energy" advocates are urging us to dismantle our nuclear power stations, to stop exploration for domestic oil, to curtail construction of coal-fired plants, and to start basing our existence on their "tomorrow we will do it" promises. Jane Fonda and Tom Hayden succeeded in shutting down the Rancho Seco nuclear power station near Sacramento. Some of their disciples went house to house telling mothers that their children would glow in the dark unless that plant was dismantled. And yet the population of Sacramento is growing at an explosive pace, and so is their need for electricity.

How is it possible, in the span of a brief article, to prove the *comparative* safety of nuclear power? Here are a few examples of how nuclear power works and what its effects are on consumers of that power. For an excellent longer treatment, see Petr Beckmann's incomparable book *The Health Hazards of Not Going Nuclear.*

1. *How safe are our nuclear reactors?* Very safe indeed, compared with any other kind of power. Every nuclear reactor is built on the principle of *defense in depth.* In October 1966 a metal plate broke loose in a reactor, partially blocking the flow of coolant, overheating two of 100 fuel assemblies and melting some of their fuel. The reactor was promptly shut down, and all precautions worked as planned. As Beckmann says, "If the reactor had lost its coolant, it would have been automatically replaced. And if it hadn't, the containment building would have contained the radioactivity. And if it hadn't (though it is hard to see why not), it would have disperse into the atmosphere without doing any harm. And if it

hadn't, because a temperature inversion kept it near the ground, a slight wind in an unfortunate direction would have had to blow it 30 miles to Detroit before a Detroit fly got hurt." (Beckmann, p. 50) And yet this incident was the subject of a book, *We Almost Lost Detroit,* which scared many readers half to death with a flagrantly unscientific account of what occurred.

2. *What about radioactivity?* The International Commission on Radiological Protection has set 500 millirems as the maximum permissible annual dose that an individual should receive. "A single chest X-ray will expose the patient to some 50 mrems; a coast-to-coast jet flight will expose the passengers to some 5 additional mrems; watching color television will deliver an average of 1 mrem per year. Yet all of these doses together are smaller than the dose the average U.S. resident obtains from Mother Nature: 130 mrems per year. Most of this comes from cosmic rays, the ground, and from building materials." (Beckmann, p. 56) For example, Grand Central Station in New York has so much radiation emanating from its granite blocks that it violates all permissible standards for nuclear plants. Now, "how much do all the U.S. nuclear plants add to the dose of 250 mrem per year that the average U.S. citizen receives already? About 0.003 mrems per year. Yes, that is what the nuclear critics are protesting: 0.003 mrems on top of the 250 mrems that they get anyway." (p. 58)

In thirty years of operation, not one death, not one injury has resulted in the U.S. from nuclear plants or radioactivity. The Three Mile Island accident did not cause a single casualty, and the extra radiation the residents in that area received during that event was less than half the dose each airline traveler gets by flying from Boston to Seattle. Radon gas gives millions of American home-owners hundreds of times more radiation than they receive from all of our nuclear plants combined. And even this is not nearly the problem it was previously deemed. Moving up one floor in an apartment house gives tenants more extra radiation than all the nuclear plants do.

"But nuclear reactors *are* clearly unsafe. Consider what happened at the Chernobyl plant in the Soviet Union in 1987." Very well, let us consider it. The main differences between the Chernobyl plant and ours are these: Ours were designed to give maximum safety to their neighbors; theirs was not. Heat increases in our reactors cause their reactivity to go down, but reactivity in Chernobyl models increases with heat and therefore self-accelerated the Soviet unit to destruction. Ours are surrounded by containment buildings; theirs was not. Our plants had multiple defenses in depth; theirs did not. These were among the facts given in a report by a team of U.S. experts, led by former National Academy of Science president Dr. Frederick Seitz and Nobel Laureate Dr. Hans Bethe—both of them members of Scientists and Engineers for Secure Energy.

The Chernobyl accident killed 31 people from radioactivity; an unknown number are still dying of cancer. Yet if, a month after the Chernobyl accident, one were to drink 60,000 gallons of "Chernobyl contaminated water," he would have received the same amount of extra radiation as from a simple thyroid check. Many "radioactive deer" in Finland and Scandinavia were slaughtered, but the killing stopped when some people, including scientists in those countries, offered to buy and eat the meat. Since the beginning of time each of us had thousands of times more radioactivity in our bodies than the extra amount found in these deer.

3. *What of nuclear wastes?* Here as elsewhere, one has to unlearn what one has been told. When the uranium in a nuclear fuel rod has been spent, it remains radioactive, and is immersed in pools of cooling water for a few months to allow the short-lived radioactivity to go down. The spent rods are shipped in sealed casks to fuel reprocessing facilities, which separate out the uranium and plutonium. There is no physical problem with all this—a reprocessing center can handle many tons of fuel per day. The problem in the United States has been not physical but political. The Carter administration was filled with people who wanted us

to perform miracles and go solar immediately. They hindered offshore oil drilling and, to vanquish nuclear power, prohibited further recycling of nuclear residues. As a result, these residues—which today constitute a 300-year source for our nation's electricity needs—started to accumulate at power plants. The anti-nuclear lobby, which caused this accumulation in the first place, now claims that these "wastes" are a main reason why we should shut the plants down. When sealed and packaged to U.S. specifications, this material is not dangerous—it is far safer than open wastes from oil or coal.

Nuclear power plants provide the safest, cleanest form of energy the world has ever known. Yet "alternative energy" advocates attack it as unsafe, and propose instead something far less safe, which in any case cannot be put into operation on a large scale. Instead of facts, they give us scare stories, which find a receptive audience because that which is new is always, or can easily be made, very frightening. The fact is that safe and inexpensive nuclear power is now available and can easily be developed further to provide clean energy for vehicles now run on oil.

The anti-nuclear lobby is not strong enough to turn off our lights and factories completely; they are not (yet) demanding that we deactivated our fossil-fired electricity plants. Yet they have already done considerable damage. (1) They have stopped us from building new nuclear power stations. (2) They have prevented the operation of fully or nearly completed nuclear power plants, which are required to fill the burgeoning energy needs of New York and other cities. (3) They have blocked the reprocessing of nuclear residues, and thus denied our country access to an enormously large, environmentally clean energy source. And (4) they have thus far prohibited the burial of the same nuclear residues at *any* site.

Let me propose something which is very unusual, but which is needed to dramatize to the American people that the alleged hazards posed by nuclear residues is a sham. Let us build, privately, a 50- to 100-room hotel on top of the site under which the U.S. government buries these "wastes" in sealed containers. The authorities will probably oppose the building of such a hotel, but we may get experts to testify in court that we would be safer there than in over-insulated radon-infested homes.

Let such a project be used as a vacation resort, where some of us, including scientists, and their families, will occupy a room for an average of seven days per year. The one week per year idea is not inspired by radiation fears, but by the belief that no one should have to spend more vacation time in a specified place to prove that the nuclear waste issue is a hoax. □

1. Petr Beckmann, *The Health Hazards of Not Going Nuclear*, p. 125.

THE FREEMAN
IDEAS ON LIBERTY

The Immorality of Social Security

by John Attarian

Social Security's defenders routinely laud it in moral terms, as "our most successful program of social reform,"[1] a humane, compassionate response to the needs of the elderly. One work puts it this way:

> None of us knows his or her fate. Today's good fortune can turn into tomorrow's disability. Most of us will gradually move from vigor to diminished capacity, and we will need help. All of us should ensure that such help will be there, just as we should extend help to those who need it today.
>
> The prime method of doing so is called social insurance. And the doing of it is called civilization.[2]

Social Security in other words, is part of what it means to be civilized and moral.

In truth Social Security's immorality is as monumental as its actuarial deficit, estimated under pessimistic assumptions at $23,188 billion as of January 1, 1994.[3]

To begin with, the system is, as Alf Landon described it in 1936, "a cruel hoax."[4] Social Security raises revenue by taxing worker incomes, then uses it to pay benefits to retirees, disabled persons, and other beneficiaries. Any money left after paying benefits and administrative costs is lent to the Treasury in return for special interest-bearing government debt, which can be redeemed as needed for money to pay benefits. Social Security, then, is a welfare program redistributing money from taxpayers to beneficiaries.

"Insurance"

Yet millions of Americans believe that Social Security is a retirement insurance program. They believe that the money they are paying into it is being invested and will be paid back with interest when they retire. They believe that the benefit money belongs to them by right and that they have earned it. A letter to the *Wall Street Journal* expressed the view of many:

> . . . Social Security is not an entitlement program, but a savings system.
>
> When the government sends a Social Security check to an individual, it is not giving him anything; it is paying him back a portion of the money he has saved for his retirement through a special retirement plan. The money belongs to the individual, money owed to him, money systematically and forcibly taken from his paycheck as security against a time when he will be too old to work.[5]

Such misunderstanding (except the part about forcible extraction from one's paycheck) is the result of assiduous and dishonest use of insurance terminology by Social

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Security and its intellectual advocates. Its payroll taxes are euphemistically called "contributions."[6] The legislation authorizing them is titled the Federal Insurance Contributions Act (hence the acronym FICA).[7] Social Security's components are called Old-Age and Survivors' Insurance (OASI), Disability Insurance (DI), and Hospital Insurance (HI, or Medicare A). The *Social Security Bulletin* describes the program as "insurance," and its payments as "insurance benefits." A worker paying into the system is described as "covered" or "insured."[8] The Social Security Administration's free brochure *Understanding Social Security,* available at any Social Security office, assures readers that "we will honor your investment [sic] in Social Security."[9] It all sounds reassuringly that one is doing something like buying a policy from Prudential or Mutual of Omaha.

Unfortunately for the hapless "covered workers" making their "contributions," *Understanding Social Security* doesn't tell them about *Flemming v. Nestor*, the 1960 Supreme Court decision by which the wife of a deported Communist lost her benefits, even though her husband had paid Social Security taxes. Didn't she have a legal right to those benefits, since her husband had paid those taxes? Not according to the Social Security Administration, which argued that:

> The OASI program is in no sense a federally-administered "insurance program" under which each worker pays premiums over the years and acquires at retirement an indefeasible right to receive for life a fixed monthly benefit, irrespective of the conditions which Congress has chosen to impose from time to time.[10]

The Court concurred: "To engraft upon the Social Security system a concept of 'accrued property rights' would deprive it of the flexibility and boldness in adjustment to everchanging conditions which it demands."[11]

Congress has already acted repeatedly with "flexibility and boldness in adjustment"—or, baldly put, cut Social Security benefits. Flexible and bold adjustments in 1977 and after included eliminating benefits for orphans and children of disabled or retired workers, who are full-time students and 18–21 years old; postponing cost-of-living adjustments (COLAs) for six months in 1983 and allowing future COLA delays under certain conditions; raising the retirement age (which deprives retirees of the benefits they would have collected had the earlier retirement age remained in effect); taxation of benefits (in effect a benefit cut); eliminating the minimum benefit under most conditions; and tightening the conditions for receiving lump sum death benefits.[12] So much for the pledge to "honor your investment."

Taxes versus Benefits

Social Security is disingenuous in another way about the relation between one's taxes and one's benefits. *Understanding Social Security,* i.e., the version of reality that the Social Security Administration produces for popular consumption, has it that the size of one's benefit depends on factors such as date of birth "and most important your earnings," and "In general, a Social Security benefit is based on your earnings averaged over your working lifetime."[13]

In reality, A. Haeworth Robertson, Social Security's Chief Actuary in 1975–1978 points out, "the relationship between taxes and benefits for an individual is so tenuous as to be virtually nonexistent."[14] This is because Social Security is a social insurance program, stressing "social adequacy." That is, "It pays benefits according to presumed need," and "no attempt is made to relate the benefits that a particular group of persons receives to the taxes paid by that group of persons to become eligible for such benefits." Two people in very different circumstances, say a married worker who dies leaving a wife and dependent children and a single worker who dies, may pay the same tax rates, yet the married worker's benefits will be much greater. While there is some indirect tie of taxes to benefits, it is "more tenuous than most people have realized, and this misunderstanding is an important factor in any public dissatisfaction with the Social Security system."[15]

Facing the Future

Similar deceit occurs regarding Social Security's future. *Understanding Social Security,* published in January 1994, opens by addressing the question "Is Social Security in Your Future?" and assures readers four times in three pages that "it will be there when you need it!"[16]

Yet for the past few years the annual reports of Social Security's Board of Trustees have warned that the system is not in close actuarial balance (i.e., projected future income doesn't match projected future cost) and that steps should be taken to strengthen the system and restore actuarial balance.[17] And just three months after the 1994 *Understanding Social Security* appeared, the trustees reported that the Disability Insurance trust fund is projected to run out in 1995, even under its optimistic economic and demographic assumptions. The Old Age and Survivors Insurance trust fund is projected to go broke in 2036 under the intermediate assumptions, in 2023 under pessimistic assumptions. Projected exhaustion dates for the combined funds (OASDI) are 2029 and 2014 under, respectively, intermediate and pessimistic assumptions.[18] These dates indicate considerable weakening in Social Security's position; the 1993 report projected OASDI exhaustion, for example, to occur in 2036 (intermediate assumptions) or 2017 (pessimistic).[19] Exhaustion of the Hospital Insurance trust fund, which pays Social Security's hospital benefits, is projected in 2004 under intermediate assumptions and in 2000 under pessimistic ones.[20]

And only actuaries and specialists know that Social Security's actuarial deficit, or excess of projected future costs over projected future revenues and trust fund assets, is soaring: under intermediate assumptions from $5,836 billion as of January 1, 1990, to $10,408 billion as of January 1, 1994; under pessimistic assumptions, from $14,282 billion to $23,188 billion.[21] Another indicator of Social Security's rickety long-term financial condition is its growing accrued unfunded liability. As of January 1, 1990, the unfunded liability for Old-Age and Survivors and Disability Insurance alone was $6,511 billion; four years later, it stood at $8,059 billion.[22] This is the amount of benefits that Social Security is liable to pay, but for which no money has been provided to pay them.[23]

This is the program that "will be there when you need it"?

As for the trust funds' assets, *Understanding Social Security* labels "false" the idea that the funds contain only "worthless IOUs" and asserts that Social Security's investment in government debt will be honored.[24] Alas, as former Chief Actuary Robertson acknowledges, "the trust fund assets have no tangible value [i.e., are worthless IOUs!] and represent only a claim on future federal revenue."[25] Social Security's investment will be honored only if the government forcibly extracts more resources from the private sector to repay it.

A private insurance company that took people's "contributions" for years; told them for years that they were "insured" with a "right" to benefits, without telling them it reserved the right to apply "flexibility and boldness in adjustment to ever-changing conditions" if for some reason it couldn't pay them; lied to its "investors" about the value of its trust fund assets; and repeatedly assured them that their money "will be there when you need it" even while its own experts were forecasting oncoming financial ruin and calculating actuarial deficits and unfunded liabilities running into the trillions, would, rightly, be deemed unfair, untruthful in advertising, and fraudulent. "A cruel hoax," indeed. What then is the moral status of Social Security?

But even a private firm writing such a fraudulent prospectus has one moral advantage over Social Security: its victims participate of their own free will. Obviously, a financial system—especially an unsound financial system—which coerces people into it is morally inferior to a voluntary one.

Intergenerational Injustice

Social Security's coercive nature makes it inherently an engine of intergenerational injustice as well. It operates on a pay-as-you-go basis, meeting current expenses out of current revenues. Today's retirees are paid benefits with taxes levied on today's workers. That is, each generation is forced to support the previous generation, and as the program, and our population, have aged, the burden on each young generation has grown. And since the workers cannot leave the system their only hope of compensation for the injustice inflicted on them for the sake of their parents and grandparents is to have a similar injustice inflicted on their children and grandchildren.

This injustice is not altered by the trust fund surpluses which have accumulated since the 1983 tax increases. The only way the Treasury can get money to repay the bonds when Social Security presents them for payment, barring (unlikely) spending reductions elsewhere in the budget, is by extracting more resources from the workers by higher taxes or borrowing.

Social Security's intergenerational injustice could hardly be expected to endear the old to the young, and it hasn't. The Social Security literature speculates on a war—between the elderly understandably anxious for their benefits and the young groaning under a heavy payroll tax burden. The latter, some fear, may rebel at the prospect of the huge tax increases which will be necessary to pay the retirement benefits of the huge Baby Boom generation.[26]

This intergenerational discord is due to nothing else but Social Security's involuntary nature. No private retirement pension scheme ever has or ever could pit the generations against each other in a grim clash of interests, since private arrangements are entirely voluntary. Nobody ever heard the epithet "greedy geezer" when provision for retirement was one's own responsibility. Indeed, the better-funded a private pension fund is and the more lavish its benefits, the better off the young are, since their possible financial burden for the support of their parents is that much lighter. With Social Security, by contrast, the more the government tries to give the elderly or the better it tries to fund the program, the worse off the young are since they, not the earnings of private pension fund investments, are the sole source of financing.

The redistribution which Social Security carries out is likewise wrong. As a general rule, a person's earnings vary with his ability, enterprise, and industry, though unionization, nepotism, and other distortions might affect one's income. Social Security taxes are, ultimately, paid according to ability; the greater one's ability, the larger the amount of tax extracted. But, as we saw, benefits are paid according to "presumed need." That is, the program operates on the Marxist principle of "From each according to his ability, to each according to his need."

What of the argument that Social Security provides equity between generations? One is surely obligated to one's parents, and equity demands that one care for those who cared for one in one's childhood. But this hardly translates into perfect strangers having a moral claim on earnings forcibly extracted. And as Social Security's costs have risen, today's young generation faces a far heavier Social Security tax burden than previous ones, with ever-diminishing prospects of receiving benefits as lavish as those today's elderly enjoy. In truth, moral arguments about intergenerational equity run the other way: Social Security is inequitable to the young.

Perverse Incentives

But beyond the obvious wrongs which its mendacity and coercion entail, Social Security is evil in more subtle but nonetheless important ways, due to the perverse incentives which it creates and their impact on our national character and conduct.

For one thing, Social Security discourages savings and self-reliance. Believing themselves covered by the "savings" forcibly taken from their income, individuals save less than they would otherwise.[27] As a corollary it encourages irresponsibility and improvidence for the future. Social Security's huge size and longevity have made it a part of the landscape of people's thinking. For decades people have taken it for granted that much of the responsibility for their well-being in old age belongs to "society" or "the government." As President Grover Cleveland warned in 1887 when vetoing an appropriation for drought relief in Texas:

> the lesson should be constantly enforced that though the people support the Government the Government should not support the people. . . . Federal aid in such cases encourages the expectation of paternal care on the part of the Government and weakens the sturdiness of our national character.[28]

Still another sinister aspect of Social Security is its role in undermining the family. With Social Security assuming the responsibility for the elderly once borne by their children, both the ethos of reciprocal obligation between family generations and the incentive to marry and have children (to ensure care in old age) are weakened.

Finally, Social Security works insidiously against the value of life. Assuming that life is good and that a major purpose of human existence is reproduction—which, biologically speaking, it is, just as with all other living things—then it follows that other things being equal, that which encourages childbearing is good, and that which discourages it is not. As we saw, since much of the financial burden of caring for the elderly is now borne by Social Security and Medicare, the incentive to have children is thereby weakened. Moreover, as Allan Carlson of the Rockford Institute has observed, because struggling young couples are forced to participate in Social Security, they cannot improve their standard of living by reducing the support they give to the elderly. What they can do is delay or even forgo children. And in many cases they do; research across nations has found a causal connection between the size and generosity of a social security program and a country's fertility decline.[29] That is, social security has been a factor in the slow biological suicide of advanced Western societies.

Social Security can pay its current beneficiaries, and will be able to pay for some years yet. However, early in the next century, Social Security will face bankruptcy as the retiring Baby Boomer generation drives its costs above its revenues and exhausts its "trust funds" of Treasury debt. Radical reform, ideally privatization, will become urgently necessary. But should anyone attempt it, a firestorm of opposition grounded in morality will ensue. It will be one of the fiercest controversies of the future. Social Security, it will be argued, is moral, humane, compassionate, enlightened, progressive; radical reform is unthinkable, inhumane, callous, immoral. If needed reform is to be achieved, such objections must be overcome. And for that, it will be vital that the public realize just how morally flawed Social Security really is. □

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5. "It's Not an Entitlement: It's Money Owed to Us," in "Letters to the Editor," *The Wall Street Journal*, March 28, 1994, A13.
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8. *Social Security Handbook 1993*, pp. 25, 28, 192, 488.
9. *Understanding Social Security*, p. 5.
10. Peter J. Ferrara, *Social Security: The Inherent Contradiction* (San Francisco: The Cato Institute, 1980), p. 70.
11. *Ibid.*
12. A. Haeworth Robertson, *Social Security: What Every Taxpayer Should Know* (Washington, D.C.: Retirement Policy Institute, 1992), pp. 134–135.
13. *Understanding Social Security*, pp. 10–11.
14. Robertson, p. 68.
15. *Ibid.*, p. 195.

16. *Understanding Social Security*, pp. 4, 5, 6.
17. *1992 Annual Report, OASDI*, pp. 31–33; *1993 Annual Report, OASDI*, pp. 33–35; *1994 Annual Report, OASDI*, pp. 26–28.
18. *1992 Annual Report, OASDI*, p. 24.
19. *1993 Annual Report, OASDI*, p. 29.
20. *1994 Annual Report of the Board of Trustees of the Federal Hospital Insurance Trust Fund*, p. 3.
21. See footnote 3.
22. 1990 figure: Robertson, p. 116; 1994 figure, Office of the Actuary, Social Security Administration.
23. Robertson, p. 121.
24. *Understanding Social Security*, pp. 4–5.
25. Robertson, pp. 90–91.
26. See, e.g., Dorcas R. Hardy and C. Colburn Hardy, *Social Insecurity: The Crisis in America's Social Security System and How to Plan Now For Your Own Financial Survival* (New York: Villard Books, 1991), pp. 27–41.
27. Robertson, pp. 231–232.
28. *A Compilation of the Messages and Papers of the Presidents*, vol. XII (New York: Bureau of National Literature, Inc., 1897), p. 5142.
29. Allan Carlson, *Family Questions: Reflections on the American Social Crisis* (New Brunswick, N.J.: Transaction, Inc., 1988), p. 222.

THE FREEMAN
IDEAS ON LIBERTY

Employer Mandates: A Threat to Employees

by David R. Henderson

Most people who want to force employers to pay for their employees' health insurance have so far ducked the facts about who pays for "employer" mandates. They've had good reason to duck them, because the facts are clear. Economic analysis and economists across the political spectrum who have studied the issue are unanimous that the main people who pay for employer mandates are employees.

Why? Because requiring an employer to provide health insurance does not magically make the employee more productive. Say you're an employee and your annual output is worth $30,000. Competition among employers for your services forces your employer to pay you about $30,000 in salary and benefits. Now the government requires your employer to pay an extra $2,000 for your health insurance. If your boss continues to pay you $30,000 as well, he'll pay $32,000 to keep you. But this isn't worthwhile. He would be paying $2,000 more than the $30,000 worth of output that you produce. The solution, for you to keep your job, is for your employer to cut your salary and other benefits from $30,000 to $28,000. Net result: you get $2,000 in health insurance at the expense of $2,000 in salary and other benefits. *You* pay for employer-mandated health insurance.

It may look as if employees break even with the mandate. Look again. The employer wasn't providing health insurance for one reason: it wasn't worth it to the employee. The employer would have preferred to give a $2,000 health-insurance policy

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rather than salary, to avoid the 7.65 percent Social Security and Medicare taxes on pay. The fact that the employer wasn't providing the health insurance must mean that the employee did not value it as much as pay and other benefits. So the mandate unambiguously makes the employee worse off.

That the employee pays for mandates was my main message in my testimony to Senator Edward Kennedy's Senate Labor Committee in July 1994. It was also the main message of a liberal economist who supported mandates. Jonathan Gruber, an economist at MIT, was invited by Senator Kennedy's committee to defend mandates and to argue that they don't cost many jobs. The key to Gruber's argument was his evidence that mandates are mainly paid for by employees. Gruber had co-authored a study with Alan Krueger of Princeton University on the effect of increases in the cost of workers' compensation, the oldest mandated benefit in the United States. (Krueger, incidentally, will soon be the chief labor economist under Secretary of Labor Robert Reich.) Gruber and Krueger found that for every dollar increase in workers' compensation, 85 cents was paid by workers.

Kennedy and the other Democratic senators spoke throughout the hearing as if employer-provided health insurance is a free lunch for employees. Senator Paul Simon made the free-lunch assumption explicit. He posed the false alternative of a given wage without health insurance or the same wage with health insurance and asked one witness which he thought most people would prefer. Duh.

The Democratic side of the Senate staff had invited two women from Whitesburg, Kentucky—Brenda Newman and Nellie Kincer—who had gone without health insurance. Both women had found health insurance too expensive. Nellie Kincer said she would rather spend her meager income on rent and groceries than on expensive medicine. Kennedy and the other Democratic senators posed as these women's champions. Yet their own bill was designed to prevent those women, and every other worker, from making just such tradeoffs. No wonder Kennedy asked no questions of either Gruber or me.

That Gruber and I agreed was not just a fluke. Economists, whether or not they believe in mandates, do not kid themselves that employers pay for them. David M. Cutler, who defended employer mandates at the annual meetings of the American Economic Association, and who was until recently a senior economist with President Clinton's Council of Economic Advisers, recently wrote: "Most of these cost changes are likely to show up as changes in wages . . ." In its August 1994 analysis of the effects of former Senator George Mitchell's health-care bill, here is what the U.S. Congressional Budget Office said about the effect of requiring employers to pay for their employees' health insurance:

> The imposition of the mandate would raise the cost of employing workers at firms that do not currently provide insurance. Economic theory and empirical research both imply that most of this increased cost would be passed back to workers over time in the form of lower take-home wages.

Even President Clinton's Council of Economic Advisers agrees. In the annual *Economic Report of the President*, published in February 1994, the President's economists write: ". . . the dominant effect of increases in health care costs in the past has been a reduction in the real wages received by employees."

What happens if wages don't fall one dollar for every dollar of health insurance costs? Then jobs will be destroyed. Again, this is not controversial. As Jonathan Gruber stated in his testimony, "If full shifting ["shifting" is the term used to describe the fall in wages when mandates are imposed] takes place, then the total cost of the compensation to the firm will not rise, and there will be no need to lay off workers. If it does not, then compensation costs will rise, and there will be layoffs." Those who want employer mandates are stuck. On the one hand, they don't want to believe that employer mandates will kill job growth. On the other hand, as Senator Kennedy and others learned, the only way not to believe mandates kill growth is to believe that employees pay for them.

If employees pay for mandates, why then do so many politicians advocate mandates? Alan Krueger answers this succinctly: "The costs of mandates are hidden, which makes them politically feasible."

And of course workers can't be paid less than the minimum wage. This means that many workers at or slightly above the minimum wage would risk losing their jobs. Gruber minimized this risk but here he was on shaky ground. He leaned heavily on research by Krueger and David Card of Princeton University, who surveyed fast-food employers before and after the minimum-wage change. Card and Krueger found no reduction in employment after the minimum wage increased. But their study was biased against such a finding. By surveying the same employers before and after, they did not allow for the possibility that the minimum wage increases put marginal companies out of business. Moreover, Krueger himself is skeptical at the attempt to apply his minimum wage finding to health care. Krueger writes: "This evidence [on the minimum wage] has been cited by the First Lady and others as support for the view that the health care mandate will not reduce employment. Even though I am a contributor to this literature, I am not sure it applies to a health care mandate." Krueger estimated that the Clinton mandates would destroy 200,000 to 500,000 jobs.

Many of the people who advocate employer mandates believe themselves to be truly humanitarian. It is humanitarian to spend your own money to provide health care for poor people. But there is nothing humanitarian at all about forcing poor people to spend their own money on health insurance when they have other more pressing concerns. □

European Unemployment: The Age of Ignorance, Part II

"This persistence of high unemployment in the European Community is a major puzzle."

—Charles R. Bean, "European Unemployment: A Survey," *Journal of Economic Literature*, June, 1994

"Is This the Age of Ignorance—Or Enlightenment?", my most controversial column, was published in the June 1994 issue of *The Freeman*. It revealed how a growing number of well-trained economists plead ignorance on the most fundamental aspects of the budget deficit, taxes, inflation, the stock market, and the business cycle. Those cited included Herbert Stein, Robert J. Barro, and Paul Krugman.

My column was not well received by the profession. None of the economists cited in my column responded, perhaps because they were too embarrassed. But Milton Friedman wrote, "Herbert Stein underestimates his knowledge; you overestimate yours." Brigham Young University professor Larry Wimmer said, "Ignorance is preferable to arrogance." So the battle of ideas continues.

Now along comes Charles R. Bean, a bright economist at the London School of Economics, writing in a recent issue of the *Journal of Economic Literature*. After engaging in 47 pages of citations, graphs, charts, cross-country regression analysis, and econometric studies, he bravely concludes that nobody really knows why unemployment is so high in Europe. None of the numerous technical models works. It's all a "major puzzle."

Obviously, if economists can't explain why a major problem such as European unemployment exists, they can't be expected to prescribe a policy to rectify the situation. Hence, the growing impotence of the economics profession. It has blunted Occam's Razor: Complexity is preferable to simplicity. Economists know so much that they now know so little.

Fortunately, not all economists subscribe to this new form of economic nihilism. Some economists see through the clouds of complexity, realizing that econometric modeling often obscures rather than elucidates the real nature of the problem. It's time to return to basic economic principles.

The Real Cause of Unemployment

For example, Richard K. Vedder and Lowell E. Gallaway, economists at Ohio University, demonstrate quite powerfully that government policies cause widespread and persistent unemployment by raising real wages above equilibrium levels. Labor laws

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significantly increase labor costs and hence discourage businesses from hiring workers. In addition, the federal government's inflationary fiscal and monetary policies create a boom-bust business cycle, causing much temporary unemployment of labor and resources. Their important study, *Out of Work*, applies their thesis to the United States during the twentieth century and concludes that unemployment is primarily due to "government activism."[1]

Applying the Thesis to Europe

The unemployment rate has been gradually rising in Europe and now exceeds 11 percent, compared to 6 percent in the United States and 3 percent in Japan. It's the highest since the oil-shock years of the 1970s. But today there is no oil crisis. Through much of the 1980s, virtually no new jobs were created in the private sector. Fifty percent of the 16 million unemployed in Western Europe are considered long-term unemployed—without work for a year or longer. Only 11 percent of U.S. jobless are long term.

What is the cause of European joblessness? Despite the machinations of econometricians, the answer is not that difficult to discover. First, high payroll taxes—personal income tax withholding, social security, and unemployment compensation—discourage businesses from hiring. As Edmund S. Phelps, economics professor at Columbia University, declares, "Nearly every European country has brought much of its unemployment on itself—through its punishing taxation of labor. . . . Big increases in payroll and personal income taxes in most countries have been mass job-killers."[2] Last year, in an effort to close the national deficit, France raised income taxes by 10 percent. Not surprisingly, the unemployment rate in France rose by about a point and a half to 12.6 percent.

A second cause of unemployment in Europe is its labor laws and regulations, such as minimum wages, collective bargaining, and labor-management restrictions. Other mandatory benefits, including health care, pensions, unemployment and disability compensation, and paid vacations, raise labor costs.

The minimum wage in Belgium is $7 an hour, compared to $4.25 in the United States. Even now, German labor unions are pushing for a four-day workweek, amounting to an immediate 20 percent increase in real wages. In Italy, an employer must give up to six months notice before dismissal. In order to protect workers from sudden unemployment, Spain passed legislation making it virtually impossible for employers to fire workers. These are disguised methods of raising labor costs. But the actual effect is unemployment: If you can't fire workers, why hire? Spain's labor law dealing with employers' obligations to the work force is 600 pages long. It should come as no surprise that, as a result of this legislation, Spain's unemployment rate has gradually risen to depression levels, 25 percent. Portugal, on the other hand, has a less encumbered labor market and an unemployment rate of only 5.5 percent.

Third, generous welfare benefits to the unemployed, encourages the jobless to avoid work.

The existence of the European Common Market will undoubtedly force high-cost nations to liberalize their labor laws, or else face a major talent drain. Not surprisingly, many jobless Europeans are headed to other parts of the EC, or to Asia, where jobs are plentiful and labor markets are unfettered.

The answer to Europe's unemployment problem is simple. Sharply reduce payroll taxes and the rules and regulations governing labor-management relations to allow market forces to work more effectively. This means less mandated job security and fewer government benefits, but more jobs and greater productivity. It *is* a difficult choice for EC governments to make, but if they don't, unemployment can only get worse. □

1. Richard K. Vedder and Lowell E. Gallaway, *Out of Work* (New York: Holmes & Meier, 1993).
2. Edmund S. Phelps, "Summiteers: Your Taxes Kill Jobs," *The Wall Street Journal*, March 14, 1994.

BOOKS

Second Thoughts: Myths and Morals of U.S. Economic History

edited by Donald N. McCloskey

Oxford University Press published for the Manhattan Institute • 1993 • 208 pages • $28.00

Reviewed by Daniel B. Klein

The two magnetic poles of social science are the bumper-sticker and *quod erat demonstrandum*—that is, the important and the precise. Anyone can make his statements precise and cohesive if he is willing to be irrelevant, and anyone can prattle about important issues if he is willing to be imprecise and incoherent. The best social science balances the pull of both poles: it struggles to span both precision in statement and importance in message.

Second Thoughts offers historical bumper-stickers by 28 researchers who have been through the Q.E.D.s of their field. In their research they have started with one set of bumper-stickers, explored the bases for them, and studied, studied, studied. They have trudged and maneuvered through beds of quicksand to make their facts precise and their logics cohesive. But they do not get lost in the delightful Q.E.D.s of the academic enterprise. They emerge from the experience soiled, exhausted, and uncertain, but holding in their outstretched hands new bumper-stickers, summary statements they have given rich subsidiary content to, statements that address our curiosity about how mankind's lot can be bettered. *Second Thoughts* represents a special effort to share with us the learning of these scholars, an effort too often left undone because the academic rewards for bumper-stickers are so thin.

For example, Price Fishback writes a five-page essay entitled, "Does Workers' Compensation Make for a Safer Workplace?" Fishback has written a book and numerous scholarly articles on the conditions of coal miners in America's past. From his intimacy with the facts and logics of the subject come lessons for similar issues today.

Prior to workers' compensation laws, liability for workplace accidents was based on common-law standards of negligence. Fishback summarizes the legal notion of "due care" on the part of the employer, and explains that the employer often escaped liability because the injured worker had accepted the risks involved, had himself been negligent, or was harmed by a fellow worker's negligence. These doctrines "encouraged common-sense prevention of accidents by the parties with the lowest cost of prevention"—often the workers on the scene. And jobs with high risks commanded high wages.

But between 1910 and 1930 most states passed workers' compensation laws that tended to hold employers liable for *all* serious accidents "arising out of employment." Fishback explains that, besides driving down wages and job opportunities, these laws sometimes even increased workplace hazard! In coal mining, accidents actually increased. "Since coal loaders and pick miners were paid by the ton of coal, they saw that by working a little faster and taking more risks they could get higher earnings—even though a roof fall injured or sometimes killed miners who tried to finish loading cars before setting new props for the roof."

From his detailed learning, Fishback serves up a sort of historical bumper-sticker—workers' compensation had high costs and sometimes did not achieve even its primary goal of inducing workplace safety—and shows how this pertains to current liability issues.

Here are some of the other bumper-stickers offered in the book:

- Aside from Africa the Third World is not stalled in dependency and squalor but improving rapidly.
- Imperial powers serve their vanity not their fortunes by maintaining colonies.
- Immigrants enrich a nation.

• The American economy is not falling behind any more than a father falls behind as his children gain poundage in the family.

• Economic enterprise advances technology as much as technology advances economic enterprise.

• The trade deficit itself is no ailment but perhaps a symptom of real ailments.

• Monopoly persists by grace of government privilege not market power.

• Free banking in America worked reasonably well.

• People consume a lot of resources in jockeying for position to receive government giveaways.

Not news, perhaps, but here we can see how such claims are rooted in stories involving the I.C.C., steamboats, wildcat banks, Teapot Dome, squatters, Ma Bell, *Munn v. Illinois* (1876), *Plessy v. Ferguson* (1896), UNIVAC I, the Securities Exchange Act (1934), the Cavendish Lab, hand looms, Luddites, Regulation Q, and Alan Greenspan. The essays give parsimonious accounts of particulars that stand behind the bumper-stickers. Because the editor has chosen experts—including Julian Simon, Robert Higgs, Jonathan Hughes, Peter Temin, Gary Libecap, and Nathan Rosenberg—we have confidence that the bumper-stickers emerge from deep learning. A brief bibliography invites the reader to deeper digging.

The libertarian might have a few bones to pick. Jeffrey Williamson seems to suggest that infrastructure development requires activist government, Barry Eichengreen gives a mixed review to the gold standard and says it would be impossible to re-establish today, Hugh Rockoff says that in special circumstances for short durations price controls can work, and Paul Uselding tells of the "facilitative and supportive" role that the U.S. government has played and should play in technological development. But mostly the book offers stories in line with small-government thinking.

My favorite passage comes in Elizabeth Hoffman's piece on how worker displacement and retraining belong to progress: "The challenge for the future will be to train each generation for a lifetime of change rather than for a specific skill or job. This task suggests that the kind of education that will best prepare the next generation is an education in flexibility: learning to learn new things."

Donald McCloskey has done an admirable job in bringing the layman to the academic toiler and bringing the academic toiler to humanity. □

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Ain't Nobody's Business If You Do: The Absurdity of Consensual Crimes in a Free Society

by Peter McWilliams

Los Angeles: Prelude Press • 1993 • 817 pages • $22.95

Reviewed by Doug Bandow

Peter McWilliams is serious about individual liberty. In the introduction to *Ain't Nobody's Business If You Do* he declares simply: "This is a book about freedom." More specifically, it is about the right of people to run their lives without the interference of government so long as they do not violate the rights of others. While this thesis might seem unexceptional to readers of the *Freeman*, McWilliams has produced a unique and enjoyable, if at times uneven, text for keeping the state out of our personal affairs.

Still, to some people the issues he writes of might seem to pale in importance compared to, say, health care, until you realize the human cost of the government's attempt to stamp out what McWilliams calls "consensual crimes." President Clinton wants to arrest you if you seek care outside of his government-controlled medical system. But the state is already daily filling the jails with people who have engaged in some act that others found to be unsafe, offensive, immoral, or something else. Writes McWilliams:

> More than 350,000 people are in jail *right now* because of something they did, something that did *not* physically harm the person or property of another. In addition, more than 1,500,000 people are on parole or probation for consensual crimes. Further, more than 4,000,000 people are arrested *each year* for doing something that hurts no one but, potentially, themselves.

Looked at from this perspective, there are few more important issues than eliminating criminal sanctions against acts which only harm consenting parties, if anyone. As McWilliams points out, tolerance, just like responsibility, "is the price of freedom." The ultimate issue is not what we would prefer our neighbors not to do, but our justification in locking them up for doing it.

McWilliams begins sensibly enough by discussing the characteristics of consensual crimes. He rightly prefers the term consensual to victimless because he does not claim that such activities never cause harm. Moreover, he deftly distinguishes consensual crimes from real crimes that perpetrators attempt to portray as victimless: nonviolent theft, for instance, as well as drunk drivers "who recklessly endanger innocent (nonconsenting) others," in McWilliams' words. He also points out the absurdity of the state attempting to protect people "from being emotionally hurt by the self-destructive behavior" of others, insisting instead on physical harm to turn an activity into a crime. In the end, he argues, the law has a pretty important job—protecting "innocent people from likely harm to their person or property." And doing that right will keep officials busy enough.

Still, consent obviously does not affect the issue of morality. And it is the traditional tenets of the Jewish and Christian faiths that have done so much to shape government policies on consensual crimes. McWilliams gives no indication of sharing these moral visions, but he recognizes their potency: "To the people who find [consensual crimes] immoral, they are and may always be immoral." Rather than arguing over what is moral, McWilliams nicely distinguishes different forms of morality.

One type, he argues, is "personal morality," what we believe to be right. This can be conceived of as intra-personal morality, since it concerns the making of a good and virtuous person. The other category is what McWilliams calls "social morality," which means "not physically harming the person or property of another." This may be best understood as inter-personal morality, governing a person's relationship with others. Thus, the key to preserving freedom is not to eschew legislating morality—the only firm basis for law is morality. What is critical is to enforce only social morality, in order to mitigate the impact of a person's sin on others. The state should not attempt to legislate personal morality, engaging in soulcraft rather than statecraft.

McWilliams, obviously a free spirit when it comes to organizing books, goes on to add sundry observations on, among other things, the Age of Enlightenment, failures of alcohol Prohibition, and hypocrisy of today's would-be prohibitionists of just about everything. Regarding the latter, he finds an obvious target: Cigarettes cause enormous carnage yet are not only legal but subsidized. Lest his sustained attack on tobacco—"cigarettes are our country's most serious drug problem," he argues—confuse one, he opposes tobacco prohibition.

There is much, much more in *Ain't Nobody's Business If You Do*. McWilliams devotes one long section to the many arguments against criminalizing consensual conduct. Indeed, at times one feels that one is getting the "kitchen sink" treatment, with no conceivable claim left out. For instance, he leads off contending that such laws are "un-American." Now, they may be stupid, dumb, immoral, and a host of other things, but there is a long prohibitionist streak in U.S. history. And if the Founding Fathers had voted on the legitimacy of, say, an anti-sodomy law, McWilliams would probably have been disappointed by the outcome.

Similar is the author's contention that the prohibition of consensual crimes is unconstitutional. It would be nice if they were, but that isn't the document given us by the Constitutional Convention in 1787. Still, McWilliams' chapter on this issue is entertaining, and will certainly expand the reader's understanding of what might be possible with a judiciary more sympathetic to a Constitution that was intended to create a limited government of strictly enumerated powers.

McWilliams' other claims are generally more persuasive. He titles one chapter: "Laws against Consensual Activities Are Opposed to the Principles of Private Property, Free Enterprise, Capitalism, and the Open Market." It shouldn't be necessary to defend such a proposition, but McWilliams does so with verve. He also makes many more traditional arguments against consensual crimes: the cost of arresting, convicting, and imprisoning people for possibly hurting themselves; the catastrophic impact on those prosecuted; and the encouragement of "real," or victimful, crimes. Reading these chapters alone should be enough to convince the hardened prohibitionist that he is doing more harm than good.

Alas, the author's desire to toss in the kitchen sink really shows with his section on "Consensual Crimes and the Bible." McWilliams' biblical interpretation is more convenient than convincing, and is reminiscent of deist Thomas Paine's reliance on Christianity to bolster his arguments in *Common Sense*. Suffice it to say that the Bible establishes scores of principles governing an individual's relationship with God and his neighbors, but virtually none about when he should jail other people for failing to fulfill their duties to God. Moreover, Christianity's unique emphasis on soulcraft suggests this to be an area beyond the state's purview. Where McWilliams does have something serious to say to believers is in his argument that separation of church and state is for their benefit—after all, as he points out, we are all "part of a religious minority," and if we allow government to meddle in religion "we have not invited God, but the devil, to be the leader of the nation."

Generally more convincing are the other parts of *Ain't Nobody's Business If You Do*, covering how consensual crimes became crimes, the specifics of the most common consensual crimes, and answers to oft-asked questions (e.g., "what about the children?"). He even offers some truly clever ideas that deserve further discussion. What is the proper age of consent for kids, he wonders? Let parents and child attempt to come to a mutual agreement: with rights would then come responsibility. As McWilliams observes, "If the would-be new adults mess up, however, they do not get to hide behind their youth, inexperience, or innocence. They got the name (adult) and now they can play the game (adult court)."

What does McWilliams believe should be done about consensual crimes? Repeal the laws, of course, though he recognizes the very real political obstacles to doing so. In a short but helpful practical section, he reviews state laws regarding consensual crimes and gives some advice on how to take political action.

The most important step, however, is to simultaneously educate the public and reawaken people's commitment to liberty. *Ain't Nobody's Business If You Do* certainly should help do so. Peter McWilliams has entertainingly demonstrated that we need a second American revolution not only to reign in government spending and taxing; we also need one to stop the state from persecuting people who have harmed no one other than themselves. For helping to spread this message McWilliams deserves our thanks. □

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The Fall of the Ivory Tower: Government Funding, Corruption, and the Bankrupting of Higher Education

by George Roche

Regnery Publishing • 1994 • 299 pages + index • $24.00

Reviewed by Steven Yates

This book picks up where Dinesh D'Souza leaves off. Not only has political correctness reached epidemic proportions in higher education, but so have mismanagement, waste, and corruption. The cause: a long history of expanding government involvement which has created a class of dependents whose lust for easy money is matched only by their irresponsibility. Roche sees the scandal of public higher education becoming the S & L Crisis of the 1990s, and for the same reasons.

The Constitution never mentions education as a federal responsibility. Nevertheless, in 1862 Congress passed the Morrill Act which created the land grant system. A guiding theme of the Progressive era became "education for everyone at public expense." Government funding, whether through direct support for colleges and universities or student loans or support for faculty research, has grown exponentially ever since.

Roche's book highlights three consequences of government involvement in education: (1) As federal subsidies increase, decision-making shifts from economic to political terms; (2) every government dollar comes with strings attached; and (3) with protection from the marketplace, quality declines, waste and mismanagement increase, independence is discouraged, and excellence is supplanted by mediocrity.

Roche presents compelling evidence that the deplorable situation cannot go on much longer. Expenditures have gone through the roof; government assistance to students alone costs taxpayers over $22 billion a year. Defaults on student loans are at record highs; $64 billion (out of $93 billion) in student loans between 1965 and 1989 has simply disappeared. The well is now drying up. While government dollars still flow abundantly into university coffers, universities are all having to tighten their belts. Given exposés about campus radicalism, athletic scandals so numerous that new ones are barely newsworthy, academic dishonesty (including plagiarized and faked research as well as cheating by students), and graduates who are behind their counterparts in other advanced nations, the public is starting to rebel. Colleges and universities, even prestigious ones like Harvard, have lost their reputations—to the point where the name *Harvard* once evoked boos rather than cheers from a group of business and community leaders (p. 250).

Roche suggests three reforms. First, educators need to recover *leadership* values. The socialist concept of "shared governance" should be scrapped, so that university presidents can make decisions in the best interest of their institutions without being fought at every turn by faculty or forced to be glorified fund raisers. The stifling layers of bureaucracy should be disbanded. Second, educators should discover *marketplace* values. The tragedy of government funding is that it has protected higher education from the marketplace, thus nurturing mediocrity and irrelevance, not to mention ideologies resolutely hostile to intellectual and economic freedom. Universities should be accountable to students and tuition-paying parents in the way a business is accountable to customers and stockholders who can take their money elsewhere if dissatisfied. Third, higher education must return to *academic* and *moral* values. Academe once represented the pinnacle of intellectual achievement in the West. It commanded respect as the transmitter of knowledge, wisdom, and culture to the next generation. Today it is becoming a laughingstock. It is necessary to reject trendy relativism and restore the view that certain ideas have passed the test of time: truth, honesty, morality, the work ethic, economic liberty, limited government. Without reforms in all these areas, the ivory tower will continue to fall.

There are occasional gaps in Roche's discussion. For example, he says little of the tenure system which protects hundreds of unproductive professors at the expense of their more productive juniors. But this is a minor complaint in the face of what Roche has assembled here. This book, boasting a foreword by Malcolm S. Forbes, Jr., is a major contribution to public discussion of the crisis in higher education today. More comprehensive than either Allan Bloom's *The Closing of the American Mind* or Dinesh D'Souza's *Illiberal Education*, this book could have an even greater impact if enough people get to read it. It is worth observing that George Roche, President of Hillsdale College, practices what he preaches. Hillsdale accepts no federal money, direct or indirect, and offers students privately funded alternatives to government loans. □

Professor Yates is author of Civil Wrongs: What Went Wrong With Affirmative Action *(San Francisco: ICS Press, 1994).*

Your Doctor Is Not In: Healthy Skepticism About National Health Care

by Jane Orient, M.D.

New York: Crown Publishers • 1994 • 276 pages • $23.00

Reviewed by Ron Paul, M.D.

Even without Clintonian socialism, the private practice of medicine, in which the individual doctor is responsible to the individual patient, is on its last legs. Francis A. Davis, M.D., founder and publisher of *Private Practice*, recently shut down his 25-year-old magazine with the lament that the battle is lost.

But I predict that Dr. Davis, a true champion of freedom, will no more give up than I will. No matter what the prospects— and they are glum—we owe it to our country, to our patients, to our children and grandchildren to uphold the banner of liberty. At worst, we can diminish the virulence of statism now. At best, because we have moral and economic truth on our side, we may win. And whatever happens, we build the intellectual foundations of freedom for the future, and our descendants will bless us for it.

But a resistance needs a central plan (if *Freeman* readers will excuse the expression!). A number of valuable books have been published in recent years to defend private medical care, but none measures up to *Your Doctor Is Not In.* Now, perhaps before it is too late, we have a brilliant and principled champion who can also organize and write: Dr. Jane Orient.

Dr. Orient, a physician who saw the socialized beast at first hand in the Veterans Administration, has revitalized the American Association of Physicians and Surgeons as executive director. AAPS is the only free-market doctors' organization, and I proudly belong to it rather than to the corrupt and statist AMA. But as with FEE in the pre-Sennholz years, a great organization had somewhat slowed down.

Also as with Dr. Sennholz and FEE, Dr. Orient's leadership has brought AAPS roaring back. Her newsletters are famous for their intelligence and strategic thinking. Her lawsuit opened up Hillary's secret comintern meetings. Perhaps most important of all, Dr. Orient has now given us the handbook of freedom that our movement needed. It may already be giving nightmares to Ira Magaziner and the other leftists who wrote ClintonCare. And don't they deserve it.

Arguing from first principles, Dr. Orient shows that the free market enforces such virtues as honesty, hard work, and conscientiousness, whereas state intervention does just the opposite, as anyone who has ever dealt with the government knows.

There is no right to medical care, she shows, any more than there is a right to housing, food, or clothing, and the attempt by government to create such a right leads to totalitarianism—the road we are traveling today. For to say that someone—the poor, the elderly, the "uninsured," etc.—has the right to the life, liberty, and property *of someone else* is a moral outrage, and a grant of absolute power to the state.

And the state corrupts whatever it touches. When I was trained, I gladly took the Hippocratic Oath, solemnly pledging, in a tradition thousands of years old, never to commit abortion or euthanasia. Now young doctors, in the words of such oaths as that of Dr. Louis Weinstein, "remember that it is wrong to terminate life in certain circumstances, permissible in others, and an act of supreme love in others."

Dr. Kevorkian could be an Angel of Love only under statism, for when the state is spending its hard-stolen money, it resents any patient who lives "too long." In the Netherlands, the socialized system murders more than 20,000 patients a year—"involuntary euthanasia" it is called.

Socialized medicine was an invention of Bismarck, the warfare stater who also gave us social security. Lenin and Hitler institutionalized the system, and most of the world followed. As Dr. Orient shows in riveting detail, however, even the "best" of these systems, as in Canada or Germany, is a disaster for the patient and the taxpayer.

Medical statism got its start in America thanks to the AMA and its anti-competitive medical licensure laws, an intervention courageously condemned by Dr. Orient. She also shows that modern health insurance is a non-market institution. Invented by the AMA-sponsored Blue Cross and Blue Shield, health coverage violates the principle of insurance. With the exception of catastrophic insurance, health insurance is pre-paid consumption of an incredibly inefficient and bureaucratic sort.

Lyndon Johnson's Medicare and Medicaid, Richard Nixon's Health Care Financing Administration, Ronald Reagan's CLIA—not to speak of the Indian Health Service and the VA—have given us a system that is more than half statized. And our Fabian socialist First Couple want to finish the job, and us in the process.

In response, the Republicans, from Bob Dole to Phil Gramm, provide their own versions of socialized medicine. They don't call it that, of course, but once admit the principle of universal access—that the taxpayer should provide equal health insurance for every American—and there is no stopping the leviathan.

Equality is the most politically pernicious idea on earth. Claim that human beings, who are manifestly unequal, should be treated the same, and you have opened the way not only to systemic injustice, but to the omnipotent state. God created each of us as a unique individual, and we should celebrate this. We could not even have an economy or the division of labor, Ludwig von Mises pointed out, were not a "radical inequality" the chief feature of the human race.

As Dr. Orient shows, we don't need any sort of national system of health care, any more than we do of dry cleaning. We need the free market. If we are concerned about the deserving poor, and we should be—although secondarily to the producers—a free market is best for them too.

But most important, in this clarion call to roll back the state, Dr. Orient shows us that liberty favors the paying patient. The IRS agent is bad enough. Equip him with a scalpel, as Bill and Hillary would, and we'll soon find the government not only lifting our wallet, but submitting us to Dr. Weinstein's "supreme act of love." □

Dr. Paul, a practicing physician and former Congressman, is chairman of the National Endowment for Liberty in Lake Jackson, Texas.

The History of Freedom

by Lord Acton, with an Introduction by James C. Holland

Acton Institute, The Waters Building,
161 Ottawa NW, Grand Rapids, Mich. • 1993 •
93 pages • $5.95

Reviewed by Salim Rashid

"Power tends to corrupt and absolute power corrupts absolutely." This one sentence, from a letter to Bishop Mandell Creighton, not from some public document, has served to immortalize Lord Acton's thought for posterity. And yet, like most short summaries, it hides so much of central importance to Lord Acton that it is almost misleading. What led Acton to such a conclusion, so totally at variance with Plato's notion of a philosopher-king? The two lectures on *The History of Freedom* provide us a partial insight into Acton's inner thoughts. It is entirely appropriate that this book be published by the Acton Institute, a non-profit organization set up to promote Classical Liberal ideas among clergy and other interested individuals, a goal close to Acton's heart.

The text consists of two short essays of equal length: "Freedom in Antiquity" and "Freedom in Christianity." The absence of dates and names gives each part a timeless air, making the essays readable, particularly by young students who have little background to appreciate the drama Acton writes about. I have used the essays for a short course on "Christianity and Capitalist Civilization" and was pleasantly surprised that students found many stimulating passages. One student was struck by the illiberal statement attributed to Aristotle that the mark of the worst governments is that "they leave men free to live as they please" (p. 40). Another was struck by the political transformation said to have overcome Christianity around AD 500: "Christianity which in earlier times had addressed itself to the masses, and relied on the principle of liberty, now made its appeal to the rulers, and threw its mighty influence into the scale of authority" (p. 60).

The brevity and style of these essays pique one's curiosity. There are many passages that cry out for further detailed examination. Of Athenian democracy Acton wrote: "Their history furnishes the classic example of the peril of Democracy under conditions singularly favorable. For the Athenians were not only brave and patriotic and capable of generous sacrifice, but they were the most religious of the Greeks" (p. 32). No references, no guides, no further evidence supports such a sweeping claim. But if one knows about Acton, here is a clear guide to Acton's own beliefs. The religiosity of the Athenians was the foundation of their liberty, Acton believes. But how can he persuade those who wish for more than just his authority?

The connecting thread between antiquity and Christianity is the statement of natural law by the Stoics. By appealing to an authority superior to the state, by urging the prior constraint of natural law upon all civil law, the Stoics broke with the political tradition of the Greeks. Acton is struck by the fact that Antiquity had provided the noblest precepts yet these truths did not save them from ruin.

"Freedom in Christianity" begins by crediting the Teutonic and Germanic tribes with the final ingredient—participatory institutions—that *finally* led to the growth of political liberty. No details are provided and in subsequent pages the tribes are forgotten. Instead, what emerges is the importance of the ecclesiastical hierarchy in the period between AD 500 and 1500. It was from the conflict between church and state in this period that political liberty eventually took root. Acton is careful to point out that both institutions sought absolute control and it is striking to note how leading spokesmen of both the Guelphs and the Ghilbellines spoke almost the same language in deriving power from the welfare of the people. "Looking back over 1,000 years . . . this is what we find—Representative government, which was unknown to the ancients, was almost universal" (p. 67). A conclusion that shocks the modern ear! Most of Acton's remaining space is devoted to the demise of such political liberty under the influence of Machiavelli and the subsequent return to more "moral" politics with the writings of Grotius. Acton has kind words for the United States and believes it provides the best example of a country that has been able to combine liberty with progress.

What are the weak points of Acton's presentation? There is very little about the importance of the Crusades, the Italian Mercantile Renaissance, the Age of Discovery, or the Industrial Revolution. Acton cautions his readers at the outset that he is concerned with ideas, not institutions, and chronicles instances when despotic acts were undertaken by liberal institutions. It allows him to continue with little emphasis on the social and economic conditions which permit and encourage a free society. This is all the more surprising since Acton notes among the enemies of liberty "the perpetual struggle for existence" which actually leaves men "eager to sell their birthright for a pottage" (p. 21). If hungry men are so eager to surrender their liberty, is not economic subsistence a precondition for sustaining a free society?

With all his eagerness to establish religion as a fundamental prerequisite for liberty, Acton fails to note that Christianity is concerned with saving souls. Liberty is neither necessary nor sufficient to achieve this goal. He never quite considers the point that, under certain conditions, God's work is furthered by accepting social evils such as slavery. Like most modern Christians who have discussed the rise of the West, Acton feels constrained to minimize the energy, intellectual force, and societal support provided by Christianity through the ages. Modern scholarship (e.g., Francis Oakley, *The Medieval Experience*) has provided us so many more reasons for appreciating the nurturing of Western civilization provided by Christianity. These lectures thus provide an eloquent minimalist argument for the Providential view of the growth of freedom. Acton's essays are certainly worth reading but one must constantly keep in mind how unselfconsciously he is the product of the Victorian age. □

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PERSPECTIVE

FEE in Eastern Europe

In the autumn of 1994, FEE's President, Dr. Hans Sennholz, sent me to Eastern Europe on behalf of FEE. I visited Poland, Lithuania, Russia, Romania, Hungary, and the Czech Republic. These countries of Eastern Europe had been devastated and impoverished for decades by the Communist regime. For 45 years the inhabitants had lived under the control of the U.S.S.R. Most of the people have forgotten what it means to be individually responsible. They expect government to make decisions for them, to provide them with housing, jobs, and medical care. Since the dramatic rejection of Communism in 1989, however, their people have been trying to decide how best to transform their old command economies into private property orders. That is why Dr. Sennholz sent me to Eastern Europe; he wanted me to tell them about the Foundation, *The Freeman*, and FEE's other publications so as to give them some help in learning about private property, individual rights, savings, investment, and entrepreneurship.

My entree in each country was through individuals who were already familiar with the Foundation and who could arrange for me to meet and speak with like-minded persons. I met informally with small groups and I gave lectures. I spoke to some groups in English, to others sentence-by-sentence through interpreters. I talked about a broad range of subjects—what is necessary for economic development, what people living in the formerly Communist countries *could* learn from the United States, and what they *should not* learn from the United States. I talked about the free market, about government regulations, and inflation. And at two colleges I spoke to classes on the history of economic thought about the Austrian "school" of economics and Ludwig von Mises.

The people in the Eastern European countries I visited have many of the same complaints as we do in the United States. They are saddled with high taxes, burdensome controls, costly government pension schemes, and central banks that consider inflation and/or credit expansion the proper way to meet the government's expenses. The message I tried to present in the countries of Eastern Europe I visited was that they should avoid copying the big government spending programs that have led to these consequences in the United States. On the other hand, they should do their best to limit the role of government and adopt the principles of individual freedom and personal responsibility which fostered economic development and technological improvement here in the United States.

The people of Eastern Europe should come to recognize the importance of protecting private property and private voluntary contracts. They should create an economic climate in which people will feel relatively secure so that they will be willing to work, not only to produce enough to survive, but to produce more, so as to save and invest. Generally speaking, people in the United States have felt relatively confident that their property would be protected and that they would be free to use the products of their efforts as they chose. Thus, they were encouraged to be industrious. Entrepreneurs dared to innovate, experiment, and take risks in the hope of profit. The economic and technological development of the United States has been the result of decades of accumulated savings and investments by many persons and of countless enterprises undertaken by many entrepreneurs.

Now that these Eastern European countries are on their own, they have a chance for economic recovery. It is essential that the people come to recognize the importance of protecting private property. Individuals who own property can become independent, responsible for themselves and their families, and need not rely on government to supply their needs. The people must ask their governments to replace the old Communist controls and regulations with a legal and judicial system recognizing and protecting private property and contracts. Individuals should be free otherwise to live as they wish, to pursue their own peaceful ends and to cooperate and trade voluntarily with others.

The governments of the countries of the old Communist bloc have removed some of the old interferences and controls on economic activity, and government enterprises are being partially denationalized. These changes have opened up some opportunities which individuals have been pursuing. Some entrepreneurs are daring to undertake new ventures. Small private shops now line the streets of many cities. Fresh produce is regularly brought to city markets from far off places. More trades are taking place across national borders and foreigners are beginning to invest in these countries. Billboards advertise foreign products, even cat and dog food. And TV satellite dishes may be seen anchored on the roofs and balconies of many high-rise apartments. As more imports appear on the market, workers will have more incentive to produce, and producers will have to enhance the quality of their exports, so as to compete in world markets. Yet much remains to be done, primarily in changing the attitudes of the people. Few realize what it means to be fully responsible for themselves and their families; most of them still expect government to take care of their basic needs. Nevertheless, if the countries of Eastern Europe can continue to move toward creating an economic climate that fosters individual initiative they will be on the road to economic recovery.

—Bettina Bien Greaves

THE FREEMAN
IDEAS ON LIBERTY

Should *Star Trek* Be Regulated as a Monopoly?

by Gary North

The announcement in 1993 that *Star Trek: The Next Generation* would have only one more season of new shows was the equivalent of a photon torpedo blast into the lives of millions of fans. Well, maybe it was only a phaser set on "stun," but the news was not well received. Even Jonathan Frakes, the actor who plays William Riker, the second in command on *The Enterprise*, complained in a televised interview that he did not understand why a successful series was being canceled.

The answer is clear: because it was not merely a successful series. It was *the* successful dramatic TV series of all time, a show possessing what has been described as a cult following—the largest entertainment cult on earth. For almost three decades, *Star Trek* fans have invested money, time, and imagination in a fantasy world created on-screen. The three-part entrepreneurial question that the show's producers face is this: How much money? How much time? How large a screen?

The show was costing a million dollars per weekly broadcast to produce: the highest in television. But this investment paid off very well. Syndication is bringing in millions of dollars from earlier shows. This probably will not change soon, with or without new segments. Millions of fans watch every segment of over and over. This has been true since the early 1970s. Nightly reruns still draw large audiences for both crews of *The Enterprise*. This stream of income appears to be as endless as the *I Love Lucy* reruns. The questions facing the producers were these: (1) How much additional net income can this product line generate if we produce two dozen new segments? (2) How much net income can it generate if we produce a major movie? The answer to the first question appeared to be "marginal." The answer to the second question appeared to be "enormous."

The early fans of the original *Star Trek* series were not numerous enough to sustain the show's ratings. *Star Trek* became a huge success only after it was canceled: a rerun and local TV station syndication phenomenon. This made it unique in television history. Then came the 1977 movie. Its script was not noticeably superior to one of the original shows. In fact, it was suspiciously similar to one of those original shows: "Nomad." But it made millions of dollars for the investors. Five more movies followed, stretching for over a decade. Toward the end of the movie releases, *Star Trek: The Next Generation* had become the most successful syndicated show on television. The original *Star Trek* series was also doing well in syndication. Like miners mining the mother lode, every time the producers started a new tunnel, they hit paydirt.

This experience sent a loud message to the producers: "A defunct series in syndi-

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cation plus an occasional movie will make us even richer." Gene Roddenbery, the show's creator, was dead. He was no longer present to argue for keeping the TV series alive. So, the free market took over. That is to say, the desires of paying consumers took over, but not the desires of non-paying consumers. Therein lies the difference in marketing strategies.

The Message of the Market

The free market sends information to enterprising entrepreneurs whose task it is to forecast consumer demand in the unknown economic future. This information is sent in the form of price signals. These signals are evaluated in a very specific manner: profit and loss. Consumers register their decisions in the form of money. Sometimes this message is sent directly: "I'll take one of those, please. Here is my money." In non-pay TV, the message is sent indirectly by middlemen acting on behalf of consumers: "I'll rent advertising time from you in the hope that consumers will buy something from me as a result." But the consumer is finally sovereign. Either he spends money or he doesn't.

I was a reliable consumer of *Star Trek: The Next Generation*, beginning several years after the show was launched into the airwaves. It was the only TV show I watched every week. (I now watch none on a weekly basis.) But I did not watch it directly. I had my teenage son record it for me on Saturday night, blipping out the commercials. Then my wife and I and the other children would watch the tape on some other night. I was, in the language of the economist, a free rider. I did not buy anything from a seller just because he advertised during the *Star Trek* hour. No commercial message ever got through to me, except when my son was not paying careful attention. He became very skilled at operating the pause button.

Did I attend the new *Star Trek* movie? Of course, and so did my family. The years of investments made by the producers, funded weekly by the advertisers, at long last paid off in my case. I was no longer a free rider. I paid for my 90-minute ride on *The Enterprise*.

The market sent a signal to the producers: there are a lot of people just like I am out there. They paid for the privilege of entering into the fantasy world of *Star Trek*. The pay was direct: "Ticket, please."

After that, millions more of us will rent it in local video stores. There will also be income from cable TV and network TV and Ted Turner's TBS TV. The producers saw the potential.

The fans no doubt feel cheated. They want their two dozen new segments a year. They sit there—millions of thumbs on millions of "pause" buttons—and say: "Take us for a ride on *The Enterprise*." The producers finally figured out that the fans were taking them for a ride.

The producers believed that the market was ready to reward them for spending less than what it would cost to produce two dozen segments for TV. Instead of paying week by week, they spent a year's budget on one extravaganza. They believed that we, the faithful consumers of *Star Trek* fantasies, would dig into our wallets and reward them for bringing one story to us on a large screen rather than dozens of stories on a small screen. They were correct.

We consumers say that we want two dozen segments a year rather than one extravaganza every other year or even less frequently. That is what we say. But talk is cheap. Are we willing to put our money where our mouths are? How much money? If we were all willing to pay, say, $2.50 per TV segment, and if there were some readily available way to make this transaction each week, the producers might consider keeping the show on the air (or cable, or whatever). But the delivery system does not exist. *Star Trek* is unique. There is no other TV show with a market of fans—as in fanatics—that would predictably respond in this way. There is even some question in my mind about whether I would actually pay my weekly $2.50. In any case, we are talking about $2.50 per household. But the movie got $6 out of me, my wife, and also three of my four children. For many fans, multiply $6 by two. Or three. We will also rent it when it comes out on tape.

So, the reality is this: what *Star Trek* fans say they want is not what they are both willing and able to pay for. We are all free riders or would-be free riders to some degree. The producers have issued an announcement: "No more free new rides."

A Monopoly

One of the greatly feared and hated phenomena in modern life is the monopoly. The standard definition of *monopoly* is this: "A firm that restricts the output of goods or services in order to increase its revenues." It is feared and hated because consumers seem to be thwarted. Consumers receive less of what they say they want. The seller brings in more money, net, at a higher price per sale than he would have brought in had he met all the demand at a lower price per sale. He is, in the language of Marxism and other socialist traditions, an exploiter.

If we take this definition seriously, then *Star Trek* is surely a monopoly. Rather than producing and then renting two dozen new segments per year to local TV stations, the owners of the rights to the *Star Trek* product line are now going to produce only one movie every two or three years, which they will rent to movie theaters. Then they will rent it to cable TV stations. Then they will sell copies of the videotape. They will get *Star Trek* fans to pay again and again to see that one movie. By restricting production, they will bring in far more money. But if the standard definition of *monopoly* is correct, it should be clear that this can be accomplished only through the willful exploitation of the public, and a highly vulnerable public at that: people who show many of the elements of serious psychological dependence.

A good Marxist would know what to call the owners of the rights to *Star Trek*: "capitalist exploiters." Clearly, the state, as the legitimate voice of the proletariat, should confiscate these rights and begin to produce weekly broadcasts of *Star Trek* on a year-round basis.

This would be very expensive under present conditions. The main actors receive very high wages, since the show has been running for years. The featured actors' salaries rise each year. Also, what about residual payments to them for the reruns? There would be no residuals under true socialism. After all, the Marxist says, labor is the sole source of all value, and these actors have already contributed whatever value the show possesses. Residuals? This is clearly exploitation by the actors, who have also become capitalist exploiters.

But what if the actors should quit? Here socialists disagree with each other. Some would favor laws making it illegal for anyone to quit his job without permission from the state. This would include actors. Other socialists, influenced by capitalist concepts of supply and demand, would say that new actors should be hired by the national government's Department of Public Entertainment. Hire some minimum-wage, out-of-work English character actor to play Captain Picard. Just shave his head. Nobody will notice. Anyone can be dressed up as a Klingon. All the fans really care about is Lieutenant Worf's turtle-shell forehead. A computer synthesizer can produce a match of Michael Dorn's voice—after all, even he doesn't sound like that in real life. As for Jordie LaForge, the whole appeal of the character is that woman's hair gadget he wears over his eyes. Who needs LaVar Burton? The *Star Trek* characters are all stick figures anyway: the chocoholic, half-breed mind reader who never seems to know what the bad guys are really thinking; the twitching robot with the green contact lenses; the bearded first mate who seems to be an ulcer candidate; the bossy female physician who takes over every time anyone gets the sniffles. Who needs highly paid actors? Just hire new actors who can remember their lines. If they start demanding higher pay, replace them. The viewers don't care. Don't talk nonsense about the show's "chemistry." Television shows do not have chemistry. They have scripts, actors, and special effects. In the case of *Star Trek*, the proper order is special effects, scripts, and actors. What the show needs is scripts that conform to the theory of socialism. Actors are peripheral.

The question now arises: Should *Star Trek* fans set up a PAC (Political Action Committee) devoted to electing candidates who promise to compel the producers to deliver a minimum of two dozen shows per year? Such legislation is surely Constitutional. Perhaps it could be done under the interstate commerce clause, or maybe under "promote the general welfare." These are mere details. The Supreme Court can sort it all out later. The point is, *Star Trek: The Next Generation* is an exploitative monopoly, and it must be stopped by law.

Something sounds wrong with this analysis. The question is: What?

Consumer's Surplus

A seller who wants to sell many units of a particular item will price each unit at what he believes is the highest price consumers are willing to pay for all units he brings to market. The revenue-maximizing price is that price which empties the seller's inventory but leaves no consumer standing in line ready to buy. This is called a market-clearing price.

No matter what price he establishes, there will be some buyers who would have paid more for the item. To maximize his total revenue, he sets the price lower than what he could have received from a small percentage of buyers. These buyers who would have paid more receive a benefit. Economists call this benefit a consumer's surplus.

The producers of *Star Trek: The Next Generation* for many years have given millions of viewers a consumer's surplus. These viewers would have paid more, but they were not asked to pay more. I am clearly one such viewer. I paid nothing except my time in viewing—leisure, a rare form of income which the government does not tax—and the price of a cheap videotape (two shows per tape). My teenage son's time spent recording and blipping out commercials I receive at no additional marginal cost —one of the very few income streams I have generated so far from this particular investment in human capital (and now it has dried up): no more *Star Trek* segments.

The producers decided that they would no longer provide such an immense consumer's surplus. They have created enormous demand for their product line by means of offering millions of consumers a consumer's surplus for over two decades. We can best understand this as a form of advertising. Advertising expenses are not borne for their own sake. The goal of advertising is to sell more products. This is now what the producers of *Star Trek* intend to do.

Star Trek as Software

Star Trek: The Next Generation is properly described as a software product. The hardware is our TV sets. Software is what we run on our hardware. For example, when Sony bought CBS Music, financial journalists identified this as a move by Sony, a producer of hardware, to acquire a line of software. The big money is in software, not hardware, unless you are the Intel Corporation or Motorola.

In recent years, software products that are assumed to be capable of reaching a large market have been priced quite low: a hundred dollars for a program that in 1990 would have retailed for $495 ($235 through a mail-order firm). Software producers realize that the big money is made on the back end: money sent in by existing users who buy software upgrades. The marketing strategy is to gain the largest number of users, who hate to re-learn new software programs that perform similar tasks. The strategy is to create a huge market of users who do not want to switch. They become, as it were, psychologically dependent on the product. Very few software companies have achieved this.

Star Trek has accomplished this remarkable feat. The producers introduced their software at very low prices in 1968, but now the upgrades are going to be less frequent and more expensive than before: every other year instead of every week for half the year. Consumers received an enormous consumer's surplus for decades, but now the producers know that their software's "installed base of users"—software marketing terminology—is huge, that users are not going to switch, and that the weekly reruns will now serve as "shareware": free or nearly free introductory software that creates a market for the big-screen "upgrades."

The decision to produce *Star Trek* movies rather than weekly TV shows will probably turn out to be very profitable. The product line's installed base is enormous. Having created this installed base through a quarter century of either brilliant or very lucky marketing, the owners of the product line have decided to maximize their revenue by spending more money on a few major upgrades rather than spending smaller amounts of money on more frequent but marginal upgrades. For most TV shows, this marketing strategy would produce a gigantic loss, once. But *Star Trek: The Next Generation* is not like most TV shows.

Conclusion

The marketing of *Star Trek* is rational from an economic point of view. While it would be possible to denounce as monopolistic the decision of the owners to move from TV production to movie production, such an analysis does not ring true. Nevertheless, the decision does seem to conform to the standard definition of monopoly pricing: "Restricting the output of goods or services in order to increase revenues." But most people—even devoted fans—are unwilling to call the producers of *Star Trek* a bunch of exploiting monopolists. Why?

I suggest two reasons. First, when it comes to entertainment, we are all capitalists. Nobody suggests government-imposed wage controls for famous celebrities in the sports world or entertainment world. Apparently, we consumers do not care if celebrities get rich by exploiting us. When it comes to celebrities, we cheerfully endorse individualism. We accept the free market's pricing principle: "high bid wins."

Second, we may sense that there is something wrong with the standard definition of monopoly. When producers choose to restrict the output of some resource in order to maximize their revenue, isn't this a form of conservation? Aren't we all supposed to be in favor of conservation these days? Then why should we complain when suppliers of a product or service make more money for themselves when they become conservationists? There is something wrong with the textbook definition of monopoly.

Murray Rothbard has suggested a different definition. He argues that a monopoly is created solely by the state. The economic conditions for monopoly exist whenever the civil government threatens reprisals against competing firms that enter a market to supply a service that consumers are willing to pay for, but which the existing seller refuses to meet by lowering the price and increasing output.

If a firm can increase its revenues by restricting output, it should probably be called a conservation-minded firm. But if its ability to increase revenues by raising prices and restricting output exists only because the state has placed restrictions on its competitors, then it is a monopoly.

What is the most effective way to stamp out monopolies? Revoke the legislation or bureaucratic rules that have created them.

Star Trek has become a conservationist firm, not a monopoly. I am not pleased with this development, since I am a greedy, profligate, free-riding consumer who wants lots more rides on *The Enterprise* for the price of cheap videotapes. My motto in this case is simple: "Conservation? Who needs it?" But millions of trekkies will probably confirm the economic wisdom of the producers to move from "profligate" production to conservationism. Trekkies will not verbally applaud this form of conservation, but I think they are ready to pay for it. So do the producers. They are just doing their job. After all, what else should we expect from people in command of something called *The Enterprise*? □

THE FREEMAN
IDEAS ON LIBERTY

The Education of Thomas Edison

by Jim Powell

In 1854, Reverend G. B. Engle belittled one of his students, seven-year-old Thomas Alva Edison, as "addled." This outraged the youngster, and he stormed out of the Port Huron, Michigan school, the first formal school he had ever attended. His mother, Nancy Edison, brought him back the next day to discuss the situation with Reverend Engle, but she became angry at his rigid ways. Everything was forced on the kids. She withdrew her son from the school where he had been for only three months and resolved to educate him at home. Although he seems to have briefly attended two more schools, nearly all his childhood learning took place at home.

Thus arose the legend that Thomas Alva Edison (born February 11, 1847) became America's most prolific inventor—1,093 patents for such wonders as the microphone, telephone receiver, stock ticker, phonograph, movies, office copiers, and incandescent electric light—despite his lack of schooling.

For years, he looked the part of the improbable, homespun genius: five feet, 10 inches tall, gray eyes, long hair that looked as if he cut it himself, baggy acid-stained pants, scruffy shoes, and hands discolored by chemicals. Later he took to wearing city clothes—black. On more than one occasion passers-by mistook him for a priest and respectfully tipped their hats.

Yet Edison probably gained a far better education than most children of his time or ours. This wasn't because his mother had official credentials. She had taught school, but only a little. Nor was it because his parents had money. They were poor and lived on the outskirts of a declining town. Nancy Edison's secret: she was more dedicated than any teacher was likely to be, and she had the flexibility to experiment with various ways of nurturing her son's love for learning.

"She avoided forcing or prodding," wrote Edison biographer Matthew Josephson, "and made an effort to engage his interest by reading him works of good literature and history that she had learned to love—and she was said to have been a fine reader."

Thomas Edison plunged into great books. Before he was 12, he had read works by Shakespeare and Dickens, Edward Gibbon's *Decline and Fall of the Roman Empire*, David Hume's *History of England*, and more.

Because Nancy Edison was devoted and observant, she discovered simple ways to nurture her son's enthusiasm. She brought him a book on the physical sciences—R. G. Parker's *School of Natural Philosophy*, which explained how to perform chemistry

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experiments at home. Edison recalled this was "the first book in science I read when a boy." It made learning fun, and he performed every experiment in the book. Then Nancy Edison brought him *The Dictionary of Science* which further spurred his interest. He became passionate about chemistry, spending all his spare money buying chemicals from a local pharmacist, collecting bottles, wires, and other items for experiments. He built his first laboratory in the cellar of the family's Port Huron house.

"Thus," Josephson noted, "his mother had accomplished that which all truly great teachers do for their pupils, she brought him to the stage of learning things for himself, learning that which most amused and interested him, and she encouraged him to go on in that path. It was the very best thing she could have done for this singular boy." As Edison himself put it: "My mother was the making of me. She understood me; she let me follow my bent."

Sam Edison disapproved of all the time his son spent in the cellar. Sometimes he offered the boy a penny to resume reading literature. At 12, for example, Thomas read Thomas Paine's *Age of Reason*. "I can still remember the flash of enlightenment that shone from his pages," he recalled. Typically, though, he used his pennies to buy more chemicals for experiments in the cellar.

But Thomas Edison had discovered intellectual play. He wanted to learn everything he could about steam engines, electricity, battery power, electromagnetism, and especially the telegraph. Samuel F. B. Morse had attracted tremendous crowds when he demonstrated the telegraph back in 1838, and telegraph lines were extended across the country by the time Thomas Edison was conducting his experiments. The idea of transmitting information over a wire utterly fascinated him. He used scrap metal to build a telegraph set and practiced the Morse code. Through his experiments, he learned more and more about electricity which was to revolutionize the world.

When the Grand Trunk Railroad was extended to Port Huron in 1859, he got a job as newsboy for the day-long run to Detroit and back. After about a year, he looked for ways to make better use of the five-hour layover in Detroit before the train made its return trip. He got permission to move his cellar laboratory equipment aboard the baggage car, so he could continue his experiments. This worked well for a while until the train lurched, spilled some chemicals, and the laboratory caught on fire.

In 1862, a train accident injured his ears, and the 15-year-old began to lose much of his hearing. Apparently, he realized that as a handicapped boy without any credentials, he must learn everything he needed to know on his own. He dramatically intensified his self-education.

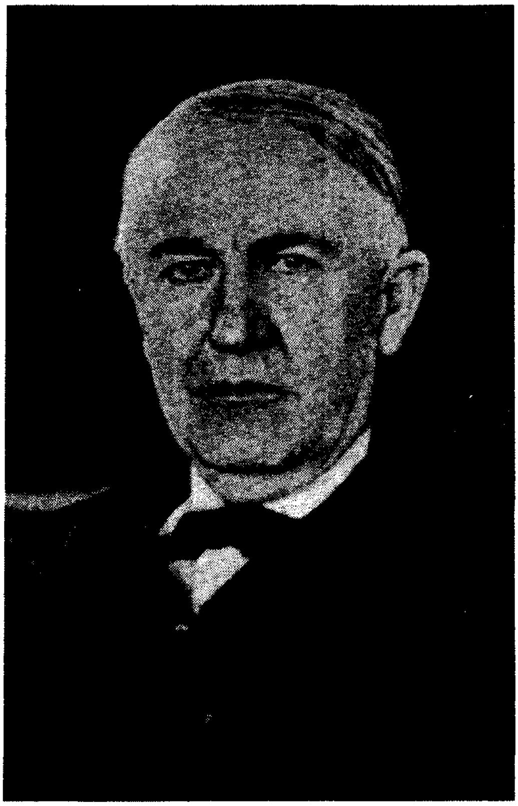
"Deafness probably drove me to reading," he reflected later. He was among the first people to use the Detroit Free Library—with card number 33—and he systematically read through it shelf by shelf. He read literature. He was thrilled by Victor Hugo's new romantic epic, *Les Miserables*, especially the stories of lost children. He talked so much about the book that his friends called him "Victor Hugo" Edison.

Of course, what fascinated Edison most was science. He devoured books on electricity, mechanics, chemical analysis, manufacturing technology and more. He struggled with Isaac Newton's *Principles*, which made him realize his future would be with practical matters, not theorizing.

The Joy of Learning

As a home-schooled, self-educated youth, Edison learned lessons that were to serve him all his life. He learned education was his own responsibility. He learned to take initiative. He learned to be persistent. He learned he could gain practical knowledge, inspiration and wisdom by reading books. He learned to discover all kinds of things from methodical observation. He learned education is a continuing, joyful process.

At 20, Edison got a job as itinerant Western Union telegraph operator and became remarkably proficient. He worked in Cin-



Thomas Alva Edison

cinnati, Louisville, Indianapolis, Memphis, Boston, and New York. The more he learned about telegraphy, the more he wanted to learn. He took apart equipment and reassembled it until he understood how it worked. He experimented with ways to make it better. He decided that greater knowledge of chemistry would help him, so he haunted used bookstores and ordered chemistry books from London and Paris. He filled his rented rooms with chemicals and junk metal for his experiments. One associate observed: "He spent his money buying apparatus and books, and wouldn't buy clothing. That winter he went without an overcoat and nearly froze."

Edison's knowledge and enterprise led to a dramatic series of inventions. On January 25, 1869, he applied for a patent on a telegraphic stock ticker which, after he filed patents for dozens of successive improvements, became standard office equipment in America and Europe. Edison invented a printing telegraph for gold bullion and foreign exchange dealers. Western Union and its rivals battled to gain control of Edison's patents which revolutionized the telegraph business. For example, he figured out how a central telegraph office could control the performance of telegraph equipment at remote locations. He developed a method for transmitting four messages simultaneously over the same wire. Intense curiosity, nourished by his home education, drove him to become perhaps America's best technician on telegraphy.

From his practical experience, Edison learned to make the most of unexpected opportunities. For example, on July 18, 1877, he was testing an automatic telegraph which had a stylus to read coded indentations on strips of paper. For some reason, perhaps excessive voltage, the stylus suddenly began moving so fast through the indentations that the friction resulted in a sound. It might have been only a hum, but it got Edison's attention. His imagination made a wild leap. Explains archivist Douglas Tarr at the Edison National Historical Site, West Orange, New Jersey: "Edison seemed to reason that if a stylus going through indentations could produce a sound unintentionally, then it could produce a sound intentionally, in which case he should be able to reproduce the human voice." A talking machine!

Edison worked out its fundamental principles in his notebooks, and on December 17, 1877, he filed a patent application for the phonograph ("sound writing"). This was no improvement of existing technology. It was something brand new, Edison's most original invention. It was also one thing he didn't seek to invent, unlike the light bulb, power generation systems, and other famous inventions which he deliberately pursued. Having developed the idea, Edison followed up, working on and off for more than two decades to produce recorded sound quality which would thrill millions.

With a flexible and open mind, Edison enjoyed an important advantage in the race for electric light. Other inventors were committed to refining low-resistance arc lights (then used in light houses) which required large amounts of electrical power and copper wire—the most costly part of their lighting systems. In September 1878, Edison cheerfully began considering the opposite: a high resistance system which would require far less electrical power and copper wire. This could mean small electric lights suitable for home use. By January 1879, at the laboratory he established in Menlo Park, New Jersey, Edison had built his first high-resistance, incandescent electric light. It worked by passing electricity through a thin platinum filament in a glass vacuum bulb to delay the filament from melting.

But the lamp worked for only an hour or two. Improving performance required all the persistence Edison had learned as a child. He tested many other metals. He thought about tungsten, the metal in light bulb filaments now, but he couldn't work with it using tools available in his day. He tried carbon. He tested carbonized filaments of every imaginable plant material, including baywood, boxwood, hickory, cedar, flax, and bamboo. He contacted biologists who could send him plant fibers from the tropics. "Before I got through," he recalled, "I tested no fewer than 6,000 vegetable growths, and ransacked the world for the most suitable filament material." Best performer for many years: carbonized filaments from cotton thread.

This proved to be one of Edison's most perplexing inventions. "The electric light has caused me the greatest amount of study and has required the most elaborate experiments," he wrote. "I was never myself discouraged, or inclined to be hopeless of success. I cannot say the same for all my associates." Edison at the peak of his inventive powers drew inspiration, as he did in his youth, from Victor Hugo's novel *Toilers of the Sea*. The hero, Gilliatt, struggled against the waves, the tides and a storm to save a steamship from destruction on a reef.

Hailed as "The Wizard of Menlo Park," Edison was often able to see possibilities others missed because he continuously educated himself about different technologies. For example, during the late 1880s and early 1890s, he read widely about the latest developments in photographic optics. He investigated the potential of tough, flexible celluloid as motion picture film and had George Eastman make 50-foot-long, 35mm wide test strips. Edison worked out the mechanical problems of advancing film steadily across a photographic lens without tearing. He linked his new motion picture camera to an improved phonograph, capturing sound synchronized with motion pictures. Then Edison developed what he called the Kinetoscope to project these "talking" images on a screen.

In 1887, Edison built a magnificent laboratory in West Orange, New Jersey. It was 10 times larger than his first, fabled facility in Menlo Park. The main building alone contained some 60,000 square feet of floor space for machine shops, glass-blowing operations, electrical testing rooms, chemical stockrooms, electrical power generation, and other functions.

Once a day, Edison toured this vast facility to see what was going on, but he did most work in the library. It had a great hall, a 30-foot-high ceiling and two galleries. Right in the center, Edison sat at a desk with three dozen pigeonholes, surrounded by some 10,000 books. Here he would ponder new ideas and hear his associates report on their progress.

As Edison grew older, he became stouter and harder of hearing, but he remained as enthusiastic as ever about the free-wheeling pursuit of practical knowledge. In 1903, he hired Martin Andre Rosanoff, a Russian-born, Paris-trained chemist who asked about laboratory rules. "Hell," Edison snorted, "there ain't no rules around here! We're tryin' to accomplish somep'n."

After Edison died on Sunday, October 18, 1931, his coffin was placed in his beloved West Orange library for mourners to pay their respects. Rosanoff identified a key to the Old Man's enduring fame: "Had Edison been formally schooled, he might not have had the audacity to create such impossible things." □

THE FREEMAN
IDEAS ON LIBERTY

E Pluribus Unum

by Ralph A. Raimi

It is futile to argue about the proper translation of the motto *E Pluribus Unum*; the Latin used there is ambiguous, as befits a motto, and it is in the nature of the Latin language to be a bit cryptic in its prepositions and verbs. I myself have no doubt that the motto refers to the States, which is to say that where there had been a certain 13 colonies (in America) they were now become a single nation. To some degree—though I doubt this—the motto might have meant also that various ethnicities were combined, as that Pennsylvania had a large German component and New York Dutch, and that Calvinists were to live peaceably with Wesleyans. Possibly, but all this was minor compared to the real problem of 1789, which was to combine 13 quarreling independent States into one nation, with a common policy in foreign and interstate trade, a common defense, a guaranteed respect for one another's laws, and so on.

That was 200 years ago, and much has changed since. If today some choose to translate *E Pluribus Unum* as "diversity within unity," and use the Latin "pluribus" to sanction our current celebration of the diverse cultures visible in American life, that is agreeable to me and most other Americans, for it certainly does not deny the union of the States as well. But we must not forget the "Unum" that lies behind the Union that Lincoln fought to preserve. If *pluribus* is reinterpreted to refer to the multitude of diverse cultures present here, as well as the multitude, now fifty, of States, then *unum* correspondingly must refer to some unity in our common culture, as well as the legal union of our States.

What Unites Us?

In what, then, consists this unity in our culture? What exactly is it that unites us, and what is it that *should* unite us? Are they the same thing? Are they the *right* thing? And—are they enough?

Lincoln worried about that last question. In his Gettysburg Address he characterized the Civil War as testing "whether *any* nation so conceived and so dedicated can long endure." That is, conceived in liberty, and dedicated to the proposition that all men are created equal. That's all. He did not say "conceived by Englishmen," or "conceived by Judeo-Christian Deists," though one could argue some such proposition. He did not say, "dedicated to the proposition that all white males, native-born, 21 years old, and demonstrably responsible and literate should have an equal vote," though that, too, was a proposition most of the Founders would have approved. Lincoln knew that these details of our history were only incidents, perhaps necessary or perhaps only accidentally true in their time, but certainly not the essence. He kept it simple because a battle over a couple of the more important details was exactly what he was commemorating that day, and he knew others must follow, not only in that great civil

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war of 1863 but into the indefinite future. Not that such "battles" were necessarily to be sanguinary, but merely inevitable; yet to bring them on prematurely would be foolish. With Matthew he might say, "Sufficient unto the day is the evil thereof." In our system it is best to disagree only when the choice is forced, meanwhile celebrating such agreement our culture already enjoys.

Liberty and Justice for All

In Lincoln's time, as at the time of the nation's founding four score and seven years earlier, there were very few cultures in the world dedicated to the proposition that all men are created equal, or to any proposition very near it. In 1776 again, there were few societies valuing liberty over other values, and even fewer enjoying anything very near it. Today there are more of both, though not very many; and one reason there are as many as there are is the example of the United States of America. And one reason the United States of America succeeded in institutionalizing liberty and equality in 1776 was that its English heritage, vague and self-contradictory as it often was in detail, included the Magna Charta and other precedents of English law, and an associated philosophical tradition culminating with Hobbes and Locke. Nor did the British heritage come to a stop with Independence, for the precepts of Hume, Smith, Burke, and Mill mingled wonderfully, as the years rolled down towards Lincoln, with those of our own founders.

It is true that Americans do not officially celebrate Magna Charta, Guy Fawkes' Day, and the Glorious Revolution of 1688, but that does not put these things outside our common culture; they were important presences here in 1776, as was the enormous heritage of the Common Law by which, fundamentally, we still order our responsibilities. The colonies of Spain and France in America did not begin with any such law and tradition, and the sad later history of those colonies when they became independent has never stopped exhibiting the difference.

This is not to say that a "British-American" (to use the repellent jargon of our times) is any more real an American than any other kind. We must all be grateful for the English history behind our nation's founding, but we of the year 1995, whatever our lineal descent, cannot take credit for the concept of trial by a jury of one's peers, any more than for the discoveries of Isaac Newton. We can take credit, if we deserve it, for *maintaining* that legal principle, and for understanding and using the law of gravitation, but not because they were made by our actual ancestors, let alone by ourselves in the present century.

Our European Heritage

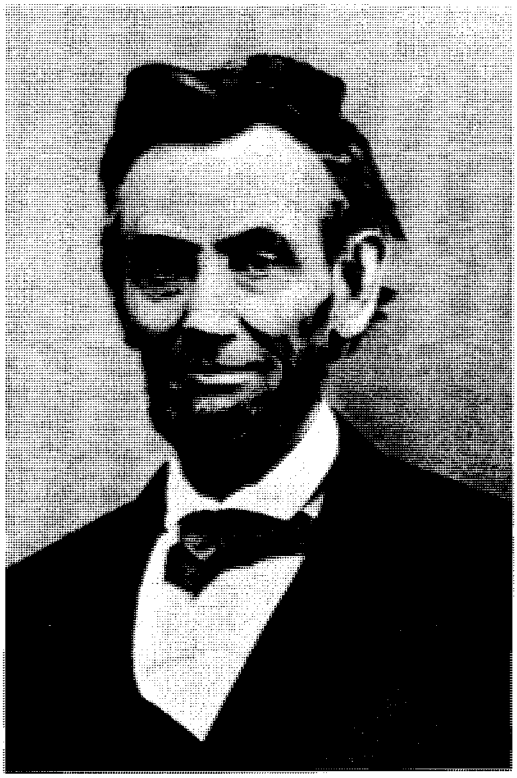
My own father and mother immigrated from Poland threescore and ten years ago, and the Russian Poland of their youth most assuredly had no tradition of liberty or equality, either one, whatever definition you might give the words. That is why they came here: not to import the prejudices and traditions they had grown up among, but to adopt new ones, to adopt a new language and a new attitude and whatever else was required to become American. Of course they brought with them some of their own previous culture; no adult is born yesterday. Even their children—myself and my brothers—value some of what was brought from Poland, and from lands more ancient still: for our tradition teaches that our lineal ancestors, under Moses' leadership and by the benevolence of God, were brought out of slavery in Egypt. We are asked by that tradition to celebrate the Exodus, and be grateful for it, but not to take credit for it, or for The Ten Commandments later given to Moses on Sinai. Such traditions are borrowed by me, not born into me. They can be borrowed by anyone with wit to use them well; they are no more and no less mine and my father's than the tradition of the Common Law, which is not to be found in the Books of Moses, but which my father accepted for us when he arrived here, and freely chose to live by.

My father's culture included much else before he came to America. His own father, indeed the whole Jewish part of his native town, were adherents of a religious sect of a particularly pious, intolerant, and Puritanical nature. For gloomy superstition and repression of women, for example, the *Hasidim* of Nasielsk had no peers. Is that, too, part of the ethnicity I am supposed to celebrate as part of this multicultural society? Excuse me; I'll have the Magna Charta instead. It's English, maybe, but it's mine. *Hasidim* are more free under English (or American) law than Americans would be under *Hasidic* law; we intend to maintain it so.

What then of our ethnic multiplicity? Are we supposed to reject it? Deny it? Is *Unum* the only important part of the motto on our nickels and quarters? Of course not. As it is with me, so it is with everyone: We all have traditions and values and attitudes that we cannot forget, and that we do not necessarily hold in common with our neighbors here in America. We have every right to enjoy them, provided they respect the common weal. Many of these cultural values are associated with the name of some country, empire, language, religion, or caste that once governed our lineal ancestors. America is in fact the place where private citizens are enabled to retain and enjoy these things in peace and mutual respect better than in any other country; we have been a leader in this regard.

Select the Right Traditions

But there are certain traditions that we must ourselves maintain, and not merely respect in others. Traditions that we cannot reject if we are to call ourselves Americans, even if they conflict with everything held valuable in some tradition of our own lineal ancestors. The rule of law and equality before the law cannot be abridged, even if it was our ancestors' custom to exempt noblemen from the courts and laws that governed commoners, whether in eighteenth-century England or nineteenth-century Russia or twentieth-century Arabia. Equality, too, is American, and it must be accepted by any immigrant who would become American. We must deny the immigrant's "right" to bring with him a plan for sabotaging these two American values, whatever might have been the practice of his own forebears. Not all values are equal and not all cultures have been benign.


Abraham Lincoln

Lincoln was right to limit his catalogue of American ideals to two—liberty and equality—for that too is American: to limit as little as possible the values our citizens—if they are to be Americans—are asked to hold and exercise. And even then we do not compel *belief*, for even that much would violate our principle of liberty. There are in fact many zealots among us who would reduce America to a theocracy if they had their way. We do not cut off their ears; we only ask that, apart from what they say and write, they will in their actions obey our laws. We hope that with time they will learn better. There are also among us those who would prefer an America cleansed of blacks, or of Jews, and who say so. We do not cut out their tongues or sell them into slavery; we only ask that, apart from what they say and write, they will in their actions obey our laws. We hope that with time they will learn better.

The Rule of Law

Liberty and equality have their expression in the rule of law, and this fabric of freedom has been in large part forged in the history of England, but while for this we must be grateful to the England that did this for us it does not follow that those of us of English lineage are any better or more important than the rest. Nor, on the other hand, does it follow that in some anxiety for "equality" among cultures we must downplay or deny the English origins of our polity.

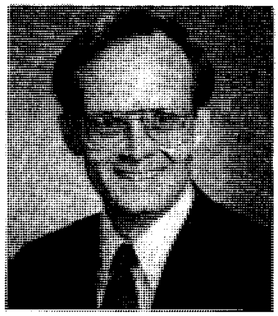
True, we have had to reject much of English heritage too. We allow no princes or viscounts here, and we do not kidnap drunken sailors for our Navy, nor do we exile thieves to a 10,000-mile distant colony, or place debtors in prison. These all were English customs as little as two hundred years ago. Thus we have been selective in our borrowing from the British heritage. (So have the British!) But though we have rejected some of it, we cannot deny that what we have selected in law and politics owes more to Britain than to Africa or China.

To say that our notion of liberty derives mainly from Britain is to simplify, for Britain itself had borrowed from ancient Greece and Rome. Similarly, our principle of equality is also partly rooted in an older source: the Levantine conception of a universal God to whom we are all, equally, his children. But the English were peculiarly successful in developing both ideas in practical terms, forming a solid base for the great American experiment.

At first glance, *E Pluribus Unum* and the mention of liberty and equality speak nothing of the artistic, scientific, or other intellectual or sentimental features of our culture. They speak of government and of rights and duties of a civic nature, but not about music, food, mathematics, and sports. In these domains we are entitled to be as diverse as we please; but it should be recognized that this entitlement too is American. There are cultures where all styles, yes, even in music, food, mathematics, and sports, are dictated by an authority that will allow no deviation. Not so in America. We may respect diverse cultures in most respects, and indeed we have borrowed from all of them, but we must reject as insufferable those which would compel particular cultural choices outside the domain of civil law, for that would be to deny our liberty.

In short, we absolutely reject that part of any tradition that would deny equality or liberty, but not because they are merely alien in the sense of being current some place outside our geographic borders. Traditions subversive of liberty or equality are outside our borders in a deeper sense: they are alien to our spirit.

To paraphrase another American *we* count it self-evident that it is better to be free than to be enslaved, and better to be equal under the law than governed by laws depending on class, race, or religion. It is the *definition* of Americans, that we were conceived in liberty and dedicated to the proposition that all men are created equal. There is within our borders an enormous cultural diversity, which we not only tolerate, but enjoy and celebrate—but always within these two restrictions of peculiarly British origin. Each of us is entitled to love, despise, or be indifferent to Italian opera, Buddhism, or the Theory of Relativity; there is no Principle of Multiculturalism that compels our allegiance to any of this. But any principle that conflicts with Lincoln's definition of America is not ours to reject, for that would be impossible to reconcile with America as an idea. □



Dissatisfaction Guaranteed and No Money Back

Within days of last November's elections, Newt Gingrich promised that Congress would take up the issue of a constitutional amendment to permit voluntary school prayer. That news must have hit me at an uncharacteristically irritable moment.

"Why even bring it up?" I thought. "Congress ought to focus *its* attention on fixing the economy by rolling back the intrusions of the central government. Besides, children have every right now to take a moment on their own and say a quiet prayer; amending the Constitution to permit anything else would open the door to subtle coercion and endless litigation. What could prayer in school accomplish that can't be accomplished by prayer outside of school?"

That was a visceral, almost unthinking response. What I needed was a talking-to by fellow Christians, followed by a moment of silence to think the whole thing through.

Understanding the school prayer controversy is impossible without an appreciation for the endurance of Christian parents who have children in public schools. Upon reflection, I now realize that they, in general, exhibit far more tolerance than many of their secular, anti-school prayer critics.

Christian parents today feel besieged, as if they have been targeted as the one group in America that anybody can ridicule and discriminate against legally and proudly. Most of them would probably turn the other cheek were it not for the fact that when it comes to public schools, their tax dollars are helping to finance the assault.

The U.S. Circuit Court of Appeals in Cincinnati ruled that a picture of Christ hanging in a school hallway "entangles the government with religion." In Idaho, another Appeals Court ruled that high school graduation prayers are unconstitutional even if a majority of students vote that they want to pray. In establishing the precedents on which these decisions were based, the Supreme Court earlier struck down organized prayer in the public schools (1962), recitation of the Lord's Prayer (1963), official moments of silence (1985), and prayer at school graduation ceremonies (1992).

America's Christian heritage—an undeniable and vitally important ingredient in this nation's success—is being systematically expunged from classroom history texts. Even Christmas trees and Santa Claus are banned in some schools as threats to the separation of church and state. Simply allowing Christian students to meet on school grounds after hours, much as the Future Farmers of America or a homosexual group can do, had to be fought for tooth and nail all the way to the Supreme Court.

The Constitution's guarantee of freedom *of* religion has become taxpayer-funded freedom *from* religion. Writing in the November 28 *U.S. News & World Report,* columnist John Leo recounts the episode of a Douglasville, Georgia senior class pres-

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ident who was nearly prevented from giving the traditional graduation address because school authorities feared he might say something religious in his remarks. "He presumably could have turned the occasion into a rally for Jeffrey Dahmer or called for the violent overthrow of the state of Georgia without attracting any censors," says Leo, "but a suspected reference to God was enough to shut him up."

While it's deemed unconstitutional, antisocial, and even backward to cite the Bible in the classroom to make a point, it's OK for teachers to put condoms on bananas in a sex education class, or to teach that no one person's view of right and wrong is any better than the next person's. Christian parents who believe otherwise are expected to keep quiet and send the kid, as well as the money the system spends to undermine what they've taught at home.

"But if Christians object," public education's apologists retort, "they can send their children to private schools." Sure, and pay twice—once in tuition for the school they buy and again in taxes for the other product they've rejected.

Incidentally, though I've referred to Christians up to this point, there are certainly other groups I could have included. Christians are not the only people who have problems with what goes on (or doesn't) in the public schools.

A carefully crafted constitutional amendment on this matter may be a remedy that will satisfy Christians but the question is, will it satisfy atheists or agnostics? What about others whose tax dollars pay for the schools but who don't want even voluntary prayer being supervised on government property with government employees?

There is a larger point here than simply the fact that public schools have become intolerant to religion. That point is this: *there can be no final resolution of matters of this nature, no universal satisfaction, within the context of a coercively-financed system that has captives instead of customers.* When you hear the motto, "Satisfaction Guaranteed or Your Money Back," the last thing that comes to mind is a government program.

In free markets where individual choice prevails, conflict is minimized. You get what you pay for and you pay for what you get. If you don't like the wares in one store, there's no need to throw up a picket line. You don't have to attend lengthy and boring meetings and be talked down to by public "servants." You don't have to wait until the next election and hope that 50 percent plus one of those who vote will vote the way you'd like them to. You simply shop elsewhere. End of discussion.

Here's how Walter Block explained the problem in his chapter, "We Ought to Have Sex Education in the Schools," in FEE's 1994 book, *Clichés of Politics*:

> Instead of considering the proposition "We ought to have sex education in the schools," let us contemplate "We ought to have pizza in the restaurants."
>
> Were this question solved in the manner presently used for sex education, our system would be very different. Most restaurants would be run by the government. All citizens would be forced to pay for these public restaurants, whether they used them or not. Those who patronized private ones would have to pay twice: once in fees for meals, and then again through taxes. People, moreover, would be assigned to the public restaurant located nearest to them.
>
> As to the pizza question, all public restaurants would either stock this foodstuff, or they would not. There could be no such thing as restaurants specializing in different cuisines, and people sorting themselves out according to their tastes. Thus, either the pizza lovers, or the pizza haters, would be disappointed.

Controversies like prayer, or sex education in the schools will not end until concerned parents can freely opt for private alternatives without being forced to pay for public systems that assault their beliefs and values. Those who believe that a constitutional amendment allowing voluntary school prayer will solve problems should understand that it would solve some problems, create others, and leave the fundamental dilemma unchanged.

A free market in education is the real answer to prayer. □

THE FREEMAN
IDEAS ON LIBERTY

Business-Government Collusion

by Eric-Charles Banfield

Back when first cutting my teeth on the concepts of free-market economics, I was impressed by the argument that business firms have to satisfy their customers to survive. Firms have strong, natural disincentives against performing poorly or acting immorally because they would risk losing customers and going out of business. For some time thereafter, I defended "business" on those grounds. Business is not an evil, I argued; indeed, businesses are almost "slaves" to the shifting and elusive passions of the sovereign consumer.

But over the years, I found myself forced to refine my views regarding business firms. Three lessons stand out. First, being "pro-business" is not the same as being "free-market." Second, regulation, which presumably works "against" business, goes hand-in-hand with special privileges and artificial protections "for" business. Third, the phenomenon of active and routine collusion between business and government made the business world seem less than the pure and benevolent social agent I once perceived. In short, I began to recognize that the concept of "the corporate welfare state" goes a long way to describe some of the problems we observe in the complex nexus between the market sector and the government sector. All too often, businesses lobby government for special privileges they would not have in a true, free market.

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What Is Pro-Business?

Much political rhetoric over the past decade has centered over whether a particular policy is "favorable to business," or whether a candidate is "pro-business." In earlier years, I rooted for any "business-friendly" policy move, and supported conservative "pro-business" politicians. But, as I learned over the years, "pro-business" ideas are all too often inconsistent with "free-market" ideas.

When politicians speak about being "pro-business," they try to create the impression they will do things to benefit the business climate. That help, however, can come in two forms. One form is in the promise of deregulation, or a promise to fight new regulations or taxes that will potentially harm the economy, an industry, or a firm. This is generally all to the good; the help is "negative"; that is, the politician will focus on what the government should *not* do regarding a business's activity.

But the second form of "pro-business" help is "positive," that is, the state takes some action that specifically helps a business or an industry, usually at the expense of other people. The government creates some law or regulation that allows a business to do or have something it could not otherwise do or have in a true free market. It grants what amounts to a privilege.

That distinction might seem clear. Yet, as *The Economist* put it, "businessmen themselves—torn between a desire to be left alone and an appetite for special favors—are often unsure quite what they want from government."[1]

Examples of Privilege

Bailouts. Clear-cut examples of artificial, government-granted privileges include bailouts, such as when a large firm or industry is losing money. The government gives the failed entity cash or cheap loans, or allows it to write off its creditors without liability, so it can resume business despite its poor performance. Recent examples include banks and auto manufacturers.

Subsidized loans. Some sectors are perpetually propped up, regardless of their condition. For example, government offers "small businesses" subsidized loans at below-market interest rates, with the taxpayer assuming the risk. When government-assisted "small-business investment companies" fall, these "venture capital" firms simply declare bankruptcy before the government's Small Business Administration can file a claim on the assets.[2]

Outright "disincentive" subsidies. Another clear example of privilege is subsidies in which an outright payment occurs. For example, agricultural corporations get every kind of corporate subsidy imaginable, including dairy price supports, export-enhancement programs, and payments for not growing certain crops.[3]

Resource privileges. Other privileges include special deals for ranchers, oil companies, and lumber companies to graze on, drill in, or cut resources from federally owned lands at drastically reduced prices. They get those deals not only because the government is reluctant to sell any of its vast land holdings, but because firms in those industries are unwilling to buy the land for what it's worth, or to pay full price for the resources they use.[4]

Monopoly privileges. Another example of privilege is cable companies and utilities that get granted exclusive monopolies over their regions, using the law to outlaw systematically any competition.[5]

Trade protection. Businesses argue for restricted competition at the international level, too. Many large corporations saw the North American Free Trade Agreement (NAFTA) as a vehicle for securing "compensatory" protections and other favors. The administration "negotiated concessions" for flat glass, durum wheat, home appliances, wine, peanuts, textiles, sugar, and citrus and vegetable interests, all "politically sensitive industries" that needed "relief."[6]

Large businesses have often supported labor, zoning, permit, safety, or other regulations designed to keep out low-cost competitors, because the bigger firms were already meeting those new requirements anyway.

As *The Economist* reports, "Regulation offers ways not just to create markets but also to compete with rivals. Firms have learned to lobby for rules that bring them benefits. Established companies . . . may lobby for stricter standards, knowing that these will mainly affect new entrants. Companies lobby for standards which they can meet, but impose high costs on competitors."[7]

A classic case of that is underway with regard to environmental regulations. In fact, *The Economist* continues, companies in this area "press for regulations that will create a market for their products. Companies selling low-sulphur coal have rooted for legislation to reduce acid rain." And waste management firms have fought to maintain and strengthen environmental regulations, including new landfill restrictions, waste incineration standards, and licensing schemes to keep out competitors.[8] The Clinton Administration's smog-control plan is designed to mandate a greater market share for ethanol, "and is likely to boost further the fortunes of Archer-Daniels-Midland Co., the politically active agricultural company that dominates the ethanol market."[9] ADM did no *direct* lobbying on the issue, but "didn't have to." Competing industry groups charge that ADM's influence was indirect, primarily through The Renewable Fuels Association, a trade group.[10]

It's routine. One insurance executive noted, "It's common in our industry: Large companies support legislation to drive out small competitors."[11]

Drawing the Line

All of those privileges are perfectly legal, as business lobbyists and activists quickly point out. But legal doesn't mean moral. One Texaco executive, for example, feels uncomfortable drawing a hard line between lobbying against bad regulation and lobbying for special privileges. He used the old "what's-good-for-General-Motors-is-good-for-America" argument. His analogy was, "If growing wheat happens to be good for the nation, then it's okay to say so [in your lobbying efforts], even if you're a farmer."[12]

The Harm to Others

When the harm to consumers and taxpayers is considered, however, that claim of morality is harder to defend. To free-market advocates, such privileges are not the proper function of government. Ethical businesses should sink or swim on their own, without any help or harm from government. That is, the proper pro-business stance is "negative" (i.e., the state should leave me alone). A "positive" stance (i.e., the state should do me a favor) is improper. Those favors or privileges would not exist in a true free market without government intervention. They can be granted only at the expense of others: taxpayers, consumers, or other businesses.

Tax Breaks: Are They "Subsidies"?

Some privileges or exemptions are slipperier to define. A good example is tax breaks. It remains an open question among free-marketeers, if an industry lobbies for and receives an extra tax deduction that some other industries don't get, whether or not that runs counter to free-market principles. Some would argue that anybody who can get a break from burdensome government taxation should accept it, and should feel no moral guilt about keeping money away from a wasteful, corrupt bureaucracy. Also, as one of my colleagues explained, every $1.00 in tax revenue leads to $1.83 in new spending. Every dollar you keep from government, therefore, prevents another 83 cents in deficit borrowing. Tax breaks are a moral and economic good.

Others would argue, on the basis of "equal protection of the laws" that the same breaks should go to all industries; if not, they should be opposed. Seeking and accepting a special tax break is "unethical."

A *Wall Street Journal* editorial, focusing on the "industrial subsidy game" played by state and local governments, recently tackled this tricky issue. "The cleanest line we can draw . . . is between enterprise that is subsidized and that which isn't." The editorial faulted the city of Austin, Texas, for giving a tax break to Apple Computer on the following grounds: "As long as . . . localities go bidding for business *with funds that must be raised from other taxpayers,* then the objections of other citizens must be weighed" [Italics added].[13]

The editors have a point: Many argue that government will spend what it will spend. Perhaps more taxes mean more spending. But lower taxes do not mean the government will spend less. Thus, lowering taxes for one person means more taxes paid by another (perhaps by someone in the future, if the deficit is made up by borrowing that must be repaid in the future). Under this argument, a tax break is indeed a subsidy.

A New Look at Tax Subsidies

Whether tax breaks are improper privileges or not, they seem increasingly unpragmatic, even to policymakers. Some mayors of large cities abhor the idea "that politicians can create jobs by handing out temporary tax bribes to companies" to spur a city's economic activity.[14] The Heartland Institute wrote "there is growing consensus among experts and the general public" that tax abatements and subsidies "are an unsound investment."[15]

Businesses, too, are learning those tax breaks can backfire. A Michigan judge recently barred General Motors Corporation from closing its Ypsilanti assembly plant, on the grounds that GM's acceptance of Michigan's tax abatement program was "a promissory estoppel," a contract or implied promise to keep the facility operating in exchange for relief on its taxes.[16] Tax breaks have strings attached. Perhaps business managers will think twice before looking at tax subsidies as some "free lunch."

Regulation and Privilege

Despite a little difficulty in defining privilege, we can say that regulation and privilege are two sides of the same coin. And, to extend the analogy, performing the regulation-privilege coin trick requires a balancing act and a vicious cycle.

All large industries now face regulations and privileges. If the restrictions cost more than the privileges are worth, the industry suffocates, leaving nothing to tax or regulate. If the value of privileges exceeds the cost of the restrictions, then the industry takes advantage, and abuses occur for which regulators are blamed. Balance is crucial. If regulators take the heat, they impose more regulations. But those hurt industry profits. The industry in turn complains to regulators, legislators, and staffers. The government, instead of removing the restrictions, offers privileges to offset or compensate for the regulatory burdens. But those privileges lead to excesses and abuses, which lead to more call for re-regulation, and the cycle continues.

The classic example is the S&L industry. For decades after the 1930s, the S&L business suffered harsh regulation but enjoyed the offsetting privileges of deposit insurance and legal protection from competition. The system contained its inherent problems because the two were roughly balanced. The Depository Institutions Deregulation and Monetary Control Act of 1980 removed some of the industry's burdensome regulations, yet it increased the privilege of deposit insurance, boosting coverage to $100,000 per account from $40,000. Regulation and privilege became unbalanced, so the industry abused the privilege of taxpayer-backed deposit insurance, and taxpayers got stuck for $170 billion.[17]

Regulation as an Access Window

A lot of that business begging is done by firms that are heavily regulated. Indeed, many argue, that regulation is precisely what hindered their competitiveness and threatened their health. But how do regulation and privilege get so intertwined?

Basically, businesses get entrenched in the process. Once regulated, an industry opens an "access window" to the political process, via lobbyists and trade associations. After all, it must defend itself against bad regulations.

But these meetings are hardly knock-down, drag-out fights. At hearings, business and politicians usually play a polite, conciliatory game. The industry often "agrees that reform is needed." It acknowledges the laudable *intention* of the new government regulation, but questions only some of the technical language in the clauses. The regulated industry rarely fights to defeat an entire measure. Instead, it focuses its resources only on opposing or rewriting some technical language in one or two sections of a proposed bill or regulation. They know that the regulations and laws will harm them. But they will eventually lead to some later concession or compromise, or better yet, an outright privilege that will benefit them later. The window works both ways.

An article by Gary S. Becker, a 1992 Nobel laureate and professor of economics at the University of Chicago, said, "The best way permanently to reduce undesirable business influence over the political process: Scrap all the regulations that serve as little more than tollgates for graft."[18]

Seeking Safe Harbors: The Gray Area

Often that concession or compromise helps a business or industry simply define what it can or cannot do. Frequently, businesses lobby Washington to help redefine some previous regulation that was poorly written, or has not been flexible enough to accommodate new technology or new trends. Much lobbying involves updating, revising, or amending old laws that are not relevant to current reality. Businesses constantly revisit old issues to redefine what is illegal and what is not, for they wish at least to act legally. They ask government for "guidance," "flexibility," "no-action letters," and "approvals of action" so that if a regulatory question comes up later, the business can respond, "The government said it was legal." Businesses need to know where they can find "official non-enforcement," "comfort levels," or "safe harbors," so they can proceed in their business with increased legal certainty, with clear and consistent definitions of the law.

Technical Input

Businesses also offer to help government write the laws and regulations so they make some logistical sense, so they are internally consistent, or so they have a chance of "working" in a technical sense. Examples of that type of business-government cooperation abound in finance, such as insurance and banking, especially with regard to accounting or actuarial matters. Regulations and laws written without industry input would otherwise be self-contradictory, infeasible, excessively burdensome or costly, or otherwise inconsistent with the reality of how the industry operates.

Businesses often bring in expert advisers from "the real world" to work on "technical working group meetings" and explain to officials why the new rules must be written very carefully. Government accepts input from business so it can say its enlightened, interactive, "give-and-take" process resulted in a regulation or law that "we can all live with," that "everyone had a say in," that was "even-handed" or "reasonable."

That close contact between business and government often leads to one business gaining some regulatory privileges or advantages over another. During those technical draftings of a bill, a business can slip in a provision that (perhaps even unbeknownst to the regulators) will indirectly harm its competitors.

Much of the time, however, businesses are not trying to harm or defraud anyone. They're not looking for permission to rob or defraud people. They just want better definition of the laws, because they are so numerous, so comprehensive, and so pervasive. Businesses want legal confidence so they can form expectations and plan ahead.

The Revolving Door

The people who participate in that process can then pass through the "revolving door." Businesspersons with expertise at dealing with government on technical industry issues find themselves candidates for jobs as regulators, who can work well with their former industry compatriots. Hiring experienced people from an industry allows the government to say it is being "reasonable" and wants to get the regulation "right." Regulators, with experience at dealing with industry executives, in turn find opportunities as corporate government-relations directors or lobbyists in trade associations.[19]

The Game

Many in business and government see this whole process, which has evolved over centuries, as simply "the way things are done" and the only way to have any influence over what happens between business and government. If a business stands on principle and lobbies vigorously against every new law or regulation, it is seen as hostile and stubborn, unwilling to compromise, unwilling to "play the game." Regulators see that behavior as a business's way of saying it doesn't want to be invited back to the hearings next time. Nonetheless, Stanley S. Arkin, a New York attorney, believes "resisting governmental authority may be an act of social responsibility for corporate America. Companies that stand up . . . and fight . . . are performing a patriotic duty by resisting the arrogant and undeserved application of . . . law."[20]

Still, a business or industry that shuns the very process that writes its industry's regulation would find itself stranded, having cut off its avenue of influence and information. That can be good and bad. It might prevent it from lobbying for privileges. But it will also prevent it from lobbying against future ill-conceived regulations. It works both ways. Lobbying for deregulation is tantamount to lobbying for fewer privileges.

So businesses tend to just let things go as they have in the past. Most of the action is in that "gray area." Is that middling type of lobbying good or bad? It depends. If businesses use that access window to write regulations that harm their competitors unjustly, or at consumers' expense, then they are abusing the process.

Regulatory Capture

The phenomenon of using the regulatory process to one's advantage is nothing new. Economists years ago labeled it "the capture hypothesis." Says one textbook,

> The capture hypothesis assumes that regulatory agencies are set up in the interest of the firms to be regulated and that regulators serve the interest of regulated firms (who have "captured" them through the political process), not consumers. The capture hypothesis turns on its head the idea that economic regulation is designed to protect the public interest from monopoly. It is easy to point to examples of industries that like being regulated [such as airlines, telephones, and trucking].[21]

Companies that "like" being regulated are entrenched neck-deep in the political process, opening up room for abuses more blatant than just legal subsidies and protections. Becker wrote:

> Corruption is common whenever big government infiltrates all facets of economic life. In modern economies, profits often are determined more by government subsidies, taxes, and regulations than by traditional management or entrepreneurial skills. Huge profits ride on whether companies win government contracts, get higher tariffs and quotas, receive subsidies, have competition suppressed, or . . . have costly regulations suppressed.
>
> Companies respond to the importance of government's role by striving to influence political decisions. It is often effective just to lobby politicians, and . . . bribe officials and politicians in return for government favors and profits.[22]

Yet protections and subsidies, even bribes, can ultimately destroy the targeted industry. As I wrote on S&Ls and banks, "Many bankers still want the privilege of [deposit-insurance] coverage but also want fewer regulations. [They] cannot have it both ways. They must choose, and soon, either to stagnate as wards of the state in an unpredictable political process, facing eventual demise, or to be free and responsible institutions."

Paul Weaver of the Hoover Institution, in a book review, summarized: "Many corporations . . . lobbied hard to make sure government's interventions in the economy yielded limits on competition, subsidies, and other business advantages. [It is] a hard-to-accept truth: business is a major source of the anti-market thinking and policies that make a lot of big companies unable or unwilling to cope in a competitive world."[23]

A Needed Change in "Business Ethics"

Business firms don't seem to make much effort to separate themselves from the political process. Perhaps the growing number of socially responsible consumers and investors would flock to the products and stocks of firms that made a point of distancing themselves from all forms of business-government collusion. Imagine the following advertising pitch:

> We don't accept government subsidies, bailouts, low-cost loans, insurance, or other privileges. We don't lobby for laws that hurt our competitors. We actively oppose protectionism and invite all foreign competitors to try to underprice us. We do not lobby for tariffs, quotas, or anti-dumping laws. We do not support the government's budget deficits: Our treasury department holds no government or agency securities.

But for now, it seems that no such firm exists. Business-government collusion is a fact of the real world. It is possible only because the government has written so many detailed, intrusive laws in its perpetual attempt to micromanage all of our business activities. And government has a habit of applying these laws in arbitrary and capricious manner. That process allows some greedy businesses systematically to empower themselves at others' expense, using political pull to garner favors they could not otherwise have in a free market.

Those businesses must learn that people will learn to respect them if only they end their dependence on government privilege, and stand up on their own feet and face the economic reality of the world on their own terms. □

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THE FREEMAN
IDEAS ON LIBERTY

John C. Calhoun: Champion of Sound Economics

by William J. Watkins, Jr.

History teaches us that pernicious economic policies can destroy a powerful nation in a surprisingly short period of time. When a government uses tools such as currency expansion, debt, and high tariffs, eventually not even force will hold the nation together. Were we to heed the advice of statesmen from earlier eras, solutions to many of our most pressing problems would be clear. The first half of the nineteenth century is an excellent period to study in that many policies that were pursued greatly resemble recent economic misadventures. And of the statesmen fighting for sound economics during the turbulent years of the nineteenth century, John C. Calhoun was one of the most tenacious.

Though Calhoun battled valiantly for "Free trade, low duties, no debt, separation from banks, economy, retrenchment, and a strict adherence to the Constitution,"[1] historians do not consider him a champion of sound economics. Calhoun is remembered primarily for stalwart republican principles rather than his economic acumen. This is indeed a shame since the turbulent years leading to the Civil War were predominantly shaped by divergent opinions concerning the central government's intervention in the economic sphere of American life. As was the case in the time of Calhoun and the bloody war that soon followed, government's interference with voluntary exchanges between individuals in the marketplace inevitably leads to conflict.

Calhoun was born the son of a plucky Ulsterman in the upcountry of South Carolina and was molded by his pioneer kinsmen and Calvinist upbringing. After graduating Phi Beta Kappa from Yale College in 1804, he went on to study law. Always energetic, Calhoun found the practice of law pedestrian and soon made his entrance into public life.

Early in his career in the national legislature, Calhoun had a reputation as a War Hawk and supported such unsound policies as internal improvements with federal funds, the national bank, and tariffs. With the aid of John Randolph and practical experience, Calhoun realized he had strayed from the principles of the founding era. Fittingly, it was the North's exploitation of the South vis-à-vis the tariff that awakened in Calhoun an understanding of basic economics.

The Free Trader

Of all the sundry conflicts between the sections in the 1800s, the issue of the protective tariff was the most fervently debated. Calhoun opposed protective tariffs

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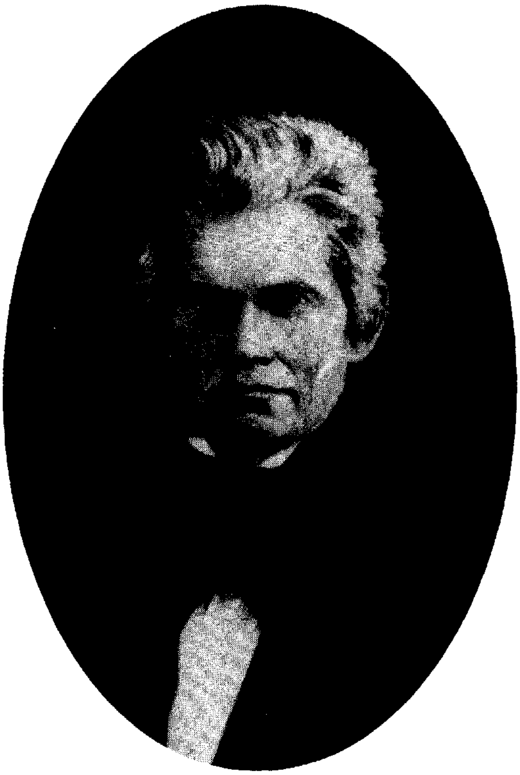

John C. Calhoun

on constitutional and economic grounds. He believed that the powers delegated to the general government were trust powers rather than plenary and were consequently limited to the nature and the object of the trust. Thus, the power to levy tariffs can only be used to raise revenue to meet the legitimate expenses of government.

While addressing the Senate before the passage of the Tariff Bill of 1842, Calhoun argued that when tariffs are levied for protective purposes, government descends "from its high and appointed duty, and become[s] the agent of a portion of the community to extort, under the guise of protection, tribute from the rest of the community; and thus defeat[s] the end of its institution, by perverting powers, intended for the protection of all, into the means of oppressing one portion for the benefit of another."

An example of Calhoun's opposition to protective duties on solely economic grounds can be found in the same address. Calhoun had brought charts, which described what supply-siders would later call the Laffer Curve, to the floor of the Senate. He explained that on all items "which duties can be imposed, there is a point in the rate of duties which may be called the maximum point of revenue." He proceeded to show his colleagues how high tariffs coincided with a stagnation of interstate commerce and a decline of exports. The charts also illustrated how during periods of low duties, exports and key sections of the domestic economy grew.

Representing a state that depended upon the ability to sell her staples freely on the world market, Calhoun was unrelenting in the fight for free trade. "No people," emphasized Calhoun, "restricted to the home market, can, in the present advanced state of the useful arts, rise to greatness and wealth. . . . For that purpose, they must compete successfully in the foreign market. . . ."[2] As the spokesman for the Southern states, Calhoun asked for no special favors from government. He was confident that the South could succeed not "by the oppression of our fellow-citizens of other States, but by our industry, enterprise, and natural advantages."[3]

Sound Money

Essential to Calhoun's recipe for competing in foreign markets and maintaining prosperity at home was "a sound currency, fixed, stable . . . instead of an inflated and fluctuating one." Unlike modern America's followers of the "new economics," Calhoun understood the importance of a sound currency and realized that inflation robbed the working man of the fruits of his labor. Currency expansion, according to Calhoun, "overthrew the almost entire machinery of commerce, precipitated hundreds of thousands from affluence to want . . ." and corrupted private and public morals.

Moreover, a stimulus "caused by the expansion of currency . . . would tempt numerous adventurers to rush into the business, often without experience or capital; and the increased production . . . would greatly accelerate the period of renewed distress and embarrassment. . . ."

With Misesian accuracy, Calhoun recognized the nature of artificial periods of growth and the inevitable readjustments that must always follow. In an 1838 oration in the Senate, Calhoun proclaimed: "Nothing is more stimulating than an expanding and depreciating currency. It creates a delusive appearance of prosperity, which puts everything in motion. Every one feels as if he was growing richer as prices rise. . . . But it is the nature of stimulus . . . to excite at first, and to depress afterwards."

Not only did Calhoun oppose governmental machinations with currency for economic reasons, but as with Congress' power to levy tariffs, the power to coin money and regulate its value was also viewed as a trust power. It would be a violation of the people's trust to devalue their money and thus rob them of their earnings. Calhoun, like the Framers who refused to give the general government the power to issue bills of credit, realized that government ought not be trusted to make a piece of paper worth "x" amount of dollars by decree.

Though he was an enemy of paper currency, Calhoun refused to add his voice to measures designed to tax the circulation of small notes from state-chartered banks and thus increase the specie in circulation. Such a tax to Calhoun was a violation of the people's trust. He prophetically articulated what such a penal power would do in 1834 during a speech against the continuation of the charter of the Second Bank of the United States. Government would have "an entire control . . . over the property and pursuits of the community," argued Calhoun, "and thus concentrate and consolidate the entire power . . ." in Washington. Even when given the opportunity to strike at the circulation of paper, Calhoun was true to his principles and refused to violate the people's trust.

Deficit Spending

Of course when one discusses fiat money, it is not overly bold to assume that debt was the cause or one of the major factors leading to the currency expansion. It is the nature of government to print more money when it spends beyond its means. Due to his years in the government, Calhoun realized the danger wrought by debt. As heroin is to the addict, so is deficit spending to government. And once government starts deficit spending, warned Calhoun, "we shall hear no more of economy and retrenchment, those two virtues so essential to a Republic and so necessary at the present time."

Calhoun saw that government's expenses ought to be kept as small as possible in order to preserve the Republic left by the Founders. "Every dollar we can prevent from coming into the Treasury," Calhoun wrote, "or every dollar thrown back into the hands of the people will tend to strengthen the cause of liberty."

It was this cause of liberty that provided the impetus for Calhoun to fight for sound economic policies. Due to the course of events following his death in 1850, it is understandable why Calhoun's grasp of economic matters has been ignored by historians. Certainly no victor wishes to heed the advice of the vanquished. Nonetheless, with our debt continuing to spiral, printing presses operating 24 hours a day, and demands for "fair trade" echoing throughout the halls of Congress, it is high time that we reconsider the wisdom of the "cast-iron man" from South Carolina. □

1. The seven points were used in his slogan during the presidential campaign of 1843.

2. Clyde N. Wilson, ed., *The Essential Calhoun* (New Brunswick, N.J.: Transaction Publishers, 1992), p. 213.

3. Quoted from the South Carolina Exposition and Protest. Ross M. Lence, ed., *Union and Liberty: The Political Philosophy of John C. Calhoun* (Indianapolis: Liberty Fund, 1992), p. 331.

THE FREEMAN
IDEAS ON LIBERTY

Land Control as Mind Control

by John Chodes

Old Policies Still Plague Us

Can a Southern farmer's alleged racist values be transformed into "progressive" thinking (by Washington's standards) through changes in what he plants?

Can the development of new strains of crops, which can flourish despite extremes in temperature, re-educate that same farmer away from being an extremist (by Washington's standards) in his thinking?

The answers are "yes" and this story shows how the federal government's policies concerning supposed Southern racism at the end of the Civil War directly relate to major contemporary infringements on property rights that are constantly in the headlines today. The legislative mechanism set in motion to end racism in the 1860s has never stopped. It is still expanding and today we can see the consequences in several ways: in the ever-expanding government attacks on urban and rural property rights through illegal, unconstitutional direct confiscation and forced control of land use. And in the colossal subsidies to agriculture that have pushed up prices and pushed out most small farmers and created a gigantic, nationalized, monopolistic "agribusiness."

Let us begin our story at the beginning.

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Crop Research as War Research

The year is 1862. The North battles desperately against the seceded South, which is the world's largest cotton producer. The Confederacy shuts off this vital commodity to the North, since it is critical for uniforms, blankets, tents, bandages, and other supplies. The South also shuts off rice and sugar cane, for food, to the Union armies. Without these basic commodities Washington's war effort is severely hampered.

Congress creates a new federal agency, the Department of Agriculture, to solve these life-and-death issues. In voting for this new agency, Senator Joseph Wright of Indiana stated its purpose clearly: "The cotton crop of the South cannot reach Northern spindles. Agriculture must furnish a substitute by the production of upland cotton in the Ohio Valley. The sugar and molasses of the South have ceased to come forward to the North and agriculture must remedy the difficulty by the rapid production of the Chinese and African cane."[1]

Mr. I. Newton, the first Commissioner of the Agriculture Department, echoed this sentiment as soon as this agency became a reality. "The culture of cotton has lately attracted much attention to the free states, especially in Illinois, owing to the rebellion and the consequent scarcity of the staple. Last summer, as a matter of experiment, 300 to 1,000 pounds of cotton were raised per acre, by many farmers in Illinois. This department will take early and active measures to induce farmers in Kentucky, Missouri, Southern Illinois, Indiana, and Kansas—all of which states will undoubtedly produce cotton—to turn their attention to the culture of this important staple."[2]

By 1864 the Commissioner reported that cotton, in Illinois, showed a 40 percent increase and "Sorghum and Imphee [sugar cane substitutes] and the dissemination of the seeds of these plants by the Agriculture Department has been worth millions of dollars to the country, especially to the middle and western states."[3]

Also: "Flax fiber can, by mechanical,

chemical or other means, be converted into flax cotton of a substitute quality for use as a substitute for cotton in the mills of our country. The vast amount invested in the mills (nearly $100 million) and the absolute necessity of production . . . (create) the strongest claim upon the attention of the people and the government."[4]

Gradually a national policy emerged to break the North's dependence on cotton: "During the continuance of the War of the Rebellion, a great augmentation of the wool demand has attended the fitting out of more than a million of armed men, whose clothing is almost exclusively of wool. And when the war is over, men who have been accustomed to flannels and woolen garments in the field will, from choice, if not from necessity, continue their use in the workshop and on the farm." And "King Cotton has been dethroned, and his sudden toppling from his place of pride will not only destroy his political prestige, dim materially the luster of his commercial fame and detract from his industrial importance, but other textile products will be patronized, experimented upon and their use rendered fashionable."[5]

All this represented the opening phase of federal control of agricultural output by commanding farmers what to plant.

Educational research was another surprising area that the Department of Agriculture would investigate: "Every farmer should aim to be instructed . . . because knowledge is power and it is the highest wisdom of political economy to invest largely in schools. . . . the farmer should have taste to appreciate and enjoy the beautiful in nature and art."[6] Could "appreciating art and beauty" be a metaphorical policy statement about converting racist farmer's minds?

Education as War Research

Where did the Agriculture Department find the biologists, chemists, and scientists needed to find cotton and sugar substitutes? This was an era when most Americans only had grade school educations.

In response to this as well as for scientists for weapons research, Congress enacted a gigantic national-scale college level education program. The Morrill Act granted 30,000 acres of federal land to each state in the Union for each Congressman, for training in "agricultural and mechanic arts."

Several legislators saw the dangerous, anti-democratic precedent that the Morrill Act was setting and argued against its passage. Senator George Pugh of Ohio: "It is as much a violation of our duty to invade the province of our state governments under the head of donations as it would to invade it by force and violence."[7]

Senator James Mason of Virginia added: "Sir, to my conception, it is one of the most extraordinary engines of mischief, under the guise of gratuities and donations, that I could conceive would originate in the Senate. It is using the public lands as a means of controlling the policy of the state legislatures. . . . it is doing it in the worst and most insidious forms—by bribery, and bribery of the worst kind; for it is an unconstitutional robbing of the treasury for the purpose of bribing the states."[8]

When originally enacted, the Agriculture Department and the Morrill Act seemed to be two separate entities. But they would be connected: "The agriculture and mechanic colleges are destined to be powerful coadjutors in the legitimate work of this department [Agriculture]. . . . elevating the vocation of the farmer and giving him scientific as well as practical instruction in his pursuits."[9]

Land Control as Mind Control

It was 1865. The Civil War was over. There seemed to be no more need for new crop research. Yet, while Reconstruction had begun, the war wounds had not healed. The rebels, although defeated, still believed in "The Cause" and that "The South will rise again!"

This caused great concern in Washington, which now focused on how to re-educate the rebels so that they would never again secede.

Senator Charles Sumner of Massachusetts: "Such is the mood in the South now, that education will enter into every measure of Reconstruction."[10]

General Lorenzo Thomas testified before a Congressional Committee concerning the postwar attitude of the former rebels. Senator Robert Baldwin asked him: "Do you have any reason to believe that the rebels still entertain hopes of another outbreak?"

Thomas: [They plan to] "do all in their power to involve the United States in a foreign war, so that if a favorable opportunity should offer itself, they might turn against the United States. . . . their desire is to re-establish the Southern Confederacy."[11]

Representative Ignatius Donnelly of Minnesota said: "The great bulk of the people of the South are rude, illiterate, semi-civilized . . . and . . . republican government, resting on intelligent judgement of the people, [is] an impossibility."[12]

This meant education controlled by Washington. It meant federal money for new schools, creating new "progressive" textbooks and nationalizing existing Southern school systems. Congressional Reconstruction policy forced new constitutions on all the former rebel states, including the provision for tax-supported free schools, to be supervised forever by the federal government.

Senator Charles Sumner again: "Shall the Southern states still be controlled by the men and the policy that have already brought ruin and disgrace, poverty and starvation upon them; or shall they adopt the policy of the enlightened states of the North . . . and secure universal education and free schools with their inevitable accompaniments of enterprise, equality, wealth, temperance, morality, religion, public, private, and domestic happiness."[13]

Simultaneously Washington formulated another re-education plan for the South. Congress saw in the word "cotton" the living metaphor for why the war began and why the spirit of rebellion would not be extinguished. Cotton endlessly reminded Southerners of the philosophies that drove them to secede: slave labor, states' rights, restrictions of government power, and free trade. These views had been repudiated as the postwar United States became a centralized, protectionist world leader. Thus, cotton would have to be diffused among new crops and its geographic position transformed to end Southern "reactionary" perspectives.

This statement indirectly says that cotton caused the rebellion: "In the reorganization of the Southern states, it is believed that the great mistake of the past, the concentration of labor mainly upon a single branch of a single grand division of productive industry, (cotton) will be avoided. This mistake has cost that section one-half the wealth it might have attained and may have led to the sacrifice in war of the remainder. . . . diversification must be applied to reorganized Southern agriculture. . . . cotton will never again overshadow and dwarf other interests essential to permanent success in agriculture."[14]

During the war a Confiscation Act allowed the military to take the property of "traitors." Cotton plantations were expropriated since cotton was held responsible for the rebellion.

Representative Justin Morrill of Vermont: "[The Confiscation Act] proceeds from the assumption that the insurrection is incited by a faction in the slave states, holders of the vast proportion of the property and slaves in these states, that this property and these slaves constitute the incentive and form the material base of the rebellion; and that therefore it becomes the right and the duty of the nation, from the height of its extreme authority, to award the penalty of condemnation of estates and forfeiture of control of persons to those who conspire against the government and make war on its authority."[15]

The Commissioner of the Agriculture Department allegorically stated the need to diffuse Southern crops to transform Southern minds: "[In] the great Chinese Empire, hundreds of thousands have perished miserably because of the failure, in certain sections, of the rice crop, on which alone they depend for subsistence. This enforces most emphatically the wisdom of diversity of agricultural products."[16]

The master plan for enforced geographic crop redistribution came from a new section of the Agriculture Department. It was euphemistically called the Division of Ornithology and Mammology. Its stated objective was to "enable our farmers to select the crops best suited to their localities . . . agriculture and biology must be studied from the geographic standpoint. . . . our aim is to explain the distribution of animals and plants by means of knowledge of the conditions which govern this distribution."[17] Was racism one condition which governed this distribution?

To fulfill this grand plan, the Morrill experiment stations and the Agriculture Department once again fused their operations but now on a permanent basis: "National legislation has been proposed [The Hatch Act] to extend the work of experimental agriculture, establishing it in every state . . . believing that the Department of Agriculture can become a vitalizing center, for a more general cooperative effort for the promotion of agricultural science . . . I have endeavored . . . to organize a branch of this department to take charge of the returns from these colleges and (experiment) stations and to collate and distribute the information obtained for the benefit of all interested parties."[18]

Cotton, Abandoned Land, and Refugees

Congress developed five simultaneous policies to erase "cotton" from the Southern mind.

1. Cotton would be raised by non-Southerners in the South.
2. Southerners would be forced to plant new "mentally noninflammatory" crops.
3. The South would be repopulated with Northerners to defuse racism and rebellion.
4. The South would be repopulated with European immigrants.
5. "Racists" would be deported to Northern states to live with "progressive" ideals.

To administer this all-encompassing national program, an appendage to the War Department was created: The Freedmen's Bureau. Supposedly it had the great humanitarian objective of helping the emancipated slaves develop the skills to survive in a competitive marketplace.

But this new agency's full title gives a truer picture of its role in the ongoing saga of cotton, land, and racism: "The Bureau of Freedmen, Abandoned Lands and Refugees." This shows the extent of its jurisdiction; over four million ex-slaves and over tens of millions of whites (the "refugees" supposedly displaced by the war). The "Abandoned Lands" referred to the millions of acres of private property illegally confiscated as abandoned when the Union army forcibly captured it or evicted or killed the owners. Thousands of Southerners were accused of being traitors and convicted without a jury trial, then jailed or executed and their property seized.

The Freedmen's Bureau became a reality in the final stages of the war and its widespread powers were completely unconstitutional during peace time.

Senator James Doolittle of Wisconsin, in voting for it, said: "This whole bill is a kind of war measure, a war necessity. If peace existed in these states, no one pretends that we could exercise any such powers (confiscation) either over the people of these states or over the property within these states. It is of necessity, temporary in character."[19]

Yet the Freedmen's Bureau existed for many years beyond the end of the war. In fact, as we shall see, its demise is uncertain because it was partially funded without Congressional approval or taxpayer knowledge.

Senator Thomas Hendricks of Indiana showed the dangers that this new agency posed: "I don't believe that the Congress of the United States has the power to take charge of a portion of the community . . . such a power would swallow up a very large extent a very important portion of the powers enjoyed by the states. (Mr. Hendricks read section two of the Freedmen's Bureau bill:) 'The Commissioner shall have authority . . . to create departments of freedmen.' A new division of the country! . . . the states are to be cut up and to be placed under the charge of commissioners . . . here is a government within a government . . . independent of the states and almost independent of the ordinary machinery of the federal government, there shall be a government established for the control of the inhabitants of a particular class . . . the colored people that may become free, to be under the supervision, to a large extent, of these superintendents. And yet they are to be free!"[20]

The Commissioner of the Freedmen's Bureau was Oliver Otis Howard, a Union army general. Here he describes his agency's enormous power: "The law establishing the bureau committed it to 'the control of all subjects relating to the refugees and freedmen from rebel states' . . . this almost unlimited authority gave me great scope and liberty of action . . . legislative, judicial, and executive powers were combined in my commission . . . (I controlled) all abandoned land solely for the purpose of assigning, leasing or selling them to refugees and freedmen . . . of the nearly 800,000 acres of farming land and about 5,000 pieces of town property transferred to the bureau by (the) military . . . enough was leased to produce a revenue of nearly $400,000."[21]

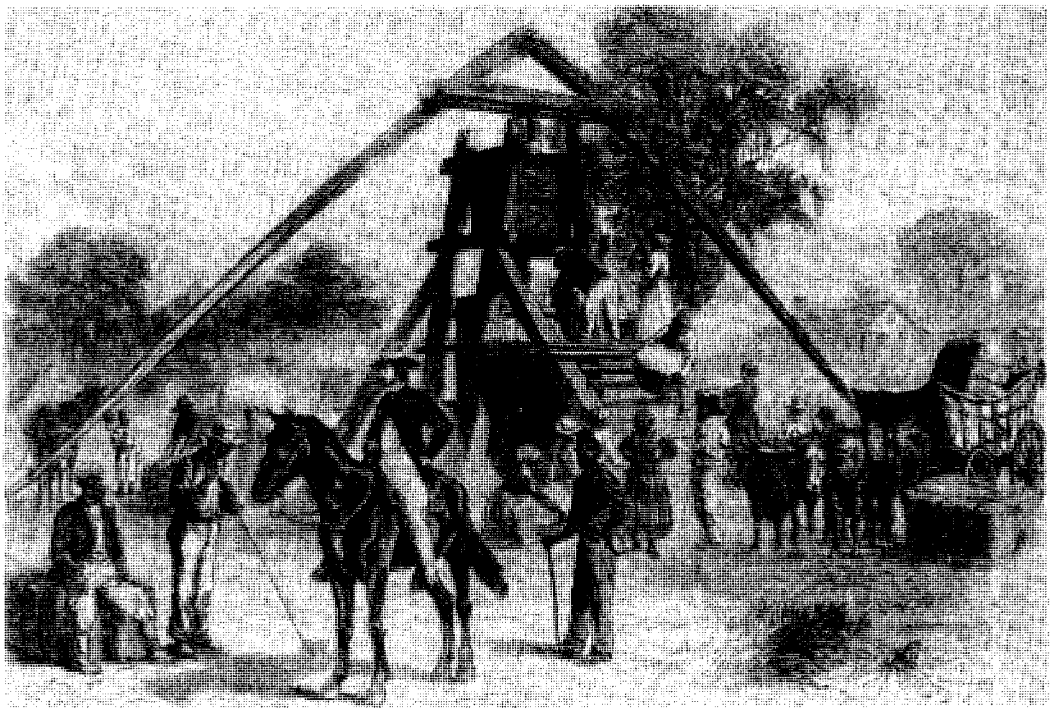
General Howard is talking about this one year only. Another report showed that annual revenues generated were over $2 million. By today's standards that is more like $2 billion.

This power also extended, unconstitutionally, into the North. The brutality of martial law and the confiscation of property reached into the Union in peace time. Senator Hendricks: "I believe (The Freedmen's Bureau) has extended its jurisdiction over the states not within the provision of the law. I believe Kentucky [a Union state] has been brought within the scope of its government, when the law did not contemplate it and did not allow it. I believe the District of Columbia has been a province within its government and control and I think the law did not contemplate or allow that . . . this irresponsible sub-government . . . (is) upon the people of the entire United States by a body of men protected by the military power of the government." (Mr. Hendricks discussed the eighth amendment of the Freedmen's Bureau bill; court martial tribunals for citizens, in peace time, in all states of the Union:) "Now that peace is restored, now that there is no war, now that men are no longer under military rule, I want to know how such a (military) court can be organized; how is it that a citizen can be arrested without indictment and brought before officers of this bureau without a trial, tried without the forms which the Constitution requires."[22]

Replanting as Re-Education

Reforming the Southern mind meant replacing cotton with new crops. John Stokes, Commissioner of the Agriculture Department said: "The distribution, under the special appropriation of $50,000, to be expended in seeds for the Southern states, was promptly and fully made in accordance with the views and intentions of Congress, through specific agents, sent through the Southern states, postmasters, prominent citizens and the officers and agents of the Freedmen's Bureau . . . these states can produce every article grown in the higher latitudes . . . [and] cotton, sugar, hemp, rice."[23]

Under a false and ironic sentiment of charity, Congress passed a resolution "For the Relief of the Destitute of the Southern and Southwestern states." This actually reflected the forcing of new crops into those states: "This resolution proposes to empower the Secretary of War to issue supplies of food (and also seeds) to prevent starvation and extreme want among all the classes of the people of the Southern and Southwestern states, where a failure of the crops or other causes have occasioned widespread destitution; the issues are to be made through the Freedmen's Bureau."[24] This



Baling cotton in the Old South

is misleading since cotton and tobacco, not food, were the main crops of the South. This is verified by Representative Fernando Wood of New York, in his comments about this resolution: "In a recent visit I made to the Southern states . . . during which I made it my duty to observe the Southern people in a very large portion of the Atlantic Southern states, I saw no such destitution as has been described. I saw no class of people . . . who would make application to Congress for alms or would acknowledge themselves as paupers and dependents upon the General Government for aid or support."[25]

Repopulation as Re-Education

A vast Northern population was transplanted into the South to farm cotton and "non-racist" crops. This required far-reaching brute force. It meant breaking up the huge cotton plantations into fragments for small-scale individual family farming.

Representative George Julian of Indiana: (There is an) "Incompatibility of this system of land monopoly with the wellbeing and safety of Republican institutions and (we) should doom it to immediate annihilation. . . . who can doubt that if the 200 or 300,000 honorably discharged soldiers now in the North were settled on the forfeited estates in Tennessee, Arkansas, Virginia and wherever our armies occupy . . . form a reserve corps to our army . . . such a population . . . would stand as a breakwater against (which) any returning tide of rebellion might dash itself in vain."[26]

This required indicting Southerners as traitors and confiscating their property. John Henderson of Missouri grasped the consequences: "I have no objection to confiscating the property of the rebel . . . let it be done when guilt has been established under the forms of judicial investigation . . . if we depart from (the Constitution's) just restraints, no man can tell the excesses of the future . . . in the plenitude of power today, we may deny mercy to others; tomorrow we ourselves may cling in vain to the horns of the altar . . . the inventor of the guillotine, we are told, was so forced to test the merits of his own invention."[27]

Mass Nationalization

The Freedmen's Bureau became the central agency for this mass nationalizing of Southern and Northern property. By the 1890s "nearly 2 million of farms of 80 acres each in the United States had been given away by the government."[28]

Census data demonstrates the efficiency of confiscation and the breaking up of large plantations. In the South Atlantic states in 1860 there were 301,940 farms. By 1900 this had been transformed into 962,295 farms. In 1860 there were 370,373 farms in the South Central states. By 1900 this had become 1,658,166 farms.[29]

Presented another way, the census data showed how confiscation was responsible for drastically reducing the size of property holdings. In 1860 the average number of acres per farm was 352.8, in the South Atlantic states. This had been reduced to 108.4 by 1900. In the South Central states, in 1860, that figure was 321.3. By 1900 it had dropped to 155.4.[30]

President Andrew Johnson pointed out the consequences when the military is given the power to confiscate property without civil restraint: "The power thus given to the Commanding Officer over all the people . . . is that of an absolute monarch. He alone is permitted to determine what rights of persons or property . . . it places at his disposal all the lands and goods in his district and he may distribute them without let or hindrance to whom he pleases. Being bound by no state law, and there being no other law to regulate the subject, he may make a criminal code of his own, and he can make it as bloody as any recorded in history. . . . Everything is a crime which he chooses to call so and persons are condemned who he pronounces to be guilty . . . he may arrest his victims wherever he finds them, without warrant, accusation or proof of probable cause. . . . Congress [has authorized] military jurisdiction over all parts of the United States containing refugees and freedmen [with] . . . no limitation in point of time, but will form a permanent legislation of the country."[31]

Confiscation as Bill of Attainder

Permanent confiscation of a traitor's property is unconstitutional. It is a Bill of Attainder, a medieval legal weapon that destroys both property and civil rights. It was an inherent part of the Confiscation Act. Senator Edgar Cowan of Pennsylvania illuminated the process: "Shall we go back to the doctrine of forfeiture which marks the Middle Ages?. . . . The number engaged in the rebellion [is] equal to one-half of the whole population of the Confederate states; say 4 millions . . . if so, to strip all this vast number of people of all their property . . . will reduce them at once to absolute poverty. . . . if there was anything calculated (to make them) forever hostile to us, it would be the enactment of such a law . . . [The Constitution provides that] 'The Congress has power to declare the punishment of treason, but no attainder of treason shall work corruption of blood or forfeiture, except during the life of the person attained.' Here is an attempt to deprive a large class of persons of all their property without any arrest, without any presentment by a grand jury, without a trial by a petit jury, without indeed any trial at all in any court . . . Bills of Attainder forfeited [traitors'] estates and corrupted the inheritable blood of the children and heirs (by compelling them) to bear the disgrace attendant upon such flagitious crimes . . . one of the strongest incentives to prosecute treason has been the chance of sharing in the plunder of the victims."[32]

Immigration as Re-Education

To disperse dangerous Southern "reactionaries," some of their confiscated land was to be resettled by European immigrants. This began with new legislation, The Immigration Act of 1864. Senator John Sherman of Ohio introduced it this way: "The bill provides for the appointment . . . of an officer to be styled the Commissioner of Immigration, [who will] collect . . . information in regard to . . . the wants of agriculture . . . and to disseminate such information throughout Europe . . . [He] is to make contacts with different railroad and transportation companies for transportation tickets to be furnished to the immigrants to enable them to proceed in the cheapest and most expeditious manner to the place of their destination, or where this is undetermined by the immigrant, to the place where his labor will be most profitable."[33]

Justin Morrill saw a darker side to this bill: "We import everything else, now we have come to the importation of men. [There is] an apprehension in the public mind that this was another species of slavery."[34]

Senator Reverdy Johnson of Maryland showed how the immigrant was locked into staying on a specific property for a definite period: "The Immigration Act . . . says to the man in Europe who wishes to come to the United States but has not the means of coming of his own, [that Washington will advance him the fare] to be paid back within 12 months; and shall be a lien at all times upon any real estate which he may acquire, so as to constitute it in the nature of a mortgage."[35]

Barnas Sears, the General Agent for the Peabody Education Fund, observed this Southern immigration: "The tide of immigration into (Texas) is constantly swelling. While I was there, every steamer that arrived was crowded with immigrants . . . they came from almost every part of Europe . . . the Germans are the most numerous . . . large communities of them are settling in the Western portions of the state."[36]

By the 1870s immigration reached tidal wave proportions. "Net immigration of the last 8 years: 2,792,383."[37]

"The era of substantial progress for the South may indeed be said to have commenced with the termination of the war, which obliterated the system of compulsory labor and the monopoly of production of great landed proprietors . . . the division of lands into small tracts . . . (will) attract the immigration which is the invigorating life of states."[38]

Justin Morrill also pointed out that enforced immigration would further distort the power balance between the federal and state governments. The Bureau of Immigration, Morrill said, would "encourage migration from the populations of Europe, by the authority of the general government, the distribution of which is contemplated by this bill to be made in all sections of the country . . . without the slightest reference to consulting the states upon the subject."[39]

Relocation as Re-Education

Another way to transform the Southern racist mind away from the siren song of cotton, was to relocate them in the North. General John Eaton of the Freedmen's Bureau, and later Commissioner of the Bureau of Education, noted: "Cairo (Illinois) . . . served as a portal through which thousands of poor whites and negroes were sent into the loyal states as fast as opportunities offered for providing them with homes and employment. Many of these became permanent, residents . . . [Those who refused to work] were kept under military surveillance and guided authoritatively toward some definite means of self-support . . . the educational influences of the change was noticeable and most important . . . Returning South, after perhaps a year's absence, to the neighborhood of their former homes . . . [the] transformation through living in the midst of the industries of the North was really very great. They had made the discovery that the possession of a vast property and the ownership of slaves . . . was not essential either to self-respect or social standing."[40]

Senator Charles Buckalew of Pennsylvania presented the other side. The Freedmen's Bureau, he said, "contemplates the distribution of this population [refugees and former slaves] throughout the whole country and in our Northern states . . . [They] may object to such an exertion of power or rather a perversion of power by this government . . . I think the proposition, upon the mere statement of it, is so monstrous, and in its effects, so pernicious, that it ought to receive no favor or indulgence from this body."[41]

N O T E S F R O M

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Social Security

Politicians love it because it buys votes and re–elections. They fear it because it may spell defeat and ruin to those who dare to question its meaning and reflect upon its consequences. It raises all kinds of political double–talkers who falter every time it is merely mentioned.

Social Security was born of politics as a full–employment measure of the Roosevelt New Deal. As such it failed dismally, for mass unemployment is still with us, plaguing several million Americans. Instead, it has become the most powerful political welfare system ever devised, delivering trillions of dollars from the working population to some 30 million persons along in years. The Medicare system, which was added in 1965, provides comprehensive health-care coverage for more than 35 million people age 65 and over. Altogether, 45 million Americans, almost one out of every six, partake of one or several kinds of programs. More than 130 million taxpayers are forced to pay for it.

The Social Security Act was signed by President Franklin D. Roosevelt in 1935. The first retirement benefits were paid in 1940 to Ida May Fuller of Vermont. She had paid in a total of $24.95 and got back $20,897 before her death in 1975. Later retirees who made full use of Medicare reaped six–figure amounts.

Social Security is a giant welfare system although its beneficiaries are quick to call it an insurance program. "I paid in, I contributed, I earned my benefits." This is the most common argument in defense of the system. In reality, simple calculation easily ascertains that most beneficiaries withdraw in several months what they contributed. The maximum contribution from 1937 through 1949 amounted to one percent on $3,000 annual income, or $30 a year. In 1950 it rose to 1 1/2 percent, or $45, and thereafter continued to creep up in small increments. Few old–timers, if any, contributed more than $1,000, with interest on interest, during their working years. Living in retirement now, and having received the equivalent of their contributions from the system, they are drawing public assistance for the rest of their lives.

Every political transfer system divides society into two distinct social classes: the beneficiaries of the transfer and the victims who are forced to bear the costs. It creates insoluble political and economic conflict which grows with the magnitude of the transfer. The Social Security System is the source and breeding place of the most poisonous and virulent social conflict, a conflict that is growing steadily as the victims become aware of the burdens placed on them.

While the first generation that launched the system won the prize and carried off a fortune, all others who follow are condemned to square the account. The Social Security Amendments of 1977 greatly raised payroll taxes to cover the rising costs and create a $4 trillion surplus in the Social Security Trust Fund. Since 1977 tax rates and tax basis have risen nearly every year and now amount to 15.3 percent of gross wages up to $60,000, or $9,271.80 a year.

Young people are forced to contribute much more than they can ever expect to draw out. They face the distressing choice between suffering the losses inflicted by the first generation and shifting the burden to future generations through ever higher taxes on them. Yet, no matter how frantic the shifting, it does not square the account.

The dilemma is giving rise to numerous reform proposals. Most merely are new concoctions of the same old transfer system, searching for new victims for old beneficiaries, reorganizing the bureaucracy and appointing new administrators. There can be no genuine reform of the Social Security System until we become aware of its true meaning and significance. To this end the following proposals may shed some light and return to the basics of a moral order:

1. Information to Recipients — To restore a commonplace truth and realism, every recipient of Social Security benefits should be informed of the nature and source of his benefits. Every check should carry a stub that reveals the dollar amount contributed to the System by him and his employer and the cumulative amount of benefits received by him as of that check.

2. Means Test Applied — When the total benefits exceed the contributions made during the productive years, the recipient should undergo a means test. A millionaire who has received an amount equal to his contributions should receive no more. A poor retiree who is lacking the means of support should continue to draw his benefits. But they should be truthfully called "Social Security assistance."

3. Parent and Child — When Social Security assistance seems to be called for, the children of a retired worker should be given an opportunity to contribute to the support of their parents. As the parents are responsible for their children, so are children responsible for their parents. No Social Security System should eradicate this moral law and Biblical commandment.

4. Freedom of Choice — Social Security builds on legislation, regulation, taxation, and all means of force. Tolerating no resistance it exacts an ever–growing share of individual incomes. If it could be made to suffer just a modicum of freedom, it would permit recalcitrant members to depart and find their own security. Millions of Americans are waiting anxiously for the day when they will be free. They would forego all promises of benefits in the future for the joy of freedom today.

Reformation is a work of time. A national institution, however wrong and harmful it may be, cannot be totally changed at once. We must first shed light on its true nature and, above all, reveal its immoral foundation.

Hans Sennholz

Hans F. Sennholz

If you ask, the Social Security Administration will send you a statement telling you how much you have paid in. You can then compare this amount with your estimate of benefits received, including those of Medicare.

If the benefits exceed the payments, you are receiving public assistance.

To get your statement, call 1–800–772–1213.

The Freedmen's Bureau had the first peace time federal education mandate. Overtly, it was to educate the ex-slaves so they could survive in a free society. Covertly, this education was to transform so-called racist whites. "A growing conviction prevails favorable to the introduction by the United States government of a general system of education for the states . . . Ignorance in the Southern states is one of the most serious obstacles in the way of a thorough reconstruction."[42]

Congress forced a federalized education into the South through new state constitutions which compelled tax-supported schools supervised from Washington. But initially Congress authorized no funds for this, either to the states or the Freedmen's Bureau, fearing taxpayers would balk at this great new centralization of power.

So the Freedmen's Bureau funded its schools without Congressional approval or citizen acceptance, setting the legal precedent for current off-budget funding methods: "2,118 schools [are] under the care of the Bureau . . . the expenses of the Bureau were met the first year with the proceeds of rents, sale of crops, school taxes, and tuition and sale of 'Confederate States' property. The amount raised from all these miscellaneous sources was $1,865,645.40."[43]

By law, all operations of the Freedmen's Bureau ended in January 1871, but off-budget funding made it self-supporting. It did not depend on the law to continue its existence. Representative Thompson McNeeley of Illinois was shocked to find this out: "In 1867, $800,000 was appropriated for transportation. And now [in February 1871, a month after its legal termination] the House is asked to appropriate $6,000 for 'transportation of officers and agents.' I thought this bureau was to come to an end some time . . . we have been promised from time to time that it should come to an end, yet in this bill there are appropriations to the extent of $139,000 to keep it up and continue it."[44]

As with many of its other unconstitutional operations, the Freedmen's Bureau confiscated property and nationalized existing schools in the Northern states, too: "There was, at the close of the last school term, in the 13 states lately in rebellion, and including Kentucky, Maryland, and the District of Columbia [all in the Union], 975 regularly organized schools, 1,405 teachers, 90,778 pupils."[45]

Soon civil government began to use the same off-budget techniques. This is from the "Minority Opinion" of the Reconstruction Committee, as to why the new Alabama state constitution was unconstitutional: "It is made the duty of the governor by an ordinance, which is not published with the constitution, for the information of the people . . . to organize 'immediately 137 companies of volunteer militia . . . all proceeds of the sale of contraband and captured property seized or captured by the militia shall constitute a part of the fund out of which they shall be paid,' thus inciting the volunteers to harass the people in time of peace by unlawful seizure to provide the means of paying themselves."[46]

When the Freedmen's Bureau federalized Southern schools, a new "progressive" curriculum was also needed. Where would it come from? It came from the Agriculture Department, which controlled the research of the Morrill colleges; not only crop research but all research. This meant that curriculum experiments were directed and distributed by the Agriculture Department; it meant that land control and mind control were now centralized in this one agency, which now had Cabinet-level status.

Direct mind control was now an important part of the Agriculture Department's mission: "Nature teaching has been introduced into the common schools . . . teacher's manuals and the textbooks for instruction in this branch are being prepared."[47] (Nature teaching, i.e., "science," emphasized what was observable; it stressed the here and now over the past. The past reflected things like racism, like the heroism of "The Rebellion." Progressive ideas were here and now ideas.) "The teaching of young children regarding the natural objects and phenomena about them may be so conducted as to lead them to see that a knowledge of nature may be of practical benefit. Their minds will be early trained to recognize the ultimate relation between the scientific and practical knowledge," to erase the past.[48]

Federalizing of curriculum led the Agriculture Department to centralize school districts: "Progress is also being made in the movement for the consolidation of rural schools which has already resulted in improved conditions in schools in Ohio and Massachusetts, Iowa and other states."[49] Such consolidation made it possible to introduce nature study.

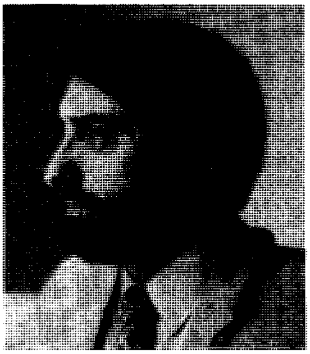
Conclusion

This story of land control as mind control relates directly to today. All law works by precedent. All current legislative enactments are based on law created in the distant past. Contemporary law does not spring forth without a grounding in something that already exists.

The present day small-time drug busts that often lead to the total confiscation of a person's private property—well above the legal limits of the crime—and the massive property takeovers by the IRS for small income tax irregularities, base their legal justification on Reconstruction-era laws and methods. Reconstruction has not yet ended. Now, as then, the politically incorrect must be re-educated or face the consequences—just as in the 1870s. □

1. The Congressional Globe, 37th Congress, 2nd Session (Washington, D.C.: Reprint Edition by United States Historical Documents Institute, Inc., 1970), p. 1690.
2. Annual Report of Commissioner of Agriculture, for the Year 1862, p. 22. The Annual Reports cited in this article were published by the Government Printing Office.
3. Annual Report of Commission of Agriculture, for the Year 1864, pages 4 and 11.
4. Annual Report of Commissioner of Agriculture, for the year 1862, p. 267.
5. *Ibid.*, p. 19.
6. *Ibid.*, p. 12
7. The Congressional Globe, 35th Congress, 2nd Session, p. 714.
8. *Ibid.*, p. 714. After Virginia's secession, Mason became a Confederate commissioner and gained fame for his capture during the "Trent" Affair.
9. Annual Report of Commissioner of Agriculture, for the Year 1868, p. 2.
10. The Congressional Globe, 40th Congress, 1st Session, p. 467.
11. The Congressional Globe, 39th Congress, 1st Session, p. 1827.
12. *Ibid.*, p. 3274.
13. The Congressional Globe, 40th Congress, 1st Session, p. 50.
14. Annual Report of Commissioner of Agriculture, for the Year 1866, p. 6.
15. The Congressional Globe, 37th Congress, 2nd Session, p. 1074.
16. Annual Report of Commissioner of Agriculture, for the Year 1878, p. 4.
17. Annual Report of Commissioner of Agriculture, for the Year 1888, p. 483.
18. Annual Report of Commissioner of Agriculture, for the Year 1886, p. 11 and Annual Report of Commissioner of Agriculture, for the Year 1885, p. 7.
19. The Congressional Globe, 38th Congress, 1st Session, p. 3327.
20. *Ibid.*, p. 3346.
21. Annual Report of Secretary of War, for the Year 1869, pp. 499 and 504.
22. The Congressional Globe, 39th Congress, 1st Session, pp. 315 and 318.
23. Annual Report of Commissioner of Agriculture, for the Year 1867, pp. x and xvii.
24. The Congressional Globe, 40th Congress, 1st Session, pp. 39 and 75.
25. *Ibid.*, p. 83.
26. The Congressional Globe, 38th Congress, 1st Session, p. 2108.
27. The Congressional Globe, 37th Congress, 2nd Session, p. 1569.
28. Annual Report of Secretary of Agriculture, for the Year 1896, p. xlvi.
29. 12th Census of the United States, 1900, Vol. 5: Agriculture (Washington: U.S. Census Office, 1902), "Number of farms by geographic division," Table I, p. xvii.
30. *Ibid.*, "Average number of acres per farm by geographic division," Table III, p. xxi.
31. The Congressional Globe, 39th Congress, 1st Session, p. 463.
32. The Congressional Globe, 37th Congress, 2nd Session, p. 1049.
33. The Congressional Globe, 38th Congress, 1st Session, p. 865.
34. The Congressional Globe, 39th Congress, 1st Session, p. 4040.
35. *Ibid.*, p. 4042.
36. Proceedings of the Trustees of the Peabody Education Trust Fund, Report of the 8th Meeting, 1870 (Boston: Press of John Wilson and Son, 1875), p. 191.
37. Annual Report of Commissioner of Agriculture, for the Year 1874, p. 899.
38. Annual Report of Commissioner of Agriculture, for the Year 1868, p. 465.
39. The Congressional Globe, 38th Congress, 1st Session, p. 3330.
40. John Eaton, *Grant, Lincoln and the Freedman* (New York: St. Martin's Press, 1903), p. 37.
41. The Congressional Globe, 38th Congress, 1st Session, p. 3329.
42. Annual Report of Secretary of War, for the Year 1867, p. 673.
43. Annual Report of Secretary of War, for the Year 1869, pp. 506 and 509.
44. The Congressional Globe, 41st Congress, 3rd Session p. 1530.
45. Annual Report of Secretary of War, for the Year 1866, p. 716.
46. The Congressional Globe, 40th Congress, 2nd Session, p. 510.
47. Annual Report of Secretary of Agriculture, for the Year 1898, p. xviii.
48. Annual Report of Secretary of Agriculture, for the Year 1900, p. 175.
49. Annual Report of Secretary of Agriculture, for the Year 1902, p. CI.

 by Robert James Bidinotto



To Educate—Or Legislate?

These are dizzying days for those of us who have grown gray and weary in the battle for individual liberty.

As I write, the President is publicly jousting with congressional Democratic rivals, and with Republican opponents, over competing initiatives to shrink government, cut spending, and reduce taxes. The current argument among politicians is no longer *if* such cuts are necessary, but *where* and *how much* to cut.

That's a stunning change from the not-too-distant past, when the very idea of limiting and reducing government was considered out of the question—when the only public debates were over which government agencies to inflate, which program budgets to fatten, which new regulations to impose, and which taxes to hike.

I think politicians are reflecting a philosophical sea change, a turnabout of popular attitudes that has transformed the nature of the debate over the very purposes of government. Some free marketers, though, are more skeptical of the fundamentality and scope of this intellectual shift.

They point out that none of the warring political factions yet propose complete and consistent laissez-faire capitalism. None are trying to terminate popular middle-class "entitlements," such as Social Security and Medicare, or to end governmental "transfer payments"—what the great nineteenth century economist Frederic Bastiat called "legalized plunder." After all the new politicians' tinkering is done, say these skeptics, much of the welfare state will remain intact.

In their view, the radical goal of laissez-faire capitalism implies equally radical political tactics: immediately abolishing all immoral government programs. Halfway reforms, they contend, amount to compromising on moral principles. "The lesser of two evils is still evil," they insist.

That argument sounds seductively logical. But is it true that there are no contextual distinctions between *political ends* and *political means*? Is it true that moral consistency implies immediate abolitionism?

Opposing the abolitionists are the gradualists—in whose camp you may count me. Gradualists draw contextual distinctions between ends and means . . . and they reject the charge that they are "moral compromisers" for doing so.

I, for one, don't disagree with the radical goal of implementing complete laissez-faire. I share with abolitionists the view that capitalism is the *only* social system morally compatible with the nature and needs of individuals. In short, I support laissez-faire capitalism on grounds of moral principle.

However, I disagree that the transformation to pure capitalism can be made overnight, through a program of immediate ab-

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Criminal Justice? The Legal System Versus Individual Responsibility, edited by Mr. Bidinotto and published by FEE, is available at $29.95 in cloth and $19.95 in paperback.

olition of all statist injustices. I also disagree that an agenda of "halfway measures"—reforms that move us incrementally but steadily in the direction of total liberty—necessarily implies a lack of principle.

Gradualists, too, are utterly uncompromising about our ends: we support no measures that would move us one more inch in the direction of statism. However, in moving toward a freer society, we're certainly willing to compromise, if necessary, on the day-to-day pace or extent of change. We're willing to accept "half a loaf" rather than no loaf at all.

Such *tactical* compromises are not *moral* compromises. Moving just one step in the wrong direction is a moral compromise. But moving only one step—rather than ten, or one hundred—in the right direction, is not a moral compromise: it's a tactical agreement among people over *how much good can be done* in a given context. Similarly, if one can't stop or abolish an evil initiative or program, it's not a moral compromise to try to blunt its destructive impact, rendering it less harmful. A tactical compromise over *how much bad to avert* in a given situation is not a moral compromise, either.

In short, doing some good is better than doing none. Why do abolitionists contend otherwise? I think they've failed to distinguish between two vastly different contexts: education and politics. It is one thing to educate; it is quite another thing to legislate.

All of us in the field of persuasion wear the hat of educators. As educators, we can—and should—be one hundred percent uncompromising in our philosophical messages. Indeed, we can afford to be: as individuals, we answer to no one else. We need not pull our punches. We can, and should, say bluntly and uncompromisingly that the initiation of force, fraud, or coercion by government is always wrong—that any governmental program or policy which entails such practices must end.

However, politicians are not educators. They wear a different hat: that of *public representatives*.

Somebody once said that "politicians, like water, cannot rise higher than their source." In a representative government—by the very nature of the democratic process—politicians are followers, not leaders, of public opinion. If it's true, as Ludwig von Mises argued, that the marketplace is a democracy in which consumers rule by voting with their dollars, it's also true that a democracy is a marketplace in which consumers shop in voting booths for the government personnel and services they want.

So it's useless to blame politicians, ultimately, for the state of our government. They can rise in office only by reflecting the popular will, and will fall by defying public expectations. Even the greatest of statesmen can advance against popular winds only so far, before being swept aside.

Likewise, unless sustained by popular opinion, political reforms will come undone. That's why even the best politicians, committed on principle to laissez-faire, may have to curb their radicalism, mute their words, and take the best they can get in a given fight. This does not mean that they are immoral or spineless; rather, they simply realize that they wear a bridle of accountability, and that the voters hold the reins.

If so, then abolitionists err by focusing their energies in the field of *politics*. Trying to effect change by launching new political parties, running for office on a laissez-faire platform, or working to abolish Social Security and the income tax, are efforts wasted.

Likewise, they are wrong to blame good politicians for not being radical enough. Political reform must be rooted in public attitudes. If incoming politicians are still not going far enough (and they aren't), it's only because their masters aren't yet ready for more dramatic change.

There has indeed been a revolution in the political marketplace, with "consumers" demanding major reforms. But we still have much persuading to do before citizens come to accept our ultimate vision of a totally free society.

Before we are ever given the power to legislate, we must first educate. □

THE FREEMAN
IDEAS ON LIBERTY

Self-Control, Not Gun Control

by Catherine Farmer

Disarm Americans. Force every law-abiding citizen to surrender all firearms and America will at last be a safer place to live. Sounds absurd doesn't it? But the anti-gun lobby, fueled by misinformation—and the FBI's unprecedented political support of gun control—is effectively eroding Americans' constitutional right to keep and bear arms.

Passage of the Brady Bill was strategically important. Brady II, which will require federal licensing and registration of all guns, has been submitted to Congress. We can expect more restrictive legislative initiatives to follow.

Meanwhile, Americans are fearful, almost desperate, as they are assailed with reports of an exploding crime wave.[1] Proponents of gun control promise safety and protection in exchange for our civil liberties. That's not a new promise, but it is an empty one. All totalitarian regimes disarm their citizens.

Routinely, superficial theories are offered to explain the orgy of violent crime in our nation. The fundamental reason is ignored. Self-control—not gun-control is the key to preventing anarchy in America.

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It's Up to the Individual

Personal accountability has virtually been abandoned in our social structure and is conceptually absent for an entire generation of young Americans. Amid a web of informational overload, one message is paramount. The moral standards, and internal restraints inherent in historic Western culture are obsolete. Human behavior has been officially unleashed. And if, in a hedonistic tantrum, one goes beyond the ever increasing limits of acceptable conduct, one need not look far for absolution. Society, biology, psychology, racism, sexism—anything—except the individual is now responsible.

It is as natural, and in their hands as deadly, for such a deviant to use a knife, a hatchet, a club. The Gainesville student murders are a case in point. Gruesome details of rape, stabbing, and decapitation were revealed after Danny Rolling, a career criminal, pleaded guilty to murdering five college students. Rolling suffers, we are told, from "intermittent explosive disorder, a rare condition characterized by aggressive, violent outbursts and sometimes by remorse."

The Criminal as "Victim"

A glance at our criminal justice system shows there are minimal or often no consequences for criminal behavior. Criminals are routinely characterized as victims. Through plea bargaining, psychiatric defenses, prison furloughs, and early parole, they are put back on our streets. Seventy percent of all violent crimes are committed by only six percent of all criminals.

Demands to reform our criminal justice system are valid. But it's a long road back to sane procedures and substantive justice. Instilling self restraint and responsible behavior will not be instantaneous or easy. It is, however, our best hope.

Moreover, is it beneficial, is it moral, to surrender the right to effectively protect our children—ourselves? By capturing the moral high ground with their assertion: "If gun control saves just one life, then it's worth it," proponents of gun control are often successful in evading the alternative. "Existing gun control laws have already cost innocent lives."

In October 1991, 23 people were murdered in Luby's cafeteria in Killeen, Texas. The assailant reloaded his two pistols five times before the police arrived. Texas law, which prohibits carrying firearms, insured that all the victims would be unarmed and defenseless. Most of us remember the Luby's massacre. It was national news, and is often cited as proof of the need for still more comprehensive gun control.

Shoney's in Anniston, Alabama, just two months later, was the scene of another violent encounter involving two criminals with stolen pistols who forced employees and 20 customers into the walk-in refrigerator of the restaurant. You probably don't remember the Shoney's episode. Most people have never heard about it. It never made the national news. (National coverage is rare when guns are used to save lives.) Unlike Texas, the only people killed this time were the two criminals. Thomas Glen Tarry, a courageous citizen who was legally armed under Alabama law, fatally shot both outlaws, and saved the lives of 20 innocent people.[2]

The Right to Defend One's Self

In a landmark study on crime control, criminologist Gary Kleck explains that "Victim gun use in crime incidents is associated with lower rates of crime completion and of victim injury than any other defensive response, including doing nothing to resist." According to Professor Kleck, "victim gun use may be one of the most serious risks a criminal faces."[3] Fear of confronting an armed citizen is a deterrent that also benefits the roughly 50 percent of American families who don't own firearms. If Janet Reno and her allies prevail, only criminals will be armed.

Far from vigilantism, the right to keep and bear arms is affirmed in our Constitution, and is rooted in centuries of responsible citizenship.

But while the constitutionality of gun control laws is being argued, empirical evidence has shown they simply don't work. Already, there are over 20,000 gun control laws in the United States. A 1982 National Institute of Justice report concluded that such laws had no impact in reducing criminal violence.[4]

To remove guns from law-abiding citizens presumes that guns are to blame for violent crime, and shifts responsibility from the individual to an object. It has been said before. It's worth repeating: guns don't kill people; people do. □

1. For countervailing perspective on crime trend see, Rich Henderson, "Crime Story," *Reason*, June 1994, p. 14.
2. David B. Kopel, "The Violence of Gun Control," *Policy Review*, Winter 1993, p. 7.
3. Professor Gary Kleck, "Crime Control Through the Private Use of Armed Force," *Social Problems*, February 1988, pp. 16, 2.
4. Kopel, p. 16.

THE FREEMAN
IDEAS ON LIBERTY

The Last Experiment

by Joseph E. Petta

Many Americans are inspired nostalgically by a hope that classical liberalism has not been forever relegated to lonely chapters in antiquated political texts. Alaska, in particular, cultivates an optimistic vision of a political square-one, a "last frontier" that nurtures individualism as it rejects centralized control. If the liberal vision of our Founding Fathers can be realized anywhere in the United States without armed revolution, it is in Alaska. It provides us still with a peaceful opportunity to experience enlightened government because of its unique history and physical location.

Because the land is sparsely populated, the average Alaskan is free from technocratic control, an overbearing police presence, and other Orwellian social features. Yet on a comprehensive level, Alaskan freedom is a false illusion, an economic frontier that has been conquered well before its maturation by a greedy, unchecked federal bureaucracy and factionalized special interests.

Alaska's frontier is presently under siege from outside and from within, the result of a rush to claim the respective nuggets of gold that Alaska has to offer environmentalists, Native Alaskans, newly transplanted mainlanders, anarchists, libertarians, communitarian-socialistic demagogues, the Alaskan government, and most especially the U.S. government. The intensity of these factions is fueled by an awareness that an important political cusp is approaching, forcing unlikely alliances between them. Too often, ends justify means, subverting philosophic consistency; factions simultaneously defy and beg the assistance of higher bureaucratic authorities. I learned firsthand that the average Alaskan has, like most other Americans, little knowledge of the real causal relationships between political and economic institutions.

Behind Alaska's somewhat desperate political climate lies a pervasive federal government and a compliant state government indulged by the scores of federal mandates controlling land use. The State of Alaska is hostage to a federal policy that explicitly advocates the redistribution of wealth. At the root of this oppression is an economic climate antithetical to private property, one damaging to the future growth of Alaska, and threatening to individual freedoms.

History

Like most of the United States, Alaska was purchased directly by the federal government. Once referred to as "Seward's Folly" in dubious honor of William Henry Seward, chief advocate of the acquisition and Secretary of State under Andrew Johnson, Alaska cost a mere $7.2 million when purchased from Russia in 1867. The sale was tepidly received by the American people.

Until Alaska was granted statehood in

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1959, the federal presence there had been primarily military. During World War II, the two most distant islands of the Aleutian chain, Attu and Kiska, were occupied by the Japanese until liberated by the U.S. Seventh Infantry Division. Understandably, this campaign went largely unnoticed by Americans because of greater concerns in Europe and the Pacific. Yet Alaska's strategic importance during the Cold War created a renewed awareness in the public conscience that this territory was, in fact, *American*. With statehood came the official conclusion to Manifest Destiny, and even at this point the greater part of Alaska's history was forthcoming.

Unlike the ever-expanding and eminently more accessible mainland West, Alaska was not offered for two cents an acre to willing settlers and farmers because its lack of national political importance. Economic concerns such as gold mining, timber, and fishing did emerge during these years, bringing short-lived waves of mass influx but only trickles of permanent homesteaders. Alaska's present social fragmentation is the result of a history of these economic booms that have historically left the frontier abandoned. Consequently, the few American communities that did develop dealt with life from a highly localized, even immediate, perspective. An intrusive jurisdiction was hardly necessary and even today seems an impossible logistic in the face of local self-governing needs.

Since there has never been a steady public interest in Alaska until very recently, the federal government became its main advocate during the relatively stagnant 92 years between purchase and statehood. In this respect only is the federal government blameless for present conditions. It was, and perhaps still is, viewed as a land to be *used*, not developed for long-term or large-scale human habitation.

The discovery of oil on the North Slope in 1968 replaced the days of simple freedom in a pristine wilderness with a melting pot of big business, workers, environmentalists, government agencies, and the ensuing bureaucracies. The oil pipeline which runs from Prudhoe Bay on the Arctic Ocean down to Valdez on the Prince William Sound, is responsible for the creation of many new towns and for the growth of existing communities. As Alaska became increasingly more accessible and as the quality of life improved as a result of this infusion, mainlanders looking for a new way of life, academicians, and special interest advocates followed, helping to further expand an emerging social infrastructure.

The general feeling that one perceives of not being in the United States, but in a breakaway country, is understandable from a psychological perspective. Alaskans are the victims of a rather brazen lack of respect from their fellow Americans and their federal government. Alaska is still viewed by many as a windfall asset for the exclusive use of the American common good, federal monopoly or not. Along with the recent growth in Alaska have come interest groups from the lower forty-eight, staging old ideological battles in a new land. The inevitable assimilation of "concerned" mainlanders into Alaskan society has caused the conservative Alaskan conscience to backlash, and has created more factions than ever imaginable. Demagogues from the "south," eager to spread egalitarian precepts and advance socialistic legislation through the exploitation of ethnic and environmental issues, have forcibly moved the modern American social battleground north.

Facts

The overwhelming dependence the modern Alaskan has upon government is primarily the fault of a self-serving bureaucracy, complemented by a largely radical populace engaged in fly-by-night politics. Thus, it is easy to see why government retains so much power in Alaska today. But how did government ever become so entrenched in the first place?

In the most heavily subsidized state in the union, Alaskans welcome government-sponsored cake while rejecting it in theory. Even members of the Alaskan Independence Party receive their redistributed benefits. According to *The Wall Street Journal*: "Alaska's state and local general expenditures as a percentage of state personal income are two and a half times the U.S. average. The state and local government payroll, also measured against personal income, is about twice the U.S. average."[1] This, by residents who enjoy the highest per capita income in the United States to begin with and are the least-taxed members of the union, paying neither sales nor state income tax![2] Every one of Alaska's approximately 540,000 inhabitants is indulged by government spending four times more than the residents of any other state.[3] This is in large part due to a phenomenon referred to, perhaps ironically, as the "permanent fund," an annual dividend of nearly $1,000 awarded to every Alaskan citizen.

This fund is completely financed by an oil industry forced to be "generous" for the simple fact that 99 percent of all land in Alaska is government-owned, 75 percent by the federal government.[4] Moreover, a whopping 85 percent of the state's budget is provided by oil revenues, yet 65 percent of all jobs in Alaska are government-sponsored![5] This contrast in economic efficiency need not be detailed. The only monopoly on power is exercised by the state and federal governments, forcing what little industry exists into a state of virtual slavery. How much more prosperous would the citizens of Alaska be if industry were allowed to operate unbridled, without the condescension of government?

At Prudhoe, a state land facility, twenty-five cents of every dollar in oil revenue is deposited directly into Alaska's permanent fund, now in excess of $11 billion.[6] However, Prudhoe Bay's output has begun to decline by 7–10 percent a year since 1990.[7] As oil production slows, Alaskans are threatened with an income tax and an alternative economic plan. The battle to open the Arctic National Wildlife Reserve (ANWR) to drilling is presently being fought, but by whom? The majority of Alaskans support drilling at the ANWR site even though the land is federally owned, which will likely result in less *free* revenue for the average citizen. Environmental groups vociferously denounce drilling at ANWR, even though only .1 percent of the refuge's 19 million acres will be affected.[8]

Alaskans are violently proud of their land, what little of it is actually theirs. Understandably, there is an instinct for a citizenry so bonded to such a special region to react against the "destructive" forces of industry. Thus, the average Alaskan is also decidedly in favor of environmentalist measures. They turn to the state and federal governments to, in essence, protect these interests. Meanwhile, the oil industry is providing the aforementioned gratuities, made *obligatory* by a government monopoly on land! The Alaskan future is thus compromised, the consumer is burdened with the inevitably inflated cost of fuel, and special interests gain false credibility and power.

Government Tyranny

Witness a government that is seemingly both problem and solution, which renders it, in fact, the problem only. In Federalist No. 1, Alexander Hamilton argues for "the utility of Union." He feared, as did the rest of the Founding Fathers, the tyranny that eventually follows democratic instability. Over the last 200 years, Americans have gradually become tyrannized by the *over-utilization* of union. There are few rugged individualists left in Alaska willing to forgo the benefits of mere residency and, so, government control over everyday life becomes insuperable. Any chance for a citizenry to benefit from a free-market where economic growth and lower consumer costs are complementary, not at odds, is conveniently disregarded. The real beneficiary of this arrangement is, of course, the state and federal governments, in terms of money and *power*.

Ayn Rand identifies the type of conspiracy that is highly visible in Alaska today:

> Every coercive monopoly that exists or has ever existed—in the United States, in Europe, or anywhere else in the world—*was created and made possible only by an*

> *act of government*: by special franchises, licenses, subsidies, by *legislative* actions which granted special privileges (not attainable on a free market) to a man or group of men, and forbade all others to enter that particular field.[9]

The so-called economic crisis that looms on Alaska's snow-capped horizon has been artificially created, artificially (and temporarily) quelled by government control over big business, and is being artificially intensified by contradictory government programs designed to "promote" growth. The resulting tension and confusion among Alaskans is unfortunate as it, too, is an artificial creation.

There is no real threat apparent, certainly not from industry, so government agencies have created an explosive political situation by inventing needs for their usefulness. In 1981, the Alaska National Interest and Lands Conservation bill was enacted, resuming federal control over fish, game, and land.[10] As can be imagined, the efficiency of such management has been less than exemplary. For example, large expenditures have been wasted on subsidizing agriculture because bison responsible for trampling crops are protected by federal statutes. Fishermen have been lent money to buy boats, yet are thwarted from prospering because of strict bureaucratic control over fishing permits.[11] There are dozens more such cases.

Both acts epitomize the contradictory legislative hybrids that can only be created by government; in this case, the simultaneous pandering to special interests and the forcing of gratuitous political measures to "assist" the weakening economic infrastructure. It is a manipulation on par with any textbook fascism. A motivation to fragment, and thus dominate, is veiled behind the irony of government "service." Grossly paternal programs such as the Alaska Native Claims Settlement Act (1971), which mandated that Native Alaskans form tribal corporations subsidized by both the federal and state governments, ultimately failed because they were embraced only in lieu of less palatable offers from *government*.[12]

Solution

The one option never offered Alaskans is the answer to every chronic problem that the state suffers—the privatization of all land and the disbandment of state and federal regulatory bodies. Consequently, many Alaskans subvert inherently classical liberal values they wish for in their everyday lives by soliciting programs, agencies and legislative acts that are antithetical to their true aim of personal freedom.

There is no logical reason for private industry not to thrive in Alaska. Enjoying untapped resources that would be the envy of most nations, there is certainly no argument against *potential* prosperity. Alaska could be testament to the powerful quality of the individual human psyche when freed from the artificial burdens of government extended beyond its proper boundaries. Alaskans must rise to their own level of beliefs by rejecting all state and federal impositions, regardless of windfall economic benefits that are invariably less "profitable" than free market growth and individual freedom. □

1. "Out in the Cold," *Wall Street Journal*, December 22, 1993, A10.
2. "Now, the diet," *The Economist*, January 29, 1994; 330: 30.
3. *Ibid.*
4. *Ibid.*
5. *Ibid.*
6. "Hickel in a pickle," *The Economist*, January 4, 1992, 322: 22.
7. "The last frontier," *The Economist*, October 19, 1992, 321, 31.
8. *Ibid.*
9. Ayn Rand, *Capitalism: The Unknown Ideal* (New York: Penguin Books USA Inc., 1967), p. 73.
10. "Alaska," *Encyclopedia Americana*, 1993 ed.
11. *The Economist*, October 19, 1991, 321, 31.
12. Gary C. Anders, "Social and Economic Consequences of Federal Indian Policy: A Case Study of the Alaska Natives," *Economic Development and Cultural Change* 37 (1989), 285.

THE FREEMAN
IDEAS ON LIBERTY

The Real Reason Welfare Should End

by Michael Levin

Welfare should end, but not for the usual reasons. The Right has long held, and the Left is coming reluctantly to agree, that welfare creates a culture of dependency, sapping the initiative of its recipients. In the slums right now a generation of illegitimate children raised fatherless on Aid to Families with Dependent Children is being encouraged by welfare to produce the next generation.

Welfare no doubt has this effect, but what is wrong with welfare is not that it harms its recipients—lack of ambition is no burden if ambition is not needed for survival—but its moral outrageousness.

Let us try, for once, to see welfare not from the perspective of its recipients, but from the perspective of those who finance it. By what right can someone who works for a living, who has his own family to worry about, be required to support somebody else, or, what is worse, somebody else's illegitimate child? And forced the taxpayer is. Should he deduct from his tax payment the proportion the government will use for welfare, he is given a jail sentence, not a lecture on charity.

Professor Levin teaches in the Department of Philosophy at City College and The Graduate Center of The City University, New York, New York.

I am willing to grant that everyone is obliged to help the unfortunate, and that indifference to this obligation is a character defect. But compassion and charity are not the issue. The issue is forcible fulfillment of the duty of charity, or someone's idea of what this duty entails. Let those who feel obligated to support the abandoned illegitimate children of strangers do so. But leave others to wrestle with their consciences as they see fit.

This is a democracy, and the majority, which evidently does feel this obligation, has acted on it by passing the laws that created welfare entitlements. But that does not make the laws right. Forcing someone to support the illegitimate children of strangers is wrong even when the forcing is done by a majority.

As soon as anyone voices a wish to eliminate welfare, a sort of hostage situation is created, wherein welfare advocates raise the prospect of illegitimate children born to poor women. It is asked what will happen to these misbegotten children if "we" do not care for them—with the implication that it will be "our" fault if they starve.

First of all, no one seriously doubts that there would be fewer illegitimate babies than there are now if it were made clear well in advance that on a certain date welfare—AFDC, food stamps, subsidized housing, the lot—was going to end.

But let us imagine an unmarried woman so uninformed and improvident that, without giving thought to how she might be supported were she to become pregnant, consents to intercourse, and does bear a child. If the conservative's *deus ex machina*, "charity," does not arrive on schedule, the child starves. But responsibility for assuring that the child does not starve presumably resides with whoever is responsible for the child itself. The mother is responsible, and so is the father; by all means let us make the father support his offspring. But *I* am not responsible. *I* didn't impregnate the woman, or force her to have sex. Why then should I be forced to take care of it?

"How can you be so concerned with 'responsibility' and laying blame when a child is starving?" The answer is that I have to be concerned, or else I'm going to continue to help support that child as well as my own.

When "welfare reform" is undertaken for the wrong reasons, the reforms inevitably go in the wrong direction. The most appalling revelation about the plan submitted by Bill Clinton to "end welfare as we know it" is that its cost *exceeds* that of the welfare we know! The Clintonites make no bones of their enthusiasm for job training, childcare, and other new entitlements to encourage "independence." In practice, this means that instead of merely having to support the illegitimate child of a stranger, the taxpayer will have to support daycare and the stranger's vocational training as well.

We Are Individuals

Welfare rests on a fallacy and a myth. The fallacy is what logicians call Composition, reasoning from properties of the parts of a whole to properties of the whole. I am responsible for my children, you for yours; in this sense we are all responsible for our children. But then this "we" is surreptitiously interpreted to mean all of us collectively, so that "our" children become all children taken together. Suddenly "America" must take care of "its" children, and then, only a little less suddenly, everyone who can pay is paying for everybody's children.

Reinforcing this fallacy is the myth that We Are All In This Together, that we all share each other's fate. We don't. We are separate persons, families, clans, and groups, pursuing our various ends. We can and should cooperate, and—sometimes, not always—offer help in adversity. But we are all individually responsible for our fates, a responsibility that cannot be undone by forcing some people to pay for the heedlessness of others. □

The Population Bomb: Exploding the Myth

by Felix Livingston

Doomsday projections made two centuries ago by Thomas Malthus were revived by grim-faced delegates at the U.N. Population Conference in Cairo last year. The consensus of those present was that a population bomb is about to explode unless there is governmental intervention on a global scale. If nothing is done, we are warned, world population will double by the year 2055.

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The new doomsayers predict that population will grow geometrically without bound and food production will be slowed because of fixed technology and dwindling resources. But statistics reveal that economic status dramatically affects the decision to have children. As a nation's per capita income increases, its birth rate declines. In addition, the world food supply is growing at a faster rate than population. This trend will likely continue because of technology changes in agriculture and continuing improvements in the ability to supply energy.

Malthusians say that governments must control reproductive habits of the poor because changes in childbearing practices have resulted in rapid population growth in developing nations. Not true: the average family size in Third World countries is virtually unchanged. World population is increasing because of lower death rates due to better nutrition and disease control. Another popular but misguided argument is that high population density adversely affects the ability of a nation to develop. But the data shows that densely populated nations, such as Taiwan and Japan, can be very prosperous. Conversely, some sparsely populated countries are among the world's poorest.

The evidence is clear. The surest way for a nation to defuse its population bomb is to create a fertile environment for economic growth. Why, then, does the official Cairo plan ignore development issues while advocating government spending of $17 billion annually on programs such as healthcare, family planning, and gender equality? First, many bureaucrats who attended the meeting do not believe that free choices made by millions of free people can possibly have beneficial social results. Only the prescriptions of an informed few—paid for and sometimes brutally applied by a central authority—can cope with the "population juggernaut." Second, many intellectuals who were in Cairo make a comfortable living from government subsidies that fund their policy proposals. Third, free economic development poses a threat to the raw political power exercised by the world's petty tyrants. An effective way to spread the suffocating blanket of control over a nation's citizens is to declare an emergency, which can be relieved only by enacting legislation to regiment and control people. The so-called crisis ends, but the new laws and institutions remain. Government expands; freedom contracts. The only antidote to arbitrary political power is the freedom which is built into the private property order.

"We cannot pry into the hearts of men," said Dr. Johnson, "but their actions are open to observation." While moral posturing and lofty rhetoric characterized the Cairo meeting, nothing advocated in its 113-page plan will banish the famine and material suffering that characterize the world's developing nations. The real population problem affecting many Third World countries is their refusal to adopt the habits and institutions that foster private enterprise and entrepreneurship. Nations that do not enforce private property rights and that view the accomplishments of producers as antisocial suffocate the spirit of enterprise and eliminate the very conditions necessary for political liberty and economic prosperity. When people are free to pursue their economic interests in free markets, the so-called "population problem" will resolve itself. □

THE FREEMAN
IDEAS ON LIBERTY

Pro Sports on the Dole

by Raymond J. Keating

Baseball is no longer just a game; it's big business. Such is the conventional wisdom today. And with salaries skyrocketing to the point where now the *average* major league baseball player earns $1.2 million a year, who could disagree?

However, ever since the first professional team, the Cincinnati Red Stockings, was fielded in 1869, baseball has been a business. Indeed, this is not something to be ashamed of; it should be celebrated. The fact that baseball is a business allows the professionals who play the sport to hone their skills to a point and for a period of time largely unknown to those participating in amateur sports.

The business status of baseball has enabled it to become America's "national pastime." Just as the great feats of Johnny Bench, Tom Seaver, Mike Schmidt, and Reggie Jackson captured the imagination of my generation, the achievements of Ken Griffey, Jr., Matt Williams, Barry Larkin, and Cal Ripken, Jr., inspire today's youth—and the rest of us as well. This excellence largely emerges out of baseball's status as a business or profession.

Unfortunately, the dark side of big business is a major part of the game as well. Corporate welfare deeply infiltrates baseball, along with most other professional sports. That is, a distasteful and costly alliance between government and business.

Mr. Keating is the director of New York Citizens for a Sound Economy Foundation, and partner with Northeast Economics and Consulting.

Fans no longer support their favorite teams and players merely through ticket prices, concessions, team apparel and souvenirs, and cable TV subscriptions, but through their *taxes* as well. Taxpayers across America—whether they are fans or not—are subsidizing the portion of the entertainment industry known as professional sports. While such subsidies are completely unjustified, they become even more egregious considering, for example, that the average employee in major league baseball earns more than a million dollars a year.

Examples abound. New York—long accepted as the capital of traditional welfare spending—has managed to turn practically all levels of sport into welfare clients. Most prominently, both the state and New York City have been scrambling since 1993 to come up with plans for either a new Yankee Stadium in a new locale, or upgrades to the current facility in order to stop team owner George Steinbrenner from moving the Bronx Bombers out of New York. The cost to New York taxpayers vary from a whopping $1 billion proposal for an entirely new stadium to almost $400 million for a seemingly modest plan for a stadium upgrade that includes a new bridge leading into an 11,000-car parking garage, as well as a shopping mall.

However, New York state's officials are not content to extend corporate welfare to only the New York Yankees. In the state's 1994–95 budget, well over $100 million was slated for other stadiums and sports facilities, including $8 million for Rich Stadium, home of the Buffalo Bills; $25 million for the Buffalo Sabres' new hockey arena; $4.5 million for the Soccer Hall of Fame in Oneonta, and millions more for minor league baseball stadiums across the state. Perhaps most distressing, though, is the $125,000 in state taxpayer dollars for the Baseball Hall of Fame Stadium in Cooperstown—a great blow to the innocence and independence of baseball.

Of course, New York is certainly not alone in this alliance of government and professional sports. Jacksonville, Florida, for example, has agreed to finance a $121 million Gator Bowl renovation for its expansion National Football League (NFL) team, the Jaguars.

Meanwhile, some cities and states have taken the saying "Build it and he will come" from the movie *Field of Dreams* literally. St. Petersburg, Florida, built a domed stadium *in anticipation* of landing a major league baseball team. A possible move by the San Francisco Giants to St. Pete was nixed, so no baseball team yet. The taxpayers' bill equaled $138 million. Similarly, the State of Missouri started building a new domed stadium in St. Louis to lure an NFL franchise. Despite lobbying by U.S. Representative Richard Gephardt, the NFL shunned St. Louis during its last expansion meeting. The cost of the yet-to-be-completed stadium to Missouri's taxpayers—an estimated $200 million. The city of Nashville, Tennessee, is building a taxpayer-funded arena for basketball and/or hockey without a tenant as well, at a cost of $140 million.

These governments have decided to take on the role of venture capitalist. Government bureaucrats lack the experience, knowledge, and proper incentives to make such investment decisions. In addition, the risky nature of these endeavors dictates that private resources should be used in lieu of taxpayer dollars.

Billions for Baseball

Baseball stadiums opening to great acclaim recently include the Baltimore Orioles' Camden Yards, the Chicago White Sox's new Comiskey Park, the Texas Rangers' Ballpark at Arlington, and the Cleveland Indians' Jacobs Field. The acclaim is certainly justified as these new stadiums are unique parks made for baseball, unlike the sterile, round, utilitarian, astroturf stadiums built in the 1960s and 1970s. Unfortunately, taxpayers were tapped for these parks as well—$200 million for Camden Yards, $135 million for Comiskey Park, and $236 million for Jacobs Field and a new arena for basketball's Cleveland Cavaliers. As for the Ballpark at Arlington, the total cost of $190 million was split—$135 million in taxpayer funding through a one-half cent city sales tax and $55 million in private financing by the Rangers including the sale of 15-year options on 10,400 of the new stadium's seats and first-year sales of luxury suites. In 1995, the Colorado Rockies will move into a new stadium in Denver which cost taxpayers $141 million.

Even the self-proclaimed free-market governor of Massachusetts, Bill Weld, has succumbed to the temptations of taxpayer-subsidized professional sports. He has thrown his support behind a $700 million stadium and convention center in downtown Boston for the NFL's New England Patriots.

In Connecticut, multiple layers of government complicate the arena business. The city of Hartford owns the Hartford Civic Center, but is leasing it to the state of Connecticut at a cost of $48 million for a 20-year period in order to help pay the city's debt service. In turn, the state is investing in upgrades to the arena—home of hockey's Hartford Whalers—at an estimated cost of more than $5 million. According to a Connecticut economic development spokesman, the state expects to cover their total costs through arena-based revenues, including a $1 ticket tax, and even "generate a small profit." (Of course, the question arises: If the Hartford Civic Center can generate a profit, why not privatize it?)

In a June 6, 1994, article, *Forbes* magazine reported, "Over $1 billion has been spent for facilities opened since 1992, ground has been broken on another $1.5 billion worth, and there are plans for still another $5 billion in construction by the end of the decade." With taxpayers footing most of the bill. The assumption underlying all this activity—government subsidizing, taxing, borrowing, and playing venture capitalist—is that taxpayer subsidization of professional sports enhances economic growth. This is, at best, a questionable assumption.

Robert A. Baade, an economics professor at Lake Forest College in Illinois, wrote a study recently for the Heartland Institute in which he compared economic growth rates in metropolitan areas before and after the introduction of professional teams, new stadiums, and new arenas. His results overwhelmingly indicate "that professional sports is not statistically significant in determining economic growth rates." Baade declares that his study "finds no support for the notion that there is an economic rationale for public subsidies to sports teams and stadium and arena construction." He further explains: "Attending a sporting event is but one possible use of an individual's leisure time and money. It is possible that no connection between professional sports and per capita income growth emerged because sports spending simply substitutes for other forms of leisure spending." Baade also notes that the types of jobs associated with stadium activity tend to be seasonal and low wage.

Charles C. Euchner, a political science professor at the College of the Holy Cross, also raises serious doubts regarding the economic merits of new sports stadiums in his book *Playing the Field: Why Sports Teams Move and Cities Fight to Keep Them*. He goes a step further, however, observing:

> Whatever the merits of sports-based development, those cities that most need an economic boost are least able to make major investments such as stadium construction. Studies have shown that economically struggling cities tend to pay more for expensive and ineffective projects for development because of a sense of desperation to show tangible improvement. Stadiums and sports teams are luxuries that fiscally strapped cities can ill afford—yet have great difficulty bypassing because of the potency of symbolic notions like "renaissance" and "major league status."

Keep the Yankees in New York?

This "sense of desperation" is most evident in the scramble by state and city officials to keep the Yankees in New York. Many New Yorkers still feel the pain of the Dodgers' and Giants' flight to California more than three decades ago. Over these same three decades, New York has witnessed an even more massive exodus of individuals, entrepreneurs, and businesses. Apparently unwilling to make the decisions that will stem and even turn this tide, government officials have grabbed onto the myth that if New York can just keep the Yankees the city's economy will somehow stay afloat.

In fact, status *seems* to be the only benefit to be derived from government subsidization of teams and stadiums. Hundreds of millions of taxpayer dollars is a hefty price to pay for a nebulous feeling of status. Yankee Stadium, for example, seems to have done little even for the status of the South Bronx.

Indeed, Professor Baade observes, "The data suggest that stadium subsidies and other sports subsidies benefit not the community as a whole, but rather team owners and professional athletes." One of the latest government proposals, to keep the Yankees in the Bronx would fit this observation. The plan for a bridge from Manhattan leading straight into a new parking garage, where fans then would proceed through a mall into the stadium, seems specifically designed to separate the stadium and fans from the local, often dangerous, community where Yankee Stadium sits.

Very little empirical evidence exists supporting government subsidization of professional sports. Complementing the economic arguments against such activity is America's tradition of limited government. When one considers the proper role of government in society, the case against taxpayer-supported sports facilities becomes even stronger.

A sound governing philosophy dictates that government should undertake only those critical activities that the private sector proves unable to supply. On the federal level, national defense comes to mind. On the state and local levels, one thinks of public safety, such as police and the justice system. The political debate intensifies once the focus moves beyond such duties. Witness the growing debate over welfare in our nation. The notion, therefore, that subsidizing professional sports—a part of the entertainment industry—is a proper government undertaking becomes highly debatable, to say the least. It is difficult to imagine any of our Founding Fathers, if alive today, supporting taxpayer-funded baseball stadiums as a legitimate function of government.

From 1950 through 1980, though, the trend toward government-owned stadiums and arenas seemed irreversible. According to economics professors James Quirk and Rodney Fort, in their book *Pay Dirt,* the percentage of publicly owned stadiums in baseball's American League rose from 12 percent in 1950 to 86 percent in 1980; the National League rose from 0 percent to 83 percent; the NFL increased from 36 percent to 96 percent; the National Basketball Association (NBA) from 46 percent to 76 percent; and the National Hockey League (NHL) from 0 percent to 52 percent.

A small retreat was witnessed in the 1980s, though, as publicly owned facilities actually dropped by 1991 in the National League to 75 percent, in the NFL to 93 percent, and to 65 percent in the NBA. During this period, the Miami Dolphins moved into the $100 million team-owned Joe Robbie Stadium, and baseball's St. Louis Cardinals bought Busch Stadium. Also in 1992, Toronto's Skydome, home to the Blue Jays, was privatized.

Taxpayer Revolt?

Government ownership of stadiums and arenas is not inevitable. The question becomes: How to stop the channeling of taxpayer dollars to professional sports? A question that has been asked about countless government ventures of highly dubious nature throughout the ages.

The first option would be a noble declaration by the powers that be in professional sports that taxpayer dollars will no longer be sought or accepted by their respective sports. It is difficult to imagine George Steinbrenner, for example, who has so cleverly manipulated New York's elected officials thus far, suddenly declaring that he no longer seeks taxpayer dollars and is willing to buy Yankee Stadium from New York City and invest in improvements. After all, the beneficiaries of government programs and spending never suggest eliminating those benefits.

The second option would require self-control on the part of America's elected officials—swearing off taxpayer subsidies of sports. In the past, elected officials have had few incentives to cease subsidizing sports. Little organized opposition existed to such ventures and many fans were at least perceived to be appreciative of such government action.

The final decision will lie with the American voters. In fact, when put to a vote of the people, some taxpayer-funded sports stadiums have not fared well. The people of San Francisco, for example, have turned down several referendums for a new home for their Giants. Even some politicians have said no. Tax-cut-minded New Jersey Governor Christine Todd Whitman recently nixed a deal to build an arena in Camden to lure the Philadelphia 76ers and is examining privatization options for the state's Meadowlands Sports Complex, home to the NFL's Giants and Jets, the NBA's Nets, and the NHL's Devils.

Indeed, alternatives to taxpayer subsidies are available. The NFL expansion Carolina Panthers, while accepting $40–45 million worth of land from the city of Charlotte, will play in a new stadium privately financed, in part, through the sale of permanent seat licenses. These license sales guarantee the purchasers the right to buy season tickets in perpetuity. They also can be bought and sold in the marketplace. The total construction costs of the new Carolina Stadium will be $160 million, with $100 million from the seat licenses and the rest from private investors. In addition, Washington Redskins owner Jack Kent Cooke is proposing to privately finance a new stadium in Maryland, with construction costs estimated at $160 million.

The American people need to understand that the economic impact of government subsidization of sports is negligible at best. More likely, by adding to ever-increasing levels of government spending and taxes and choosing political rather than market means of allocating resources, one can legitimately argue that such subsidization is anti-growth in nature.

Fans also must realize that professional sports in America will still thrive without taxpayer subsidies, as they did in the past. Naturally, team owners will have to reallocate some resources toward capital investments. However, no one should weep for America's multi-billion dollar sports industry, nor its millionaire players. They would simply be confronted with the same decisions faced by all other businesses.

In fact, government officials would better focus their attention on creating a healthy economic environment for their respective cities and states by lowering taxes, reducing regulatory burdens, and paring down the size of government. Such an enterprising environment attracts investment, businesses, and individuals, who in turn create a viable market for baseball, football, hockey, and basketball.

Heck, an environment conducive to economic growth and opportunity might even create a market for soccer in the United States. Well, perhaps I go *too* far. □

IN MEMORIAM

Murray N. Rothbard
(1926 – 1995)

On January 7, 1995, Murray Rothbard departed this mortal life so that he may join the immortals. Sudden death delivered him from his daily chores and put his task in other hands.

Those of us who were privileged to know Murray Rothbard have lost a dear colleague who inspired us with his incisive observations, brilliant reflections, and always keen and sparkling remarks. His departure from the stage of life is a loss to the whole libertarian world which he helped to forge and mend. He was not only one of the greatest economists of our generation but also a great social and political thinker. His was a powerful mind comparable to those of his teacher, Ludwig von Mises, and his teacher, Eugen von Böhm–Bawerk.

Murray was an indefatigable worker, the author of an unending stream of books and booklets, essays and articles, many of which have been translated into foreign languages. Several are masterpieces which are destined to be studied by future generations of students and scholars. They have earned him a place of honor in the annals of libertarian thought.

Hans F. Sennholz

THE FREEMAN
IDEAS ON LIBERTY

Religion's Modern Witch Hunt

by Charles Dickson

The Old Testament Book of Exodus contains a verse which reads, "thou shalt not suffer a witch to live." For hundreds of years since those words were first penned, religious groups have used them to justify persecution of those accused of practicing witchcraft. Some historians estimate that during the period extending from the fifteenth through the eighteenth centuries churches put 300,000 women to death. This figure includes such episodes as America's infamous Salem witch trials of 1692 when the Massachusetts colonists executed 20 persons and imprisoned 150 others.

While witch hunting in the traditional sense is no longer part of the American scene, a new form of it has emerged in the bureaucratic chambers of some major American religious denominations. This time the object of religious revenge is not ladies wearing black dresses and conducting strange rituals, but rather the management of many major American corporations.

A quiet, behind-the-scenes war began in the early 1970s when two national groups were formed to monitor activity of American businesses and then recommend punishments of certain ones by selling off (divesting) their stock from the portfolios of church retirement funds when the companies did anything with which they disagreed.

Dr. Dickson is a chemistry teacher, ordained clergyman, and writer whose articles have appeared in The Wall Street Journal, Barron's, The Christian Science Monitor, *and numerous other scientific, religious, and business publications.*

These groups, serving as watchdog units on corporate activity are called the Interfaith Center on Corporate Responsibility (ICCR) headquartered in New York, and the Investor Responsibility Resource Center (IRRC) which operates out of Washington.

The Mechanics of Witch Hunting

Basically the scenario works this way. The ICCR and the IRRC offer annual subscriber services for a fee. In the case of the ICCR, each participating group must pay $2,000 which entitles it to receive a monthly list of what are called "screens." When a corporate name appears on the screens list there is also a note as to what "sin" it is committing which may range from producing alcohol to processing tobacco, polluting the environment, or, until recently, doing business in South Africa. Managers of church retirement fund portfolios who subscribe to these services may then elect to respond to the screen by selling off all the stock in a particular guilty corporation as a means of protest.

Thus the mission of the ICCR and IRRC, with their salaried full-time staffs, is to search out whatever witches' brews they may find in the kettles of American industry and then recommend punishment by stock divesting. But who are the ICCR and IRRC anyway?

The ICCR began in 1971 and occupies the same headquarters as the National Council of Churches with whom it works closely. Membership includes churches ranging from Quaker to Catholic and from Methodist to Mennonite. It seeks to manipulate corporate decision-making by using methods ranging from protest letters to threats of boycott, negative publicity and, of course, divestment of stock holdings in the retirement funds of its supporting church groups. In addition it makes recommendations of companies in which to buy stock.

The IRRC was founded in 1972 and numbers among its members some of the same church groups as ICCR plus some corporations who are sympathetic to its cause. This group reports assets valued at nearly three million dollars and annual revenues approaching five million. One of its stated purposes is to produce screens of corporations with recommendations to punish those companies with which it disagrees.

The combined result of these group efforts is that the stocks of 162 major American corporations have been, to one degree or another, removed from the retirement portfolios of clergy and other church workers without their consent and, in most cases, without their knowledge. On the list of "witches" are such financial stalwarts as Borden, John Deere, Hewlett-Packard, Westinghouse, General Electric, IBM, Ford Motor, Colgate-Palmolive, and Bristol-Myers, to mention but a handful, all of whom have felt the bite of church divesting.

But the real bite has been felt by faithful retired church workers who have discovered their monthly pensions are nowhere near as large as they had reason to hope they would be. It stands to reason why this is happening. If an individual takes his or her own investment portfolio and strips it of companies with a history of good yields, the returns are sure to take a nosedive.

Appeal to Reason

As I detailed in "Pensiongate: The Emerging Crisis of Church Investments" *The Freeman* (August 1994), there is a solid body of evidence as to why our church bureaucracies should cease orchestrated witch hunting operations against corporate America. There are equally strong arguments which cannot be expressed by mere statistics. These may be called the reasonable human factor.

Over the years many companies have done commendable jobs in building the economy of both America and other nations. Selling off their stock as a punishment tactic ignores these accomplishments. The other human factor church social investors fail to recognize is the fact that congregations of all faiths are filled each week with people from every level of employment who work for these companies and who contribute part of their earnings to the welfare of the church, while some of the leaders of the church are working to undermine the companies that employ them. Biting the hand that feeds you has always been a questionable course of action.

Meanwhile the conflict between institutional religion and corporate management continues to be waged by those who direct the back-room, closed-door operation of many church pension funds. For many who believe the task of churches is to minister to human spiritual needs rather than to manipulate corporations or destabilize governments this whole witch hunting operation seems, at the very least, unnecessary if not downright divisive. While corporate America is certainly not without its faults the churches must also possess the insight and courage to admit their own shortcomings.

In an age when we desperately need dialogue between conflicting ideologies on all fronts, we must also search for those who will have the wisdom to avoid advocating patterns of behavior which tend to drive people apart. We need healers not polarizers and churches, above all institutions, should know this. Admittedly, it has always seemed easier to erect walls which separate than to construct bridges which connect. Hopefully it will be the bridge builders who carry the day with efforts that set the stage for a new era of cooperation between churches and corporations. They are, after all, two great American institutions which, in the final analysis, need each other. □

THE FREEMAN
IDEAS ON LIBERTY

Full Employment—A Lesson from the Deserts of Saudi Arabia

by Keith Wade

The United States has an unemployment problem. While there are people out of work in every segment of the population, the low-skilled worker has been disproportionately outplaced. As the minimum wage rises and guaranteed employer-subsidized health care looms ominously on the horizon, more and more companies are deciding that giving the teenager his or her first break is just not worth it. The minimum wage has choked the life out of many small businesses, forced many people who genuinely want to work for a living onto the welfare rolls, and driven up the cost of goods and services. The true minimum wage is not $4.50; the true minimum wage is nothing at all!

Precisely because of our minimum wage laws there are far too many people who are disemployed and forced to accept exactly that. The pretty politics of compassion have convoluted and obscured a simple fact of life—each individual has a unique set of skills that have a certain value. The fact that some of these skill sets cannot command the minimum wage is also unavoidable. While the United States through its minimum wage law has undertaken to make these unfortunate individuals paupers, other nations have allowed these people to work with dignity, resulting in positive results for the worker, the employee, the consumer, and society at large.

As one of the 30,000 American professionals living and working in Saudi Arabia, some of the economics of the Arab world initially confounded me. A liter of water costs roughly five times as much as a liter of gasoline. A pair of tailor-made British wool dress slacks costs about $20. Because most of the markets are allowed to clear and prices are largely a matter of negotiating between storekeeper and shopper, pricing seems odd to the newcomer. The labor market is no different. With every Saudi national who wants to work guaranteed a job, there are still enough jobs to entice tens of thousands of foreigners to flock to Saudi Arabia and find jobs in a pay range from a few thousand dollars a year to hundreds of thousands.

The Saudi government has effectively separated wages from the other elements of employment. The policy regarding wages is "hands off"; wages are an issue between employee and employer. Along with this policy, however, are a number of exceptionally effective safeguards. Everyone working in Saudi Arabia has a contract that the employer is obligated to fulfill. Labor

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courts are quick and efficient and consistently look to the agreement as the governing factor. So while the employee and employer are free to negotiate terms and conditions of employment, the "exploitation of workers" that we have been so long told would occur without government meddling just does not happen. The contract—as it once was in the United States—is law.

Employers, realizing the investment that they have in their workers (airfare, housing, paid leave) generally treat them like the valuable resource they are. Eliminating the minimum wage does not mean eliminating fairness or safety or unleashing any of the monsters that we have been told over and over will appear if we allow employers and employees to negotiate without outside interference.

Clearing the Labor Market

The labor market in Saudi Arabia has been allowed to find its cost and has cleared. Those who opposed NAFTA were terrified that the borders would be overrun with people (presumably Mexican nationals) seeking employment in the United States. These naysayers would do well to look at Saudi Arabia as an example of what happens when that occurs, for indeed a large part of the workforce here is foreign. Hundreds of thousands of workers have poured into Saudi Arabia (which is effectively impossible to enter without a guarantee by an employer of employment and return travel home). And these hundreds of thousands of workers have taken jobs ranging from senior managers to tea boy (women generally do not work outside of the professions of teaching and nursing) to ditch digger. In addition, all of the local inhabitants who wish to work have jobs ranging from senior manager to shop clerk to goatherder. Some nomads, like their fathers before them and their fathers before them, make their living ranching camels in the desert setting up camp in a different place each night.

Because there is no interference with wages, each of these individuals is able to earn a living—something that they might not otherwise be able to do were the price for their labor set artificially high by an outsider's arbitrary decision. Large companies pay people to tear up confidential documents by hand as opposed to investing in paper shredders; many middle-sized and most large merchants have at least one young man to bring tea to their customers; the corner grocery store and pharmacy have delivery boys to bring the shopper's packages home. Indeed—unlike the situation in the United States where the artificially high wages mandated by the minimum-wage law have driven millions out of the labor market and onto the welfare rolls—even someone with very meager skills, no education, and no ability to communicate in the local language can get a job.

Whatever happened to shepherds in the United States? They found themselves priced out of the market. Barbed wire is cheap—no American farmer could afford to pay someone minimum wage to lean on a stick and watch a flock of sheep. Between the minimum wage, Social Security, FICA, and on and on the cost is prohibitive. Consequently, people who would be perfectly content to watch sheep for a few dollars per day, read their philosophy books under the trees, and generally be happy with their lot are not allowed to do so. These people have been effectively made wards of the state by the highhandedness of the minimum wage laws. As one might expect, Saudi Arabia has shepherds (most of whom seem perfectly happy and who seem to favor Japanese pickups for some reason).

Everyone Has a Job

Without government interference the system is simple: everyone earns what he is worth and no one need worry about not being able to get a job. Let us look at the person who makes his living tearing documents into small shreds. In the United States we would purchase a paper shredder. We would do this for a simple reason—it is cheaper to buy a paper shredder than it is to pay someone to tear papers to shreds. The U.S. government will not let us pay someone $100 per month to shred papers (though they will allow us to pay an executive $100,000 per hour to shred papers at his or her wastebasket due the unavailability of a paper-shredding technician). As a result, those members of society who can do nothing more valuable than tear up paper are unemployed and a burden on society.

A simple rule that the supporters of the minimum wage law seemed to forget is that certain tasks are worth only so much. Consequently, parking lots are swept in Saudi Arabia and not in the United States for a very important reason—the U.S. government would make a criminal out of the store owner who gave someone $2.00 to sweep his parking lot—notwithstanding the fact that the parking lot sweeper might be delighted to accept that price and sustain himself by honest work.

All of society benefits from this natural clearing of the labor market. Obviously the worker benefits by being able to provide subsistence for their family by working as opposed to begging. Society benefits by not having to funnel its limited resources to supporting those who cannot command the minimum wage. Merchants benefit by being able to offer a variety of benefits that would be cost prohibitive in the United States—coffee service to shoppers, a freshly swept parking lot, messengers, and a host of other services.

Lest the naysayers say "it won't work here," the fact that Saudi Arabia is a rich country is not really an issue. On a per capita basis Saudi Arabia is one of the richest countries in the world. Most of that money, however, has gone into the country's infrastructure and not into the sort of massive welfare program that we might expect. Indeed, little subsidizing of the basic needs of life goes on—able-bodied men are expected to work for a living. The government does encourage education and training, using liberal incentives to lure people into classrooms. But handouts are not common.

The United States should abolish minimum wage laws; they worsen the problem they were invoked to solve. It is not my intention to advocate that we adopt the culture, laws, or economy of Saudi Arabia. But it is my intention to suggest that there is an important lesson to be learned here: It is more dignified to allow people to work for less than a minimum wage than to force them to be paupers as a result of a high handed interpretation of what a minimum wage should be. It is better for society to have people happily working for less than minimum wage than to have these people forced into becoming ungrateful and involuntary wards of the state. It is better for the consumer to purchase goods that are made with realistically priced labor than with artificially high-cost labor. And, most importantly, it is possible to accomplish all of these things. A cursory examination of the Saudi Arabian work world indicates that it can indeed be done and the results are indeed positive. □

THE FREEMAN
IDEAS ON LIBERTY

Ending the "Crayfish Syndrome"

by Ralph R. Reiland

What are the chances for upward mobility for a group of poor, black church people 96 percent on welfare—in rural Mississippi, the poorest state in the nation? What's their prospect for economic success if they don't get a dime from the Rockefellers or the Ford Foundation? What if they get no new anti-poverty programs, nothing from the Fortune 500, and nothing from the rich and famous African-American celebrities and athletes?

That's the story of the Greater Christ Temple in Meridian, Mississippi, and they ended up owning 1,000 head of cattle, two motels, a gas station, three restaurants, two chicken farms, 4,000 acres of farmland, the Green Acres housing development, two supermarkets, a hog operation with 300 brood sows, a construction company, a 55-acre Holyland commune, a school, and two meat-processing plants.

"We stopped the Crayfish Syndrome—it's when you put all the crayfish in a pail, and one starts out and all the others reach up and pull him down," says Bishop Luke Edwards, the pastor of the church. "We started by selling peanuts in the church, and buying wholesale food with the welfare money and selling it in a small grocery store in the church. Now there's no welfare or food stamps. We're saving the federal government $300,000."

Green Acres is the congregation's new 54-acre subdivision in Utaw, Alabama, with 132 homes being built for sale to the public. Heritage Construction, another business owned and operated by the congregation's members, supplies the heavy equipment—18 wheelers, backhoes, dump trucks. The church also acquired two motels this year in Alabama, the Westin Inns in Utaw and Livingston, and started chicken farms in Decator, Mississippi, and Gainesville, Alabama.

"We haven't allowed anything to diminish our thinking or our efforts," says Edwards. "Black people can be just as successful as anyone else, but our leaders have allowed us to be entrapped by government handouts. I lived in those neighborhoods. Welfare broke up the families, put the father out of the home, and let another man lay up there all he wanted. Handouts robbed our people, robbed them of self-esteem and self-respect."

Edwards doesn't preach the traditional bad news about a shrinking pie in racist America. "Racism is an excuse, a song. No, the playing field isn't even, but we make it even. We proved we can make it in Mississippi and it's the poorest state in the nation, and Alabama isn't far behind. Think what we can do in New York or Chicago. Look at

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the Cubans out in the ocean coming here. It *is* the land of opportunity."

The bottom line for Edwards is to focus more on opportunities than on obstacles, and it's producing more success than failure. If any one of us were raising a handicapped child—and being black in America is still a handicap—the worst thing we could do is subject that child to a daily harangue about the things he could never accomplish, about what's impossible for him, about how life is unequal and unfair, about the stream of misunderstandings, obstacles, and prejudice that lie ahead for him. Few of us have levels of confidence and ambition tough enough not to be undone by that.

Edwards delivers the opposite message, and it's reinforced with no-nonsense schooling and a philosophy that doesn't sneer at hard work. On top of math and spelling, students at the congregation's Accelerated Christian Education school, K through 12, learn how to run a hog farm and operate restaurants. These ACE students regularly outscore the state schools, and the courts have 26 students enrolled this term for a straight dose of rehab. The school rules aren't complex: no smoking, no drinking, no drugs, no weapons, no three or four hours of MTV a day, and no dating. And it's lights out at 8:30 p.m. No midnight basketball.

To those watching from the ground, a bird that's out of formation is usually seen as misguided, a joke. We don't think that the whole rest of the flock might be off track. To the Ivy Leaguers now occupying the White House, a black bishop who doesn't look toward D.C. for salvation is out of step, some outdated combination of Ronald Reagan, Clarence Thomas, and David Koresh. The only African-Americans who currently qualify for White House dinner invitations are those who believe in bigger government, higher taxes, and more urban pork.

What's working in Meridian, Mississippi, and Utaw, Alabama is less dependence on government and more respect for business. It is a prescription to reverse the deadly pathologies across America's inner cities. "There's no poor black neighborhoods," Edwards says. "Why would dope dealers be selling there? You've seen the money they're making. Those neighborhoods aren't poor, they're just misled and mismanaged. They can put money into opening stores, into creating jobs. They can do it." What's needed is more of the entrepreneurship of Little Havana and less Aid for Dependent Children, more of the small business capitalism of Koreatown, Little Italy, and Chinatown and fewer social engineers from HUD and EEOC. It's time to get the D.C. pipedreamers off center stage and unleash some black independence and entrepreneurship. □

THE FREEMAN
IDEAS ON LIBERTY

The Educational Octopus

by Mark J. Perry

Every politically controlled educational system will inculcate the doctrine of state supremacy sooner or later. . . . Once that doctrine has been accepted, it becomes an almost superhuman task to break the stranglehold of the political power over the life of the citizen. It has had his body, property and mind in its clutches from infancy. An octopus would sooner release its prey.
A tax-supported, compulsory educational system is the complete model of the totalitarian state.
—ISABEL PATERSON, *The God of the Machine* (1943)

What would you conclude about the quality of product or service X under the following circumstances?

1. The employees of Airline X and their families are offered free airline tickets as an employee benefit. The employees refuse to travel with their families on Airline X and instead pay full fare on Airline Y when flying.

2. The employees of Automaker X are offered a company car at a substantial discount and they instead buy a car at full price from Automaker Y.

3. Employees at Health Clinic X and their families are offered medical care at no additional cost as a benefit and yet most employees of Clinic X pay out-of-pocket for medical services at Clinic Y.

In each case, the employees' willingness to pay full price for a competitor's product or service and forgo their employer's product or service at a reduced price (or no cost) makes a strong statement about the low quality of X. What makes the inferior quality of X even more obvious is that the employees at Firm X, since they work in the industry, would have better information about product (service) X and product (service) Y than the average person.

What then should we conclude about the quality of public education in the United States given the following facts?

- Public school teachers send their own children to private schools at a rate more than twice the national average—22 percent of public educators' children are in private schools compared to the national average of 10 percent.
- In large cities across the United States, more that a quarter of public school teachers' children are attending private schools—50 percent in Milwaukee, 46 percent in Chicago, 44 percent in New Orleans, 36 percent in Memphis, and 30 percent in Baltimore and San Francisco.
- In New York City, as of 1988, no member of the Board of Education and no citywide elected official had children enrolled in a public school.

Public school teachers are giving public education a failing grade by their disproportionate patronization of private education when it comes to the education of their own children. The sharp decline in SAT scores over the last 30 years confirms that the

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quality of public education is deteriorating. SAT scores (a measure of the academic ability of high school seniors) were fairly stable between World War II and the early 1960s, averaging about 978. Starting in the early 1960s, SAT scores steadily declined and reached a low of 890 in 1980. Since then, SAT scores have risen slightly to the current average of about 900. Numerous other tests of the education abilities of high school seniors by independent groups (National Assessment of Educational Progress, National Endowment for the Humanities, and the International Association for the Evaluation of Education) have also shown a serious decline in the quality of public education over the last 30 years.

Increased Costs

Accompanying the decline in the quality of public education has been a dramatic increase in the cost of public education. Since World War II, real spending per public school student has increased 40 percent *each* decade, and has gone from about $1,000 per student in 1945 to over $5,000 per student in 1990 measured in constant dollars.

Rising teacher salaries have contributed to the increased cost of education, rising from $12,000 to $35,000 in real dollars between 1945 and 1990, about twice the growth rate of average national incomes. And public school teachers' benefits have increased even faster than their salaries. From 1975 to 1985, teacher salaries rose by 10 percent in real terms, but real fringe benefits *doubled.* Benefits now contribute an additional 25 percent to teachers' average after-tax income. The increases in teachers' salaries and fringe benefits have largely coincided with the increased unionization of teachers, 90 percent of whom are now in teacher unions.

Teachers' salaries are not the real problem, though. The largest contribution to the increased costs of public education has come from the growth in the administrative sector of public schools. Administrative employment has grown far faster than instructional employment and has significantly increased educational expenditures to finance an expanding administrative bureaucracy. For example, between 1960 and 1984, the number of nonclassroom personnel grew almost 600 percent, nearly ten times the growth rate of classroom teachers. The number of nonteaching, administrative employees (46 percent of total) is now almost equal to the number of classroom teachers (54 percent of total) and continues to grow.

Consider the following cases of bloated public school administration. The Chicago Board of Education, which has 3,300 employees, is larger than the *entire* Japanese Ministry of Education. The New York City public schools system has *250 times* as many administrators as the New York Catholic school system (6,000 administrators in public school system versus 24 in Catholic school system), even though New York public schools have only four times as many students as the Catholic schools.

Administrative costs have exploded since World War II as the number of school districts has declined, from over 100,000 districts in 1945 to fewer than 16,000 in 1980. As school districts have consolidated and grown in size, they have become increasingly bloated—more top-heavy, more bureaucratic, more centralized, less efficient—and more costly to administer.

Doomed to Failure

American public schools are failing miserably. They suffer from the same underlying structural flaws that make all socialist programs eventually fail—*protection from competition and insulation from failure.* Socialism is a defective theory, and any system based on socialist principles will fail, whether it is an entire economy or a single program. Socialism failed in East Germany and the Soviet Union and it is failing in the American public education.

Since public schools have (1) an effective monopoly on education and (2) the government as their source of funding, public education is insulated from competitive market forces. Undisciplined by profit and loss accounting, public schools have no incentive either to operate efficiently or to cater to their customers. In contrast to private firms which are forced to serve the needs of their customers or go out of business, public schools can ignore their customers because they are protected from failing by the deep pockets of the American taxpayers.

In fact, operating efficiently and cutting costs undermine and sabotage the agenda of the entrenched public education bureaucracy, because operating efficiently will lead to a reduced budget. Perverse incentives are in place to guarantee failure—the worse public education is, the more money and resources will be budgeted to try to solve the education "problem." Given the political framework, it makes sense for the educational establishment to deliver an inferior educational product as a way to attract increasingly larger budgets. In contrast to the private sector where resources are constantly being directed towards the most efficient and profitable enterprises, the public sector diverts resources towards the least effective, most inefficient programs.

In regard to public education, we have seen collectivism in action—a failing, inefficient bureaucracy getting more and more resources—more money, higher salaries, more benefits, more employment. And as public schools become increasingly bureaucratic and politically oriented, they become more and more responsive to the political process and engage in rent-seeking activities to protect their monopoly status. Because the main sources of educational funding are state and federal governments, political constituencies—politicians, teachers' unions, political parties, and lobbyists—become more important to educators than parents and students. The attention and focus of education is directed away from local concerns towards the political process at the state and federal level.

In addition to the monetary expense of public education, we need also to account for the role that public education has played in the costly erosion of our personal freedom and the costly expansion of Big Government during this century. In the same way that political disincentives discourage educational efficiency, public school educators also have strong disincentives to teach students to think clearly, logically, and independently about economic and political issues. Clear economic thinking and an appreciation of private enterprise would be counterproductive to an agenda of increased funding of public education. If students and parents developed clear, independent thinking as part of public education, they would become increasingly intolerant of inefficient state-run bureaucracies like public schools. They might even demand an end to the public education monopoly.

The diversion of public funds toward an expanding public sector is made much easier if students are subtly influenced from an early age to be tolerant of government solutions and programs. Government schools therefore have flourished and expanded, along with a general expansion of government at all levels, largely because public schools have failed to educate students on the proper role of limited government as set forth in the U.S. Constitution.

Since the early part of this century, the size of the federal government has gradually increased, and is now at a historically unprecedented level. From the birth of the nation in 1776 until the early 1930s, government spending at the federal level never exceeded 3 percent of national income except during periods of war. Since the 1930s, spending by the federal government has steadily increased and has now reached 30 percent of national income. State and local government spending has also increased, from 7 percent of national income in 1930 to 12 percent in the 1990s. When we take into account the further burden of complying with government regulations and time spent filing tax forms (5.4 billion man hours), the total cost of government to society is more than 50 percent of national income. The average American now works from January 1 until July 10 every year to pay for the total cost of government.

The failure of public schools to educate students effectively has contributed to the increasing role of government over the last 60 years. The expansion of the public sector and the "stranglehold of the political power over the life of the citizen" has largely coincided with the increased bureaucratization, politicization, and unionization of public education. It may have been impossible for government to expand so rapidly over the last 60 years *without* a public education system to subtly desensitize students to the growth of the state and the erosion of personal freedom.

As Leonard Read of The Foundation for Economic Education pointed out years ago, people will never give up their freedoms all at once. However, they will be rather indifferent about losing their freedom gradually over time, as we have seen happen in this century. To explain this phenomenon, Read used the analogy of boiling a frog in a kettle of water. If you boil the water first and try to throw the frog in the kettle, it will immediately jump out as soon as it lands on the water. However, if you put the frog in a kettle of cold water and heat the water up slowly, the frog will slowly cook to death before it realizes what is happening.

Likewise, the growth of the welfare state and the erosion of freedom have happened so gradually over the last 60 years that most people have not even realized that it has happened. As a society, we would never have allowed federal government spending to expand from 3 percent to 30 percent of national income in one year, but we have tolerated that expansion of government over a 60-year period. Part of the reason we allowed this to happen is that we became immune in public schools to the gradual loss of freedom and accompanying growth in the government. The doctrine of state supremacy is subtly woven into the inculcation of students by statist, unionized, civil servant teachers who have incentives to perpetuate and expand the role of the state and public education.

We need to break the "stranglehold of political power" over our educational system by introducing parental choice, competition, and market solutions in education. Contrary to public opinion, education was largely supplied by the private sector from the 1700s until the first few decades of the 1900s. Schools were small, local, and private, and were forced by competition to be responsive to students and parents.

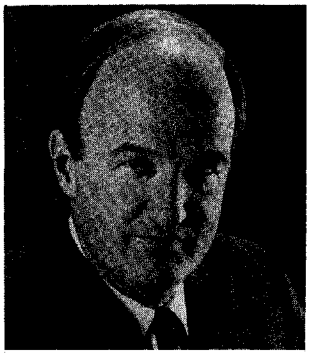
The private sector would deliver world-class, first-rate, superior education in America once the stranglehold of the "educational octopus" is broken. Innovation and experimentation in education would be encouraged in a competitive educational marketplace. Parents would have the same diverse choice in the educational marketplace that they now have when arranging for music lessons, karate instruction, or swimming lessons. In a competitive educational environment, private schools and public schools would be forced to serve the public interest or they would go out of business. Consumer sovereignty would reign once again in the educational marketplace. Costs would decline and quality would improve.

Through education and training we develop skills and abilities to improve our human capital, which is our investment in the future. The productive capacity and standard of living of a country depends on the quality of human capital available. Therefore, there is no more important responsibility than the education of our children since this is our investment in the most important resource of all—human capital.

There is no surer way to *guarantee* that our children continue to receive an inferior education than to continue educating 90 percent of our children in the public school system. Education is far too important a responsibility to leave in the hands of a government bureaucracy whose monopoly status allows it to be insensitive and unaccountable to parents and students.

Public education is a bad investment in human capital. We need to break the stranglehold of the "educational octopus" before it is too late. □

Austrians vs. Monetarists: Who's Right About Hayek?



". . . neither author gave much attention to Hayek's *Prices and Production*. It is just as well. The book is obscure and incomprehensible."
—Professor Allan Meltzer, Mt. Pelerin Society meeting Cannes, France, September 27, 1994

The late Friedrich A. Hayek founded the Mont Pelerin Society in 1947 in an effort to regenerate support around the world for free markets and free minds after the war. His contribution to economic and social thought was the subject of the society's meetings in Cannes, France, last September. Henri Lepage, the conference organizer, did a marvelous job paying tribute to the society's originator.

A major debate developed at the conference between the Austrians (followers of Mises) and the Monetarists (followers of Friedman) regarding Hayekian economics. Allan Meltzer, the highly respected monetarist at Carnegie-Mellon University, applauded Hayek's emphasis on uncertainty, the costs of information, and the concepts of coordination and spontaneous order, but rejected out of hand the macroeconomic model and business cycle theory Hayek developed in *Prices and Production* in the early 1930s. "The book is obscure and incomprehensible," he declared.

His remark reminded me of Keynes's brusque dismissal of *Prices and Production*: "one of the most frightful muddles I have ever read" and a "thick bank of fog."[1]

After his presentation, I talked to Professor Meltzer and asked him when he had last read *Prices and Production*. "Years ago," he replied. I suggested he needed to read it again. Far from incomprehensible, I find Hayek's little volume clear and profound. And, in the next generation, it may well come out of obscurity. According to Stephen Kresge, editor of Hayek's works, a new edition of *Prices and Production* is scheduled to be published by the University of Chicago Press in the near future.

In Defense of Hayek

It's great to learn Hayek's breakthrough book will again be in print. In my paper, "I Like Hayek," I extolled the virtues of Hayek's *Prices and Production*. Recently, I purchased a first edition, paying the princely sum of 350 pounds sterling. Did I overpay? Not at all. Hayek's model forms the basis of a new macroeconomics that is far superior to the Keynesian, Monetarist, and Marxist models currently in vogue. I believe Hayek's first edition will soon be worth substantially more than a first edition of Keynes's *General Theory*.

In two of my books, *The Structure of Production* and *Economics on Trial*, I resurrect the Hayekian model, transform it into a useful four-stage model, and bring it up to date with empirical data. In fact, the four-stage Hayekian model acts as my principal forecasting model.

Among the many models used to forecast the economy and the financial markets, I believe that Hayek's theory is in large mea-

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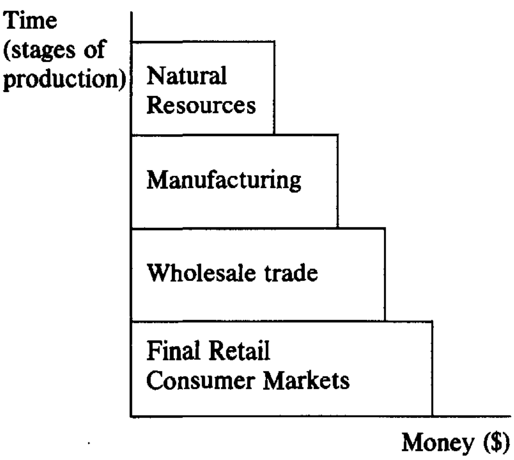
sure the right kind of model. As an applied financial economist, I use Hayek's model on a regular basis to predict the direction of inflation, output, and the prices of financial assets, including which country funds to invest in. Of course, it is not the only ingredient I use to forecast the business cycle, but it is always an important consideration. The model does an excellent job of explaining the recent boom-bust cycles in the United States and Japan.

The Austrian model offers a highly practical picture of economic activity, one that the layman or businessman can easily relate to. Based on Hayek's diagrams in *Prices and Production* (known as Hayekian triangles), I have developed a four-stage model to analyze the economy and forecast trends (see figure).

Time and Money

This four-stage model offers a straightforward view of the economic process. My students call it "Skousen's stairs," because it looks like four steps. The vertical axis represents "time" and the horizontal axis represents "money." As Roger Garrison points out, time and money are the building blocks of a basic macroeconomic model.[2]

As the diagram demonstrates, all goods and services pass through a series of production processes, from raw commodities to usable consumer products, whether it be



Source: Mark Skousen, *The Structure of Production* (New York University Press, 1990), p. 171, and *Economics on Trial* (Irwin Professional Publishing, 1991, 1993), p. 35.

shoes, computers, or food on the table. Value is added at each stage as the inputs are transformed and moved along toward the next stage, moving closer and closer to the final retail market. Sir John Hicks recognized the common-sense approach of this Austrian model: "The concept of production as a process in time . . . is not specifically 'Austrian.' It is the typical businessman's viewpoint, nowadays the accountant's viewpoint, in the old days the merchant's viewpoint."[3]

In teaching this Austrian model, I find that students of business, accounting, marketing, and engineering relate to it right away. It is a logical approach, confirming that the purpose of all economic activity is to take unusable, unfinished "inputs" and transform them into more useable, finished "outputs" with the ultimate aim of satisfying the wants and needs of consumers. The factors of production—land, labor, and capital—work together to bring this about. Thus, we see in this diagram that the capitalistic system is not only competitive but cooperative as well, an often-overlooked characteristic.

The four-stage model of the economy can also be used to demonstrate a correct version of Aggregate Supply and Aggregate Demand, which are inaccurately portrayed in today's textbooks. It can show how macroeconomic equilibrium is achieved, how economic growth takes place, and how macroeconomic disequilibrium creates a business cycle. (See chapters 7–9 of *The Structure of Production*.)

It also offers a powerful new way to introduce the principles of microeconomics, the theory of the firm and the role of land, labor, capital and entrepreneurship.

In short, an updated version of Hayek's model forms the basis of an exciting new tool in economics and can serve as the basis of a versatile, fully-integrated model of both micro and macro in economics textbooks. I am working on such a textbook, tentatively entitled *Economic Logic*. Stay tuned. □

1. John Maynard Keynes, "The Pure Theory of Money: A Reply to Dr. Hayek," *Economics 11* (1931), pp. 394, 397.
2. Roger Garrison, "Time and Money: The Universals of Macroeconomic Thinking," *Journal of Macroeconomics* 6:2 (Spring, 1984), pp. 197–213.
3. John Hicks, *Capital and Time* (Clarendon Press, 1973), p. 12.

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by Martin Malia
The Free Press • 1994 • 575 pages • $24.95

Russia Under the Bolshevik Regime
by Richard Pipes
Alfred Knopf • 1994 • 587 pages • $35.00

Reviewed by Ralph Raico

On December 25, 1991, the Red Flag over the Kremlin was lowered for the last time. Yet many of us still find it hard to absorb the fact that Soviet Communism has ceased to exist. It will take some time to get used to the glad tidings. Meanwhile, we are now in a position to begin to answer the question: What was it all about? As Martin Malia, of Berkeley, puts it: "Soviet history is now for the first time really history, and this closure permits us to see the pattern or 'logic' of its life course." Malia does not mince words in his forthright and illuminating book: what Soviet history—"seventy years on the road to nowhere"—was about was *socialism*. The key to understanding the doleful Soviet experience is the Marxist dream: to construct a free and prosperous society by abolishing private property and the market. But that task, Malia asserts, was and is inherently impossible. Releasing a blast of fresh air into the musty, left-oriented field of Soviet studies, he pronounces socialism to be nothing more than an "assault on reality."

Malia stresses the crucial significance of the period up to 1921, later—deceptively—termed "War Communism." As free-market scholars Paul Craig Roberts and Peter Boettke have demonstrated, War Communism was no mere make-shift, occasioned by the Civil War. Instead, *it constituted the Marxist project*: abolition of private property in the means of production, prohibition of exchange, suppression of money, etc. The results were so catastrophic that Soviet power itself was in jeopardy. Hence, Lenin's temporary retreat to a mixed economy with the New Economic Policy, NEP. But NEP was not what the Communists had seized power *for*. With Stalin in charge, the effort to achieve socialism was renewed. The first Five-Year Plan was announced, collectivization of agriculture begun. And terror and famine—already prodigious under Lenin—reached staggering proportions. Malia's figures for the victims of Stalin jibe with those of Robert Conquest and most other scholars of the period: around 20,000,000 dead, from the Ukrainian terror-famine, the Gulag, the Purges, and the ceaseless executions.

Stalinist planning, unlike War Communism, involved money, wages, and prices; thus, it represented a temporary deviation from the socialist ideal. So did the legal private plots and small markets for the peasants, as well as the de facto black market, or "shadow economy." Still, the Soviets were able to achieve real success in only one area: military hardware, into which enormous resources were poured. Malia mentions Ludwig von Mises and his argument against socialist planning, and he refers to Peter Boettke's book on the subject. Yet he seems unaware that this was the very heart of the matter, the essence of socialism's impossibility. As Mises showed, rational economic planning cannot take place in the absence of prices for producer goods, and no such prices can arise where all producer goods are owned by the state. Hence, the constant lurching from one economic program to the next, always with the same result.

Malia is particularly harsh on the band of Sovietologists, who, for the most part, apologized for the Soviet system. It represented, they averred, merely a variant form of modernization, one which had proved, by and large, successful. They banned the term "totalitarian" from discussion, as fueling the Cold War. As for Stalinist terror, it was an aberration. Some professors even minimized the number of victims to the point where, if they had been writing about the Holocaust, their works would have been banned in half a dozen democratic countries. When Khrushchev boasted of overtaking the United States by 1970, Western media like *The New York Times* and *Le Monde* took him seriously. Similarly, up until the moment it fell, East Germany was rated an economic success by many Western economists and journalists.

Gorbachev understood that the shabby socialist economy was incapable of sustaining a world power. Perestroika was introduced, and with it glasnost, a limited opening up of channels of criticism. Glasnost proved suicidal. The surrealism of Soviet society could not survive the light of criticism. Inevitably, the ideological house of cards erected by the Party propagandists and disseminated by foreign fellow-travelers over seven decades collapsed.

In 1989—that marvelous year—the Red regimes toppled one after the other. In the Soviet Union, the ruling class lost faith in its right to rule, and with it "the will to coerce."

Today Russia is in an incomparably worse position than, say, Spain after Franco, or even West Germany in 1945. Despite dictatorship, civil society in those nations had never been pulverized, as it had in Soviet Russia. Above all, the principle and values of private property had been more or less preserved. In Germany, an inspired leader like Ludwig Erhard could build a new market economy on the basis of what had survived. In Russia, three generations of Communist rule, as Malia points out, annihilated civil society and created a vacuum. An "envious egalitarianism" and the vilification of all money-making as "speculation" are rampant. Malia's pessimistic prognosis for Russia, unfortunately, rings all too true.

There are minor but surprising errors: Malia confuses the German socialist Karl Liebknecht with his father Wilhelm and the Franco-Russian Alliance with the Triple Entente, misquotes the first line of the "Internationale," and states that Franco was aided by Germany and Japan, rather than Germany and Italy. More seriously, he adheres to the outdated interpretation of the Industrial Revolution, whereby the masses impoverished by industrialism were only rescued by labor unions and a mysterious "safety-net" (which did not exist until decades after workers' living standards had risen in all Western countries). Most strangely of all, Malia states that classical Marxism "had not made a central and explicit issue of the anarchy of market"—an interpretation directly contradicted by well-known passages from Engels' *Anti-Dühring* and other classical Marxist works. All in all, however, this is an excellent work, and a much-needed antidote to dozens of apologias for the Soviet regime.

Richard Pipes' *Russia under the Bolshevik Regime* takes a different approach. This sequel to the Harvard historian's *The Russian Revolution*, completes the trilogy he began some twenty years ago with his *Russia under the Old Regime*. The book covers the period from the outbreak of the Civil War to the death of Lenin (1918–1924). Some interesting new material recently retrieved from Russian archives is included, and some stimulating ideas are advanced. Pipes suggests, for instance, that the attraction felt by so many Western intellectuals for the Soviet regime is traceable to the fact that it was the first government since the French Revolution in which intellectuals like themselves—Lenin, Trotsky, and the rest—held the reins of power. Thus, "in Soviet Russia, intellectuals could expropriate capitalists, execute political opponents, and muzzle reactionary ideas."

But Pipes' work suffers from a fundamental flaw. Consistently with his previous views, he states that ideology was merely a "subsidiary factor," one that neither "determined [the Communists'] actions," nor "explains them to posterity." Traditional Russia, not Marxism, is the key to understanding the regime's history, because "nowhere in the West has Marxism led to the totalitarian excesses of Leninism-Stalinism." Here Pipes overlooks the small fact that, in the West, socialist parties *abandoned* Marxism, starting with the German

SPD after the First World War. And how explain Bolshevik discipline and fanaticism— crucial to seizing power and winning the Civil War—without Bolshevik ideology? How explain the final relinquishing of power, without the fading of faith in Communism in the ruling class? In fact, contrary to Pipes, the Soviet experience taken as a whole is a classic illustration of the Misesian philosophy of history: in the end, it is ideas that, for good or evil, rule the world. □

Dr. Raico is professor of history at the State University of New York College at Buffalo, and the author of Marxist Dreams and Soviet Realities, *published by the Cato Institute.*

Classics in Austrian Economics, 3 volumes

Edited by Israel M. Kirzner

London: William Pickering and Chatto Publishers, Ltd., 1994 • xxxii + 355 pages; xx + 340 pages; xviii + 312 pages

Reviewed by Peter J. Boettke

When Carl Menger published his seminal book on economic theory in 1871 he established a tradition of economic scholarship that is still attempting to come to terms with his revolutionary insights into human action and the exchange process. As Mises reports in *Notes and Recollections,* it was upon reading Menger's *Principles* that he became an economist. From 1871 to the 1930s, this was figuratively true of all those within the Austrian School of Economics, including such well-known economists as Eugen von Böhm-Bawerk, Friedrich von Wieser, Franz Čuhel, Richard von Strigl, Hans Mayer, Paul Rosenstein-Rodan, Gottfried Haberler, Leo Schönfeld, Fritz Machlup, Oskar Morgenstern, and, of course, F. A. Hayek. The 1930s, however, saw the destruction of the intellectual base for the Austrian School of economics, Vienna, as most of the remaining scholars within the tradition fled Austria to escape Hitler. Haberler, Machlup, and Morgenstern launched successful academic careers in the United States at Harvard (Haberler) and Princeton (Machlup and Morgenstern). However, their Austrian roots—while forever present —were not emphasized in their economic scholarship during their professional period in the United States. Mises and Hayek, of course, continued to refine the Austrian tradition with their brilliant work on the trade cycle and on the problems of socialist economic and political organization, as well as their work on the philosophical foundations of economic science. But, by the late 1930s, early 1940s, the Austrian School of Economics was thought to be either fully incorporated into the mainstream or soundly defeated in scholarly debate. This assessment has been subsequently proven wrong on both counts.

One of the difficulties with the Austrian tradition was plainly and simple *translation* difficulties. For example, Austrian capital theory formed the core of both the trade cycle theory and the critique of socialist calculation, yet economists trained in the English-language tradition did not see the point of the Austrian notion of a time structure of production, and therefore, were not particularly impressed with the Mises-Hayek demonstrations of either the problems with malinvestment caused by monetary manipulation or the inability of socialist planners to rationally calculate the alternative use of scarce capital goods amongst various investment projects. Certainly during the period between 1940 and 1970 there were some prominent theorists who argued against inflationary monetary policy and the advance toward socialism, *but they did not base their argument on the reasons associated with Austrian economics.*

In the 1970s that was to change. First, in 1974 Hayek won the Nobel Memorial Prize in Economic Science, which brought with it renewed attention to the economic theory, as opposed to political theory, work he had done in the 1930s and 1940s. Second, beginning in 1973, Israel Kirzner had started a resurgence of interest in the Austrian theory of the market process with his seminal *Competition and Entrepreneurship.* Kirzner also worked to establish an Austrian Economics Program at New York University, which supported both post-doctoral scholarship and student training in the Austrian tradition—the first institutional home for Austrian School scholarship since the 1930s.

Kirzner was a tireless champion for the Austrian cause. Since then he has published four additional works and edited two other collections of articles in the Austrian tradition. Now, he offers us a three-volume "sampling of a tradition"—as the subtitle states. *Classics in Austrian Economics* includes contributions to economic scholarship made by all the individuals I listed above beginning with Menger. Volume 1 is devoted to the early contributions. Some of the chapters are available in other works, such as Menger's *Principles* or Böhm-Bawerk's *Capital and Interest,* but many are not. In fact, as is the case with all three volumes there are original translations from the German that were produced for this project.

Volume 2, which covers the interwar years when Austrian economics flourished as a scientific body of thought, includes the an original translation of the classic paper by Hans Mayer on genetic-causal explanation within economic science. In addition, Richard von Strigl's discussion of the relationship between economic theory and economic policy is translated.

Volume 3 is devoted to the age of Mises and Hayek and contains many of their seminal articles on methodology, money and capital theory, and the nature of the market process (including the critique of socialism). Israel Kirzner must be thanked for bringing together such a fine "sampling" of the Austrian tradition. The price of the volumes (around $300) will preclude individual consumption of these volumes . . . that is too bad, though understandable given the publisher's purpose in producing this volume, which is to supply the reference market within libraries. But, it would be good if word-of-mouth advertising helped the publisher place these volumes in as many libraries as possible.

Not only did Kirzner organize this project, but he provides substantive introductions to each volume. His introduction to volume 1, for example, is quintessential Kirzner. With careful scholarship, Kirzner demonstrates the unity between Menger's vision of economic science as emanating out of the human choice problem and Mises' project in *Human Action.* Moreover, his history of the rise, fall, and then resurgence of the Austrian School is, I would be tempted to say, worth the price of the book—though given the price of the volumes this market is obviously what we economists refer to as very "thin." Nevertheless, *Classics in Austrian Economics* is an indispensable collection of material for scholars and students committed to serious study of the Austrian tradition. Hopefully, these volumes will make their way onto the library shelves at a large number of universities and colleges so that many will have access to their wealth of material. □

Dr. Boettke teaches economics at New York University.

The Index of Leading Cultural Indicators: Facts and Figures on the State of American Society

by William J. Bennett

Simon and Schuster • 1994 • 138 pages • $8.95 paperback

Reviewed by Wesley Allen Riddle

William J. Bennett, best-selling author of *The Book of Virtues,* has produced another dandy little volume, this one geared towards fast, easy consumption and future reference. *The Book of Virtues* is an implicit companion, if only to indicate what's been missing in our society. *Leading Cultural Indicators,* however, stands alone. Its strength lies in the explicit message of chilling statistics.

Bennett's new book is a compendium of charts and graphs extracted from various government and private research sources and is divided into five chapters: Crime; Family and Children; Youth Pathologies and Behavior; Education; and Popular Culture and Religion. There are also appendices on social spending and related economic indicators. The twelve-page introduction is perhaps the best and certainly the most succinct critique yet written on the destructive legacy of the Counterculture.

One of the salient points, easily drawn from data in the book, is that government solutions compound social problems. For instance, the growth of social ills literally parallels the growth in government social spending. While welfare gets 630 percent more money today than in 1960, long-term static dependency has actually increased. Of course, escalating welfare and social spending costs have translated into real tax burdens on working families with children.

The hardest hit are the working poor and the dependent poor themselves. The data indicate that, by co-opting or undercutting individual responsibility, government paternalism not only breeds dependency but depresses the economy and precludes the kind of long-term economic growth that would provide permanent solutions. Indeed, it is clear that the staggering tax burden increases all kinds of stress on families, and many households have simply been unable to survive.

The divorce rate has more than doubled since 1960 and is the highest in the world, although down slightly from its peak in the early 1980s. There is a smaller percentage of households with married couples in the United States today than there has been for two centuries. Nearly one in two U.S. households is headed by single parents or involves some other non-traditional living arrangement. Abortions have skyrocketed since 1972, while one-third of all births in the United States today are out of wedlock. Fully seventy percent of African-American births in the United States are illegitimate. Moreover, the linkage between the breakdown of the American family, poverty, and the incidence of social pathologies is well-established in the data.

Government has failed miserably its primary function of protecting law-abiding citizens from criminals. There has been a more than 500 percent increase in violent crime over the past thirty years. Yet the data show crime increasing and punishments declining both qualitatively and quantitatively. Public toleration, however, must also share the blame. The sad fact of the matter is that many in society doubt they even know basic right from wrong, or if they do, their own self-esteem is so low as to mute public demand for retribution.

Leading Cultural Indicators includes some legislative proposals in the introduction, and while they strive to be "mainstream," rather than representative of a partisan political agenda or particular philosophy, they belie Bennett's own compromise with big government solutions. In each case his solutions may represent improvement in policy over the status quo, but the people only get a more benevolent master. The apparatus of the State *is the problem*, and it is hard to imagine the imposition of federal sentencing guidelines, national educational standards and a national core curriculum, federal tax incentives (conservative social engineering), IRS-directed garnishment of pay for dead-beat dads, and government identification of fathers by Social Security number are the kinds of things that are needed. They offer no long-term solace from Leviathan; worse they are likely to be the wellspring of present and future bureaucratic abuses and myriad government intrusions.

The book does, however, successfully issue a clarion call to concerned citizens. The data are highly useful and indicate that we are a society in crisis. The trends chart a decline of our civilization over some thirty years. Bennett acknowledges that government alone cannot arrest the negative social trends he identifies; indeed, only individual responsibility and appropriate voluntary collective action can do so. We should add that it would be most prudent to do so. □

Mr. Riddle is a faculty member at the U.S. Military Academy, West Point, where he teaches American History.

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IDEAS ON LIBERTY

FEATURES

COLUMNS

DEPARTMENTS

THE FREEMAN
IDEAS ON LIBERTY

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PERSPECTIVE

Risk, Rights, and Regulation

In her book about medieval Europe, *A Distant Mirror,* Barbara Tuchman describes a world so dangerous that one or two children died as infants for every three that were born. Death was so likely, she says, that parents invested little emotion in their children during the first five or six years; children were "left to survive or die without great concern."

In contrast, Americans live in a world that is extremely safe. The vast majority survive to a healthy adulthood; a child born today can expect to live 75 years. Today, death is tragic in part because it is so rare.

Yet the actions of Americans imply the opposite. Americans have allowed their government to intervene with the goal of protecting them against risks. The government now bans many chemicals, controls emissions of small quantities of chemicals from industrial plants, clamps down on pesticide residues on vegetables, and slows down the introduction of potentially valuable new drugs—all in the name of greater safety.

Most of the risks being addressed are small. These policies may actually be increasing our risk by reducing our self-reliance and frittering away resources that we need if we are to deal with our problems individually. Reliance on the government in this area erodes freedom just as it does in every other area.

Fortunately, a number of people who share a concern for liberty have been trying to figure out how to reverse direction and stop turning every fear or danger over to the government. A number of those thinkers are represented in this issue of *The Freeman.* The purpose of this issue is to help us understand why we have turned over so much risk coping to the government, what harm it has caused, and what, over the long term, we can do about it.

Technically, this issue is about "risk policy" and "risk assessment," as well as more generally about environmental problems. But I hope to show that "risk" is more than a technical matter, and I hope that these articles will point the way toward steps we can take to deal with risks while enhancing freedom.

This issue also includes an essay about the life and work of the great economist Adam Smith. While this short biography does not deal overtly with risk to human life or to the environment, as most of the other articles do, Adam Smith was not silent on the subject. He well understood one of the recurring themes of this issue: When hazards occur, governments usually make them worse, not better.

Consider the following quotation (found on p. 493 of the Modern Library edition of *The Wealth of Nations*): "Whoever examines, with attention, the history of the dearths and famines which have afflicted any part of Europe . . . will find, I believe, that a dearth never has arisen from any combination among the inland dealers in corn, nor from any other cause but a real scarcity, occasioned sometimes, perhaps, and in some particular places, by the waste of war, but in by far the greatest number of cases, by the fault of the seasons; and that a famine has never arisen from any other cause but the violence of government, attempting by improper means, to remedy the inconveniencies of a dearth."

—JANE S. SHAW

(Jane S. Shaw, Senior Associate of PERC, a research center in Bozeman, Montana, is this month's guest editor.)

Free Market Environmentalism

Free market environmentalism is based on two premises, the first of which is that free markets provide the higher incomes that in turn increase the demand for environmental quality. Few would deny that the demand for environmental quality has increased dramatically in the past 25 years, and there is growing consensus that the cause of that increased demand is rising incomes. New studies show that the relationship between per capita income and environmental quality follows a "J-curve" pattern. At very low levels of income, environmental quality may be high because no effluent is produced. As incomes rise above some minimum, pollutants increase and the environment deteriorates. But then at per capita incomes of approximately $5,000 per year, environmental quality begins to become a luxury good. Above that income level, estimates by Don Coursey of Washington University in St. Louis show that for every 10 percent increase in income there is a 30 to 50 percent increase in the demand for environmental quality. We may all be environmentalists now, but the cause is not a born-again experience at Walden Pond; it is increasing wealth generated by free markets that has given us the wherewithal to afford environmental luxuries.

The second bulwark of free market environmentalism is that market for environmental amenities provide incentives for individuals to treat the environment as an asset rather than a liability. . . . Coercive environmentalists claim to know where we ought to go and use the powers of government to get us there. For them there is never enough wilderness, species should not go extinct, and pollution should not exist. That asserted, why not use command and control?

Free market environmentalists make no claims that they know what ought to be done. That will be determined by human action revealed in voluntary transactions where prices provide incentives for willing buyers and sellers to cooperate to achieve their mutual ends.

—TERRY L. ANDERSON *and*
DONALD R. LEAL
"Letters," *Regulation*, No. 2, 1994

THE FREEMAN
IDEAS ON LIBERTY

Risks in the Modern World: What Prospects for Rationality?

by Fred L. Smith, Jr.

Risk refers to the likelihood that something will go wrong.[1] People naturally fear such mishaps, and risk aversion is a basic survival trait. Only non-survivors rush in where angels fear to tread![2]

Even in our relatively safe world, there is much to fear: crime, disease, highway and other accidents. The surprising issue is not that people fear, but that people should come to fear the dynamic forces upon which America was built.

Americans are afraid of economic growth and technological advance, even though these forces largely account for our current well-being. The prominence of this attitude is a relatively new phenomenon; as recently as the 1950s, American culture still revered science and technology. Scientists and innovators were heroic figures, the Bell Science Hour was a popular television series, and youngsters read *Microbe Hunters* with enthusiasm. No longer. Today's popular culture uses the scientist more as a careless Dr. Frankenstein than a heroic Prometheus and views scientific achievements as more evidence of man's arrogance than man's genius. What accounts for the modern reaction?

Mr. Smith is president and founder of the Competitive Enterprise Institute in Washington, D.C. He is co-editor of Environmental Politics: Public Costs, Private Rewards *(Praeger, 1992).*

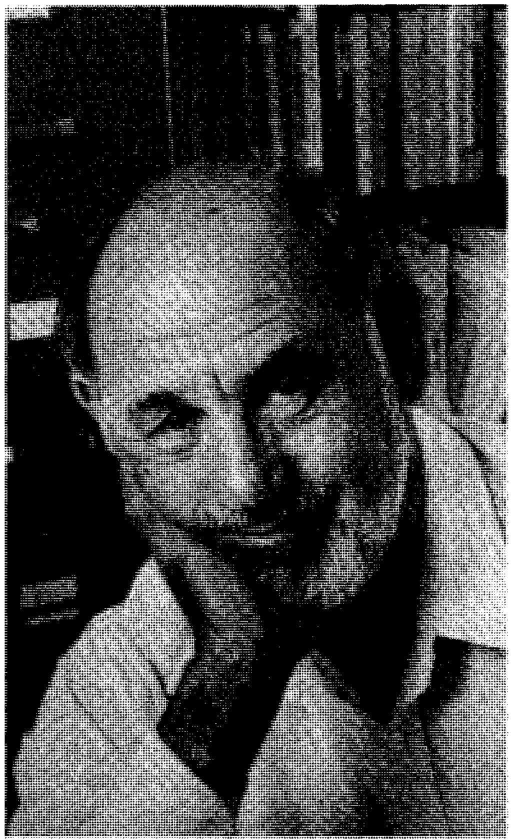
The Wildavsky Legacy

More than almost any analyst, the late Aaron Wildavsky examined why America had become so frightened and, through his books *Searching for Safety*, *Risk and Culture* (with Mary Douglas), and *The Rise of Radical Egalitarianism*, among other works,[3] he largely structured the debate on reform of risk policy. Consider some of his basic concepts:

- **The safe and the dangerous are intertwined:** Wildavsky was fond of the Jogger's Dilemma. Joggers, he noted, all too often drop dead of heart attacks in mid-stride. The stress of exercise is too much for some bodily systems to handle. Nonetheless, joggers are less likely to die of heart disease than their sedentary colleagues and exercise provides significant long-term health benefits. Jogging may be a "risky" activity, but it tends to reduce the health risks that people face. Wildavsky used this analogy to illustrate that safety and danger are rarely separable, but rather inextricably mixed elements of life. The conclusion, in Wildavsky's view, was: We must not seek a "safe" course but rather a "safer" course. To make our lives safer, we must prudently accept the introduction of new risks.
- **We search for safety:** Wildavsky noted that safety is discovered—not designed. Increased safety results from a learning

process. We try new things, make mistakes, and learn from our experiences. Over time, risks are reduced. This "trial by error," evolutionary approach to a safer world stands in sharp contrast to the "trial without error" approach demanded in today's highly politicized risk management world.

- **Wealthier is healthier:** Money is not just wealth; it is also a measure of our ability to fend off disasters. A wealthier population can buy healthier food, live in safer neighborhoods, purchase higher quality goods, see doctors more frequently. To Wildavsky, this suggested that all risk reduction regulations should meet a minimum test: They must save more people than they kill. Many of America's more expensive regulations fail this standard.[4]
- **Anticipation vs. resilience:** Wildavsky challenged the common belief that risks should be avoided, that we should always look before we leap. He argued that in a world where many, perhaps most, serious risks are surprises, the more rational course is to improve our resilience—our ability to ride out unexpected disasters. Greater wealth is one element of this strategy. These common-sense approaches to risk championed by Wildavsky are largely ignored in the policy arena. Politicized risk managers seem obsessed with the risks of change but treat lightly the risks of stagnation. The risks of going too fast are carefully examined, but the risks of going too slow are largely ignored. Yet, as any bicycle rider knows, speed can improve stability and enhance safety, though it can also increase the damage from a fall. Once a society demands unattainable levels of safety—a risk-free world—public policy becomes divorced from reality. To an increasing extent, that is the situation we are in.


JANE SCHERR, COURTESY TRANSACTION PUBLISHERS

Aaron Wildavsky

Why Is America Afraid?

Wildavsky believed that the primary factor explaining modern attitudes toward risk was the dramatic rise in the power of radical egalitarians—that is, those who see all differences among the citizenry as evidence of injustice. In a balanced culture, egalitarian values are tempered by other viewpoints. The egalitarian impulse underlying the sentiment that "all men are created equal" is counterbalanced by the notion that all men must be free. However, like Alexis de Tocqueville before him, Wildavsky noted that America has always been prone to egalitarian excesses, and this tendency led to the current situation, particularly after the Vietnam War radicalized a whole generation of intellectuals.

Egalitarians view differentiation itself as evil. Thus they oppose the "creative destruction" that accompanies economic and technological change, since change creates winners and losers. Egalitarians favor a "steady-state" economy and thus view with suspicion the changes brought about by economic and technological growth. They sympathize with claims that cancer is caused by corporate malfeasance and that modern technology is creating public health disasters. Their egalitarian preferences for a world of sharing, of communitarian values, lead them to see the world in stark Malthusian tones. They readily believe that the earth is inherently fragile, that man's activities threaten to warm or cool or dry or flood the earth. A world at risk demands common sacrifice, and compels us all to band together if we are to survive.

To Wildavsky, modern environmentalism is best viewed as a restatement of this egalitarian distaste for our modern society. However, he also examined many of the standard arguments advanced by those supporting modern attitudes toward risk:[5]

- **In the modern world, environmental risks are extremely important:** In this view, it is rational to fear technology and industry, which have unleashed dangerous involuntary risks on humankind. In fact, however, objective data suggest that technology per se creates few public health concerns of a magnitude comparable to those faced by primitive societies. For example, relatively few cancers can be attributed to pollution, occupational exposures and the like.[6] People are living longer, healthier lives than ever before. Environmental risks are still very low compared to other existing threats. The world is not getting riskier, it is getting safer, and the environmental concerns many people fear are not very dangerous.

- **Modern Americans are more risk intolerant:** In this argument, it is not that the world has become riskier; but, rather, a wealthier, healthier population has naturally become more concerned with risks. This argument seems plausible. Earlier American leaders grew up during the Depression and World War II and experienced serious dangers. In contrast, "baby boomers" have experienced few real risks. Not surprisingly, therefore, the boomers are more risk averse and demand a higher level of safety than their parents. However, this explanation ignores the fact that baby boomers, particularly those who agitate for government risk regulation, have not displayed any great aversion to risky lifestyles. They have experimented widely with potentially hazardous drugs, promiscuous sex, and a wide array of other dangerous, albeit exciting, recreational activities, from hang gliding to Third-World tourism. Increased risk aversion per se does not appear to explain modern attitudes toward risk, though it may have some influence.

- **There are risks and there are *risks*:** To some, public attitudes toward risk are a function not only of the "objective" magnitude of actual risks, but also of the manner in which these risks occur. Risks that are voluntary, visible, or reversible are more acceptable than risks that are hidden, imposed, or permanent. This is the difference between "hazards" (risks that are "legitimate") and "outrages" (risks that are not). This explanation has a surface plausibility.

But which risks are voluntary and which are not? Are the risks of living near a nuclear plant, of drinking water that may contain low levels of chemicals, or of sharing blood with strangers accepted voluntarily? Or are they outrageous risks imposed on us by the nuclear industry, manufacturers whose chemicals get into the water supply, and AIDS carriers? Different people at different times seem to view the same risks very differently. Environmentalists advocate limitations on smoking in private restaurants, even though secondhand smoke is an avoidable risk (and an inconsequential one in most cases as well). However, they see nothing wrong with regulations that cause harm by reducing wealth or denying technology. The fact that any risk may be easily reclassified according to the values of the judging party makes the distinction between voluntary and involuntary risk highly suspect.

- **America has enlarged its fear-promoting institutions:** Since World War II, risk regulatory agencies have seen their powers expanded and a host of new agencies has been created. The alphabet soup of regulatory offices—FDA, EPA, OSHA, FTC, etc.—emphasizes certain risks and ignores others. These agencies are assigned no responsibility for the risks of economic and technological stagnation; they need consider only the possible risks from a new product or process. Moreover, if such agencies are to maintain and expand their staffs and budgets, they must persuade Congress that their role is essential. That reality explains why EPA pronouncements read as if they were written by Stephen King. Environmental groups are under similar pressure in their drive to raise funds. Incentives to arouse fear do help explain the growth of anti-technology attitudes in America.

The Role of Culture in Risk Selection

Wildavsky recognized that modern attitudes toward risk had many causes, but he believed the dominant factor remained cultural. The things we choose to fear reflect our values more than knowledge about actual risks. We select to fear those things that convince us that our deeply held prejudices are valid. What else can explain our willingness to ignore the vast ocean of natural carcinogens in which we live, while spending literally tens of billions on the trivial quantities of pesticide residues? Wildavsky believed that America's intense preoccupation with trivial risks reinforces egalitarian values. Finding threats in economic activity and technological change allows us to castigate business, condemn modern wealth distributions, and argue for a radical restructuring of modern society.

What Is to Be Done?

Any improvement in risk management will require both reforming existing institutions and expanding the scope of private risk management. The latter is preferable, but political realities require attention to short-run reforms in addition to long-term solutions.

Currently, the EPA and other risk regulatory agencies are biased against change. These agencies must be forced to consider the risks of economic and technological stagnation as well as the risks of technology itself. How might this be done? One way is to encourage "conflicts of interest" within agencies' goals—for example, all risk agencies should also have the responsibility of promoting technology.

Such an approach would reverse decades of "good government" reforms designed to separate agencies devoted to safety from agencies focused on advocacy. Past reforms gave the EPA control over agricultural chemicals, while the U.S. Department of Agriculture was to concern itself with farm output only. The idea was to make the EPA more focused on safety; but it also gives the EPA little reason to consider the impact of pesticide regulations on agricultural productivity, food prices, or product availability.

A less ambitious step would be to create a new position in all regulatory agencies to deal with new technologies. Appoint a Technology Ombudsman charged with making a case for the earliest possible approval of the broadest possible range of new technologies. In order to grow, the office would have to demonstrate that the EPA and other agencies are regulating too much, thus providing a counterweight to the presumption that more regulation is always good. The goal would be to ensure a more balanced trial, with advocates on both sides of the issue. (The Catholic Church pioneered in this type of reform when it created both an Advocate of God and a Devil's Advocate in its canonization process. One office was charged with advancing the case for sainthood, the other for shooting it down.)

Another possible institutional reform would be to mandate Post-Regulatory-Approval Audits for products when they are finally approved. The goal would be to assess the losses (both economic and to human health) associated with their delayed introduction. Thus, when the Food and Drug Administration announces a new drug, celebrating how many lives it will save in the future, such an audit would point out how many lives could have been saved had the FDA acted even sooner.

If such reforms are to have any chance of success, some support or at least acquiescence by egalitarians will probably be necessary.[7] What would motivate this group to rethink its opposition to choice and technology? Possibly the distributional consequences of anti-technology and anti-growth policies could persuade them. Little effort has been spent to show the effect of modern risk management policies on the poor and on the Third World, yet they may be significant. To choose just one example, if bans on pesticides make fruits and vegetables more expensive, the poor are hurt more than the well-off.

Toward Private Risk Management

Unfortunately, reforming the political bureaucracy is rarely successful. Thus, we should begin now to relegitimize private risk management.[8]

The task of government is not to ensure our safety—but to ensure our rights. We may elect to hang-glide, to hunt, to smoke, to explore underwater caves, to ski, to take non-approved pharmaceutical products, and we should be free to do so. There are risks entailed by such choices, but people should be free to make those choices and bear the responsibility for them. There can be no values, no clarity about justice in a world where others decide what is good for us.

Individuals should be free to voluntarily expose themselves to increased environmental risks if they believe that there are offsetting benefits. For example, some people may oppose the siting of a new incinerator in their backyard, while others may see it as a source of wealth and opportunity. Different people with different needs will judge such situations differently, examining the risks and the benefits that lie on each side of the equation. Furthermore, in accepting risks, people should be free to use private means of managing their risks. A role for policy is to make sure that private insurance is not destroyed by government, to restore and strengthen the traditional right of private contract, and to protect private ownership.

Aaron Wildavsky's work points out the need to expand the arguments in favor of private risk management and to elucidate the reforms that can enable us to achieve it. As former EPA Administrator William Ruckelshaus has noted, echoing Ben Franklin, a frightened population is often all too willing to sacrifice its freedom for the promise of security. Many in America have understood that fact and are using it to erode our freedom.

In sum, fear is rational; today's system of political risk management is not. Our challenge is to make that fact evident to the citizenry. □

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1. This article seeks to synthesize the work of Aaron Wildavsky on risk and to suggest the policy implications of his work. Wildavsky was the world's expert and his untimely death in September 1993 left many unanswered questions. I venture this essay in the hope that others will take up the quest.

2. Of course, the sociobiological case for heroism (the altruistic gene argument) does suggest that this remark be qualified.

3. See Aaron Wildavsky, *Searching for Safety* (New Brunswick, N.J.: Transaction Books, 1988); Mary Douglas and Wildavsky, *Risk and Culture: An Essay on the Selection of Technical and Environmental Dangers* (Berkeley: University of California Press, 1982); and Wildavsky, *The Rise of Radical Egalitarianism* (Washington: American University Press, 1991).

4. See, for example, Daniel Mitchell, "The Deadly Impact of Federal Regulations," *Journal of Regulation and Social Costs*, June 1992; and, Wildavsky, *Searching for Safety*.

5. For a more detailed discussion of this point, see "Who Wants What and Why? A Cultural Theory" and "Theories of Risk Perception" in Wildavsky, *The Rise of Radical Egalitarianism*.

6. See Michael Gough, "How Much Cancer Can EPA Prevent?" *Risk Analysis*, Vol. 10, no. 1, 1990.

7. Ideas do have consequences—especially among the intellectual class. Consider, for example, the shift of opinion at *The New York Times* on the value of minimum wage legislation. Over time, the editorial staff became convinced that such laws harm, rather than help, the poor. See *The New York Times*, "The Right Minimum Wage: $0.00," January 14, 1987.

8. These points are elaborated in my chapter, "Environmental Policy at the Crossroads," in *Environmental Politics: Public Costs, Private Rewards*, Michael Greve and Fred Smith, eds. (New York: Praeger, 1992).

THE FREEMAN
IDEAS ON LIBERTY

Chemicals and Witches: Standards of Evidence in Regulation

by Robert H. Nelson

Why do bad things happen? Why does a child die? Judeo-Christian theology instructs its followers to trust that God has a purpose, however difficult it may be to understand.

That answer has not been fully satisfactory for many people. Before the Enlightenment, many in the European religious world explained disasters through evil spirits, witches, and other agents of the devil, which undermined true faith, spread injury and disease, and caused many bad things to happen.

Our modern and scientific age—a time when most people no longer believe in the active presence of the devil in the world—confronts a similar problem. Science tells us that our fate is a matter of the workings of the laws of nature: Cancer is an accident of cell biology; a high death rate in one town is simply the random statistical consequence of the workings of probabilities in a nation with many thousands of communities. Yet secular thought today is as filled with devils, and bad things are as attributed to evil influences, as in the European world of 500 years ago.

The many parallels were developed in a remarkable article—still known mainly to environmental specialists—that appeared in 1980 on "Witches, Floods and Wonder Drugs."[1] The author, William C. Clark, then at a prestigious international think tank, the International Institute for Applied Systems Analysis in Vienna, Austria, is today a member of the science, technology, and public policy program at the Kennedy School of Government at Harvard University.

Clark begins by noting that "for several centuries spanning the Renaissance and Reformation, societal risk assessment meant witch hunting." Indeed, people found in "'witches' a convenient label for their fears of the unknown." It was their way of dealing with "the inevitable misfortunes which befell one's crops, health and happiness." Although the Catholic Church did not aggressively persecute witches for many centuries, the publication in 1486 of *The Hammer of the Witches* proved, as Clark writes, a "collective consciousness watershed." Witch hunting rose to fever pitch in the sixteenth and seventeenth centuries, as public panics came and went, and many tens of thousands of alleged witches were executed throughout Europe.

Witches and Chemicals

Clark sees similar phenomena underlying our modern chemical panics, although the hapless victims are no longer executed; instead, they lose their jobs, businesses, and communities. The governing authorities to-

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day are often just as craven in capitulating to public fears.

He notes that a key question is "the kind of evidence we admit in our attempts to answer" questions of cause and effect, of guilt and innocence. In both witch hunting and contemporary chemical hunting, there is no "conceivable empirical observation which could logically force an answer 'No.' In neither case is there a 'stopping rule' which can logically terminate the investigation short of a revelation of guilt."

In the witch hunts of the sixteenth and seventeenth centuries, "the Inquisition's principal tool for identifying witches was torture. . . . If she said no, what else would you expect of a witch? So she was tortured until she confessed the truth." And in our current chemical inquisitions, Clark notes, something that is not a risk with a parts-per-trillion test "can always be exposed to a parts-per-billion examination. . . . The only stopping rule is discovery of the sought-for effect, or exhaustion of the investigator (or his funds)."

Environmental investigators, for example, proclaimed a decade ago that dioxin was among the most carcinogenic chemicals ever seen. The occupants of Times Beach, Missouri, were relocated in haste after dioxin was found in its streets. Yet, by the 1990s, the scientist who had called for this evacuation had recanted. Workers heavily exposed to dioxin in a 1970s industrial accident in Italy were showing few of the dire effects predicted. Michael Gough, formerly director of the Center for Risk Management at Resources for the Future, and past coordinator of a major dioxin study for the Congressional Office of Technology Assessment, wrote in 1993 that all credible studies "have concluded that dioxin exposure has not caused elevated levels of cancer."[2]

In response to such challenges, the Environmental Protection Agency initiated a new dioxin study in 1991. Yet when the EPA finally released its study in 1994, dioxin was not exonerated. The EPA grudgingly acknowledged that the original cancer concerns might still be unproven by any direct epidemiological evidence, but now dioxin was charged with a new litany of sins. It was as Gough had commented: "No experiment or study can prove the negative. . . . As each postulated connection dissolves, new ones can be proposed."[3]

Perhaps dioxin will eventually be proven a great menace. The full scientific truth will not be known for some time to come. What is obvious is that, like the witch hunters of the sixteenth and seventeenth centuries, the members of government bureaucracies have a large personal stake in the outcome—as large as the chemical manufacturers whose scientific reports are routinely dismissed by many people. As Clark noted, "there was certainly an element of opportunistic careerism in the Inquisition, and there is almost certainly an element of opportunistic careerism in the present risk assessment movement."

Arousing public fears is an ancient bureaucratic strategy, practiced effectively early in this century, for example, by the founder of the Forest Service, Gifford Pinchot. He warned constantly—and altogether baselessly, as matters turned out—that the nation would soon run out of wood, that there would be a dire "timber famine."

Witch hunting was not limited to any one religion or country. Indeed, while the Inquisition was Roman Catholic, about 4,000 witches were executed in Calvinist Scotland between 1590 and 1680. Paul Johnson reports in his *History of Christianity*[4] that "wherever Calvinism became strong, witches were systematically hunted."

The Salem Experience

The execution of 19 witches in Salem in 1692, backed by leading members of the Massachusetts Puritan branch of Calvinism, was no great anomaly, although it came near the close of the witch hunting craze. The Salem court that heard the case consisted of seven prominent citizens, including the lieutenant governor of the Massachusetts colony. The victims were convicted largely by "spectral" evidence supplemented by the confessions of other supposed witches. Spectral evidence consisted of testimony in which a vision of the alleged witch—the "spectre"—was said to have appeared before the witness and tempted that person to evil deeds. The appearance of such a spectre was attributed by the court to the witch, and was considered to be decisive evidence of the possession of witchcraft powers.

(By the way, no one who confessed was executed at Salem. Execution was reserved for people who refused to admit their guilt and thus continued in defiance of God and the court—hardly an incentive to resist confession.)

Today, risks of chemicals are assessed from animal tests based on the "maximum tolerable dose." A sample of rats, for example, will be exposed to the chemical at the highest dose that the rats can accept and still continue to live. This dose will often be many hundreds or thousands of times the equivalent doses to which humans are exposed. If the rats then show abnormal rates of cancer or other health problems, the chemical stands convicted.

The standard of proof here is not much higher than the spectral evidence and the "voluntary" confessions accepted by the Salem court. Normal human health requires many chemicals that would be very harmful in the body at much higher concentrations. There are large numbers of "natural" chemicals that have been present in the food supply for thousands of years and that today show positive carcinogenic results under current testing methods.

Science magazine found the existing standards of scientific evidence so lacking that it called editorially in 1990 for an end to chemical witch hunting: "Resultant stringent regulations and attendant frightening publicity have led to public anxiety and chemophobia," said the editorial. "If current ill-based regulatory levels continue to be imposed, the cost of cleaning up phantom hazards will be in the hundreds of billions of dollars with minimal benefit to human health. In the meantime, real hazards are not receiving adequate attention."[5]

Bruce Ames, an early developer of tests for carcinogenic impact and Professor of Biochemistry and Molecular Biology at the University of California at Berkeley as well as a member of the National Academy of Sciences, writes with Lois Gold that existing maximum tolerable dose methods of testing, even though they are a main method used by the government for assessing cancer risk, are of little worth. They "cannot predict the cancer risk to humans at the much lower levels to which [humans] are typically exposed."[6]

Increase Mather (1639–1723) was among the Puritan leaders who issued a statement in 1692 that rejected the use of spectral evidence in witch trials.

The Massachusetts executions of witches came to an end when charges started being hurled not only against the social outcasts and the poor but against the governing officials, the relatives of clergy, and other prominent members of the Massachusetts colony. The turning point was a public statement issued in the fall of 1692 by Increase Mather and other leading Puritan ministers rejecting the use of spectral evidence. Similarly, Clark reports that a critical event in the winding down of the witch trials in Europe was the publication by Inquisitor Alonso Salazar y Frías of a detailed analysis of witch burnings at Logroño, Navarre. The analysis by this well-respected member of the church showed that "most of the original accusations had been false, that torture had created witches where none existed, and that there was not a single case of actual witchcraft to show for all the preaching, hunting, and burning which had been carried out in the name of the church." Perhaps Bruce Ames and the small band of other scientists who have had the courage in recent years to insist on firm evidence in the face of today's environmental panics will eventually find a similar place in history.

Environmentalists as Puritans

Environmental witch hunting is only one of several ways in which the more radical segments of the present environmental movement have revived the seventeenth-century heritage of Puritan Massachusetts. When radical environmentalists such as David Brower and David Foreman refer to mankind as the "cancer" or "AIDS" of the earth, they are repeating once again the old Calvinist message of doom and gloom—that mankind has fallen into a deep and fundamental state of depravity and that the earth is headed for divine retribution unless human beings mend their corrupt ways.[7]

In his classic study of the New England mind of the seventeenth century, the Harvard historian Perry Miller observed that the Puritans were "obsessed with" the "theology of nature." They had a "reverence" for nature reflecting their belief that "the creatures . . . are subordinate arguments and testimonies of the most wise God, pages of the book of nature, ministers and apostles of God, the vehicles and the way by which we are carried to God."[8] Environmentalism today, in essence, secularizes this theology.

In Nature it is possible to experience directly the Creation; in theological terms, it is possible to encounter a work of God free of the corruptions introduced by sinful humanity. Indeed, intellectual historians such as Miller have traced a path from the Puritans through the New England transcendentalists of the nineteenth century to current environmentalism. The founder of the Sierra Club, John Muir, followed in the footsteps of Ralph Waldo Emerson; the late Edward Abbey, a writer who lamented the loss of the pristine West, was an intellectual descendant of Henry David Thoreau.

The Judeo-Christian heritage is the bearer of many of the glories of Western civilization. American Puritanism helped to spur abolitionism and women's rights, and is the great source of much of the reform impetus in American history. Yet Western religion has also fallen into moments of persecution and fanaticism.

Such moments come when trust in reason erodes. The persecution of witches arose at about the same time as the Protestant Reformation. The Roman Catholic church became increasingly defensive as Luther, Calvin, and other Protestants contested its authority. Reason was called into question as the Reformation challenged the natural law theology of the medieval Roman Catholic church. Similarly today, trust in reason is fading as science faces growing numbers of doubters. This paves the way for hysterical reactions.

As environmentalism undertakes the worthy task of further developing the religious grounds for the stewardship of the earth, it will be well to recall these lessons of the past. In matters of environmental regulation of chemicals, the future credibility of the environmental movement rests on demanding strict standards of proof before taking actions that displace many people and spend many tens of billions of hard-earned citizen dollars. □

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1. William C. Clark, "Witches, Floods, and Wonder Drugs," in *Societal Risk Assessment: How Safe is Safe Enough?* edited by Richard C. Schwing and Walter A. Albers, Jr. (New York: Plenum Press, 1980), pp. 287–313.
2. Michael Gough, "Dioxin, Perceptions, Estimates, and Measures," in Kenneth R. Foster, David E. Bernstein, and Peter Huber, eds., *Phantom Risk: Scientific Interference and the Law* (Cambridge, Mass.: MIT Press, 1993), p. 268.
3. Michael Gough, p. 272.
4. Paul Johnson, *A History of Christianity* (New York: Atheneum, 1987), p. 310.
5. "Testing for Carcinogens with Rodents," editorial, *Science*, September 21, 1990, p. 1357.
6. Bruce N. Ames and Lois Swirsky Gold, "Environmental Pollution and Cancer: Some Misconceptions," in Foster, Bernstein, and Huber, *Phantom Risk*, p. 154.
7. See Robert H. Nelson, "Environmental Calvinism: The Judeo-Christian Roots of Eco-Theology," in Roger E. Meiners and Bruce Yandle, eds., *Taking the Environment Seriously* (Lanham, Md.: Rowman and Littlefield Publishers, Inc., 1993).
8. Perry Miller, *The New England Mind: The Seventeenth Century* (Cambridge, Mass.: Harvard University Press, 1954), pp. 208–209.

THE FREEMAN
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Controlling Risk: Regulation or Rights?

by Richard L. Stroup

For many decades, Louisiana's Gulf Coast has been a center of oil and chemical plants. The region has higher-than-average rates of death from cancer, and has even been dubbed "Cancer Alley." Many people assume that the chemical plants are causing cancer along the Gulf Coast.

But there is evidence that this assumption is wrong. In 1992, the Louisiana Cancer and Lung Trust Fund Board reported that the incidence rate of virtually all cancers was "at or below the national average," in the words of Joel L. Nitzkin, Director of Special Projects for the Louisiana Office of Public Health.[1] (The exception was lung cancer in males, but Nitzkin, like other experts, attributes more than 90 percent of these cancers to cigarette smoking.)

Yes, death rates from cancer were high. But the reason, Nitzkin explained, was not that chemical plants were inducing more cancer. If they were, cancer *incidence* rates would be higher, and they are not. Instead, people in the area with cancer have not been getting adequate medical care.

This incident illustrates how easy it is for the public (and even experts) to misread information about risk. When you couple that with a political system that caters to demands for government intervention (as ours does), the result is a series of major government programs that are totally misdirected.

Much of the environmental policy in the United States is driven by the fact that voters see potential gains from reducing risk through the political process. They believe that they benefit and they think that giant, faceless corporations pay for those benefits. While they may act quite differently on an individual level (for example, they may be quite willing to bear small risks), as voters they tend to support heavy expenditures to reduce risks, however small. As in the case of "Cancer Alley," these programs may be based on mistaken perceptions.

Voter ideology affects public policy as well. Those on the left, mistrusting capitalism, tend to worry a lot about the risk from industrial chemicals. The ideological element of their worry can be seen by noting that at the same time they fear chemical pollution, they tend to minimize risks from HIV-positive individuals in the food service or health-care industries. People on the ideological right tend to have the opposite emphasis.

The view from the left dominated environmental policy in the 1970s and 1980s, so it's not surprising that policy focused on industrial chemicals and on regulation as the way to deal with them. But it's important to

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realize that this is not the *only* way to deal with pollution such as industrial chemical emissions or waste. While everyone agrees that it is wrong to impose risk unilaterally on others without their consent, beyond minimal levels, regulation is not necessarily—or even traditionally—the way to get people to stop polluting.

Superfund as an Example

The Superfund program, created by Congress in 1980, illustrates the radical shift toward tight regulation that has taken place in dealing with pollution. Prior to the creation of Superfund, people exercising their rights could sue in court to force the owners of leaking chemical dumps to clean up any site posing unacceptable risks.

But suspicion and accusations were not enough. The burden of proof lay with the plaintiff. The level of proof required was not the stringent "beyond a reasonable doubt" standard of criminal cases, but the "more likely than not" standard, which is more easily met. Nevertheless, meeting this standard could be difficult. Perhaps the harm would only appear years later as a birth defect or an illness such as cancer. If the damage, or unacceptable risk, could not be detected at the time of the lawsuit, common law would not force action. Another problem with these common-law suits was that even if the risk was known, the creator of the site might not be located or might be insolvent.

In 1980, Congress confronted what seemed to be an emergency, although ultimately the "crisis" turned out to be as inaccurate a perception as Louisiana's "Cancer Alley." In Niagara Falls, New York, chemicals from a former industrial waste site known as Love Canal seeped into people's basements after the canal walls had been punctured by the local school board, the city government, and the state department of transportation. Fearing the worst, people reading headlines all over the country worried about thousands of "ticking time bombs"—abandoned dumps—that were threatening the nation's health. In fact, however, studies since then have not confirmed any unusual long-term dangers to residents in the area of Love Canal.

Congress abandoned the traditional way of dealing with health threats from hazardous waste, which required evidence that the pollution complaint was more likely than not to be correct. Congressmen wanted action, and the rights of those who ultimately would be required to pay were treated as insignificant. (Another boost came from the EPA, which saw Superfund as a way of expanding its power.)

Superfund is largely immune from the budget process because it is financed by a special tax on chemicals, oil, and a broad-based corporate income tax. Furthermore, the EPA can potentially recapture all the costs of the cleanups it incurs from the companies that contributed waste to the site (even if they followed the law at the time). To prevent delays, Congress made the actions of the EPA at any site largely immune from judicial review until after the money is spent to clean up the site. Often, very large amounts of money are involved. The EPA makes people pay, on average, an estimated $30 million per site cleanup.

This unlimited access to the purses of others gives EPA professionals an incentive to pursue their mission with much zeal and little restraint. While their goal may be high-minded—cleaning up sites to protect the public—they have an incentive to clean up just about any site just about anywhere, as long as it might pose even a small potential danger. And they do. (That doesn't mean that cleanups are fast or effective. Traditional bureaucratic inertia sets in, and critics from across the political spectrum assail the Superfund program as wasteful and ineffective.)

EPA professionals force cleanups at many sites where the existence of high risk is dubious, and where risk could be minimized without cleanup by isolating contaminants or by restricting site use. EPA risk assessments pile conservative (that is, ultra-safe) assumption on conservative assumption to exaggerate estimated risk. Outside experts indicate that the resulting risk estimates may easily overstate the expected value of a given risk by a factor of a thousand or 10,000.

Imaginary Health Risks

Most of the health risks claimed in the site assessments are purely imaginary. They are based on future scenarios that hypothesize "reasonable maximum exposures." EPA claims that the risks could "plausibly" occur, but that claim is often doubtful. For example, the EPA frequently assumes that an industrial hazardous waste site will become a residential area. And, despite official EPA guidance to the contrary, important information revealing the uncertainty of the estimates is routinely omitted from material provided to the public and to officials.

This process has led to opposition around the country as citizens of communities with Superfund sites (or potential Superfund sites) try to keep the EPA out. They contend that their towns are safe; the EPA says they are not. Even the General Accounting Office has criticized the EPA for failing to compare the benefits of cleanup with the benefits of using those funds to deal with other environmental problems.

In sum, Superfund is not an effective way to reduce health risks. It reduced the traditional protections that people and companies can expect from legal due process, and it hasn't clearly helped anybody, except lawyers, consultants, and the EPA. Much the same has been shown to be true of many other regulatory programs.

Rights, Prosperity, and the Environment

Is there another way? Yes. The traditional way of dealing with pollutants is by protecting rights. This approach is based on the recognition that people have a right not to be invaded by others, and this includes invasion by excessive pollutants emitted by others. This approach to controlling pollution was not perfect, but now that we see the ills of regulatory programs, it looks better than it did in the 1970s.

Enforcing rights would not completely end emissions of potentially harmful pollution. Nor should it. For example, a polluter might offer to purchase the rights of those downwind. Those affected could choose between moving, for compensation, or staying where they are, insisting on their rights, but losing compensation.

If we can return to a rights approach, much money will be saved—not just taxpayers' funds, but some of the $150 billion spent each year by industry to meet environmental regulations that often accomplish little. One important result will be greater prosperity.

Prosperity, or rising levels of wealth and income, are a key to environmental improvement. Prosperity makes possible technological advances that reduce stress on resources and emit fewer pollutants; data from around the world show that technologically advanced nations generally have cleaner, healthier environments. Furthermore, the demand for environmental improvements—the willingness and ability to sacrifice to achieve more environmental quality—grows more than proportionally as income grows. Economist Donald Coursey estimates that when incomes grow 2 percent, willingness to sacrifice for added environmental quality grows 5 percent.[2] Around the world, greater prosperity also leads to reductions in birth rates over time and an easing of population pressures.

And prosperity is the way to help the people in "Cancer Alley." With more income and greater prosperity, they can obtain the timely medical care that will save their lives. □

1. Joel L. Nitzkin, "Cancer in Louisiana: A Public Health Perspective," *Journal of the Louisiana Medical Society*, April 1992, p. 162.
2. Donald Coursey discussed this topic in "The Demand for Environmental Quality," a paper presented January 1993 at the annual meeting of the American Economic Association in Anaheim, California.

Recycling Myths

If there's a buzzword in the business of managing America's solid waste problem, surely it is "recycling." At times the term seems to have taken on an almost religious meaning, with the faithful assuming that "disposable" is bad and "recycling" is good by definition.

There's nothing wrong with recycling when it's approached from a perspective of sound economics, good science, and voluntary cooperation. Too often, it's promoted as an end in itself without regard to whether it's worth the time and expense.

Recently, a speaker on this subject told my local Rotary Club that we should all recycle more of the paper we use so America could save its trees. The implication was that we're using too much paper, that trees are endangered, and that our civic duty requires that we do more with less.

As it turns out, most of the trees that are planted in America are planted with the intent of eventually harvesting them to make things like paper. This means that if we all used less paper, there would be fewer trees planted. Maybe some people ought to use less paper anyway (bureaucrats, for instance), but no one should assume that the people who are in the business of growing and harvesting trees are going to continue to do so even if we don't buy their products.

"We're running out of trees" is a fiction older than most of the trees alive today. The truth is that though the total area of forestland in the continental United States is about the same as it was 75 years ago—600 million acres—there are far more trees because of greater tree density per acre. Market-driven technological changes, such as the development of wood preservatives, have led to more efficient use of forest resources. Market incentives have given private land owners good reason to replant nearly three million acres of trees every year. So when it comes to paper, recycle to your heart's content, but not because you think we'll run out of trees if you don't.

A recycling mania has been sweeping the country for nearly a decade. More than 6,000 curbside programs are operated by local governments, serving at least 70 million Americans. In a recent year, more than 140 recycling laws were passed in 38 states—mandating the activity or requiring taxpayers to pay for it, or both. All this has occurred at the same time that cost-cutting entrepreneurs are busy producing less and less packaging to contain more and more goods.

Without any edicts from politicians, plastic milk jugs today contain 30 percent less plastic than they did just 20 years ago. The weight of aluminum cans declined by 36 percent between 1960 and 1990. Experts like Lynn Scarlett of the Los Angeles-based Reason Foundation point out that Ameri-

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ca's solid waste problem is a public policy failure, not a market failure.

Because of flat rate charges for municipal garbage pick-up and disposal, government policies in most areas subsidize those who throw away large quantities of refuse at the expense of those who throw away very little. Entrepreneurs know how to construct landfills now that pose absolutely no hazard to the environment, and anyone who has ever flown over almost any state knows there's plenty of land for this purpose, but naysaying regulators have almost closed down this efficient waste management option.

The fact is that sometimes recycling makes sense and sometimes it doesn't. In the legislative rush to pass recycling mandates, state and local governments should pause to consider the science and the economics of every proposition. Often, bad ideas are worse than none at all and can produce lasting damage if they are enshrined in law. Simply demanding that something be recycled can be disruptive of markets and it does not guarantee that recycling that makes either economic or environmental sense will even occur.

Many people believe that simply segregating plastic containers, glass bottles, newspapers, and metal cans and then placing them in colorful boxes at curbside means that recycling has somehow taken place. Without ever questioning either the cost or the outcome of the process that starts at the curb, they assume that whatever happens must be both economically and environmentally sound.

Recycling, however, doesn't really happen unless all that plastic, glass, paper, and metal is turned into new, useful products that are actually in demand in the marketplace. Some of what we put at curbside actually ends up in a landfill or piled to the ceiling in warehouses with no place to go. Recycling programs may make a lot of civic-minded citizens feel good, but the whole rationale is undermined to the extent they are nothing more than expensive, politically motivated, and circuitous methods of old-fashioned garbage disposal.

Quite often, more energy and resources are spent than saved in the process of recycling. Municipal governments, because of the inherent shortcomings of public sector accounting and budget information, routinely underestimate the full costs of their recycling programs.

One area where recycling plainly works is in the disposal of aluminum cans. Since the process requires 10 percent less energy than transforming bauxite into aluminum, it pays for producers to use recycled cans. Hence, a market has developed for these cans, and market incentives encourage entrepreneurs to find efficient ways to collect them.

One area where recycling doesn't make sense is in the disposal of juice containers used principally by school children. Aseptic disposable packages such as those small juice boxes were banned in Maine and are a target of the more extreme environmentalists. But as a 1991 study from the National Center for Policy Analysis (NCPA) in Dallas showed, such knee-jerk, interventionist, pseudo-solutions to nonproblems are rooted in misinformation or incomplete information:

- Filling disposable boxes requires about half as much energy as filling the supposedly preferable alternative, glass bottles.
- For a given beverage volume, transporting empty glass bottles requires 15 times as many trucks as the empty boxes—thus using more fuel and causing more air pollution.
- Because the end product is lightweight, small, and rectangular, the filled boxes can be transported more efficiently than full glass bottles—using 35 percent less energy.

Some states have threatened to ban disposable diapers as a way to encourage the use (and recycling) of cloth diapers. Studies show, however, that when all environmental effects are considered, cloth has no clear advantage over disposables. In California and other western states where there is relatively abundant landfill space and a shortage of water, the case for disposables is actually quite strong. Residents of those states who avoid them and wash cloth diapers with scarce water may actually be doing harm to the environment. The marketplace, once again, is not as dumb as certain do-gooders think it is.

Several cities, including Portland, Oregon, and Newark, New Jersey, have essentially banned polystyrene food packages. That's what McDonald's used to put its burgers in until it was pressured into switching to paperboard containers. The average American thinks these efforts are positive for the environment because they will somehow promote recycling. They also believe that because paper is "biodegradable" and polystyrene is not, the switch will reduce the need for landfills. The truth of the matter is more complicated than that.

Polystyrene, it so happens, is completely recyclable, which isn't always true of the paper used in, say, drinking cups. And those paper cups, by the way, cost the consumer about 2½ times as much as polystyrene.

Studies from NCPA and other respected organizations show that production of the old polystyrene McDonald's hamburger shell actually used 30 percent less energy than paperboard and resulted in 46 percent less air pollution and 42 percent less water pollution. The average 10-gram paper cup consumes 33 grams of wood and uses 28 percent more petroleum in its manufacture than the entire input of a polystyrene cup.

Furthermore, the paper cup requires 36 times more chemical input (partly because it weighs seven times as much) and takes about 12 times as much steam, 36 times as much electricity and twice as much cooling water to make, compared to its polystyrene counterpart. And, about 580 times as much waste water, 10 to 100 times the residual effluents of pollutants, and three times the air emission pollutants are produced in making the paper cup.

Environmentalists who put their faith in government, with hardly a scrap of evidence that suggests they should, seem oblivious to these realities. To them, mountains of refuse waiting to be recycled into things people don't want at a cost they would never freely pay is not a reason to abolish mandatory recycling schemes. Instead, it gives them a reason to pass new laws that would force-feed the economy with recycled products.

Market economists—by nature, philosophy, and experience—are skeptical of schemes to supplant the free choices of consumers with the dictates of central planners. The recycling mania confirms their suspicions. □

THE FREEMAN
IDEAS ON LIBERTY

EcoKids: New Automatons on the Block

by Jo Kwong

The other day my five-year-old twin girls asked me to turn on the Saturday morning cartoons. As I switched on the television, I recognized the characters from Ted Turner's *Captain Planet* and immediately pressed onward in the channel selection. One of my daughters recognized the show and cried, "But I want to watch that!" I explained that Captain Planet teaches children things about the environment and human nature that simply are not true. Reflecting on a phrase used in the show, she asked, "You mean, the power is not with us?" My heart sank as I realized I was finally experiencing one of my worst nightmares: the brainwashing of my children through environmental "education."

As our nation continues its all-consuming pursuit of protecting the environment, "regardless of the cost," we are overlooking the greatest cost of all: the toll on our children. My review of environmental "education" has revealed a number of unsettling trends and strategies. It is apparent, for example, that (1) children are being scared into becoming environmental activists, (2) there is widespread misinformation in materials aimed at children, (3) children are being taught *what* to think, rather than *how* to think, (4) children are taught that human beings are evil, (5) children are feeling helpless and pessimistic about their future on earth, and (6) environmental education is being used to undermine the simple joys of childhood. Are we raising critically thinking leaders or simple automatons that can recite that latest environmental dogma?

Raising EcoKids

A quick glance at the materials aimed at children and their educators reveals one very apparent trend: a call to activism. The bestseller *50 Simple Things Kids Can Do To Save the Earth*, published by The EarthWorks Group, urges kids to write to their U.S. Senators, the President, and world leaders, or join an environmental group. Suggested groups include the Natural Resources Defense Council, famous for perpetuating hysteria over Alar-treated apples in the late 1980s, and Greenpeace, an organization that even its admirers say built its reputation on publicity stunts and playing "fast and loose" with scientific facts.

The textbook *Your Health*, published by Prentice-Hall, encourages children to "consider joining an environmental group." Its suggestions for further contacts include Greenpeace, Zero Population Growth,

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Planned Parenthood, and Earth First! (a group that has solicited terminally ill people to undertake life-threatening eco-terrorist activities). And *Kid Heroes of the Environment*, another publication of The EarthWorks Group, praises children for conducting petition drives, organizing letter-writing campaigns to political leaders, and boycotting businesses.

The Alley Foundation, a "non-political, non-profit organization dedicated to the environmental education of our youth," distributes a book called "Cry Out." It tells the children, "Unless you take action NOW, the beautiful forests where you go hiking, the beaches where you swim in clean water, the clear morning when you take a breath of sweet-smelling air could all become things of the past."

What's so wrong about these calls to activism? Nothing, really, if children are taught solid facts about environmental science and if they understand the trade-offs involved in adopting alternative courses of action. Yet this hardly seems the case. Children are often taught by people lacking training in environmental subjects.

Consider that the United Nations Environment Programme markets its publication, "Environmental Education for Our Common Future," to teachers *"whatever subject they teach."*[1] Or that school systems across the nation, often at the requirement of government mandates, are incorporating environmental education into traditional subjects such as mathematics, history, languages, and civics. Children are learning from teachers who can barely distinguish myth from fact in the environmental arena.

Myths vs. Facts

Environmental professionals have learned that sensationalism sells. It boosts donations to their non-profit organizations and helps peddle materials to educators. The focus is typically on the negative: how human beings or evil corporations are devastating the environment.

Take the infamous Exxon *Valdez* oil spill of March 1989. Environmental groups, recognizing a heaven-sent fund-raising blessing, sprang into action generating statements, press conferences, and reports that portrayed the spill as one of the greatest ecological disasters of all time. The media joined the frenzy. The public was informed that Prince William Sound would take at least 50 to 100 years to recover, and in the meantime the salmon and herring fisheries could go extinct.

Donations to environmental groups, which for many had been on the decline, shot up in response to the dire need for environmental protection. Largely ignored was the evidence that the oil spill was not in fact a major ecological disaster. In 1990, the fish catch topped 40 million, far exceeding the previous record of 29 million in 1987.[2] Internationally recognized oil pollution experts found the coast recovering nicely one year after the accident.

It seems that the truth loses out if a more sensational version is plausible. For example, children are taught that acid rain is destroying our forests; overpopulation will exhaust our resources; the ozone layer is rapidly being destroyed; and global warming will lead to disastrous climatic change. All of these, and many other scare scenarios, have been widely debated or refuted by experts. Yet, they are taught as facts.

A "Science Gazette" article in a Prentice-Hall textbook describes the consequences of warming of the earth with photographs of houses falling into the sea and a 1930s dust bowl farm. The text notes that warming in the polar regions could melt the ice and increase sea level by "as much as seven or eight meters!" Severe drought would occur in the western United States and "farms might have to be abandoned because of lack of water." In other places, more rain will fall, causing an insect explosion. "Valuable food crops would be gobbled up by millions of insect pests."[3]

Global warming is portrayed as a sinister process resulting from greedy human behavior. But, in fact, some warming is a natural phenomenon. Essential for the existence of life forms on earth, greenhouse gases, such as carbon dioxide, raise the average temperature to about 60 degrees Fahrenheit. Scientists disagree on whether increased carbon dioxide from coal burning and auto emissions will change the climate. The understanding is so vague that in the mid to late 1970s, scientists predicted that we were headed for a disaster via global cooling.

Understandably, it is difficult to present a balanced picture in textbooks. For one thing, the need for simple writing for children leads some authors to present issues as black or white, right or wrong. And the need to appease many interest groups in order to gain statewide adoption leads many textbook authors to write from the "politically correct" perspective. Nonetheless, it's well worth considering the impact that such doom and gloom scenarios may have upon our youth.

Raising Automatons

Environmental policy analyst Jonathan Adler tells about how classrooms of schoolchildren submitted public comments to the Food and Drug Administration on the subject of bioengineered produce. He writes: "Their letters didn't address the scientific or even, really, the ethical issues: They were about death! They called the biotech tomato 'Franken Tomato,' and they pleaded, 'Please don't do this, I don't want to die!' " "The letters were written all at once and they were similar," continues Adler. "I'd call that brainwashing."[4]

To treat technology in this emotional way violates our most basic expectations for our children's education. We need to give them basic tools. They need the scientific knowledge to understand environmental issues. This includes studies of botany, ecology, hydrology, entomology, and so on. Children also need to understand the basic scientific method: that scientific hypotheses must be verified by observation and experimentation. Of course, some of this information is technically beyond the understanding of younger ones, but if they aren't able to understand the science, they shouldn't be mobilized to lobby for specific policy options.

Beyond the science, children need to learn about policy processes and decision-making if they are to be thinking activists. Children need to learn about trade-offs. They need to see why, for example, consumers prefer certain types of energy, even though some people feel they are sinister or wasteful. They need to understand what we give up when we pursue one course of action over another. I've talked in terms of trade-offs to my daughters ever since they could listen. Even at their young age, they understand that if we buy a toy today, we use up money that can be used to purchase other things. The toy is not good or bad—it simply represents one way we can use our resources.

Yet that perspective is a far cry from the litany of rights and wrongs in the environment. As nearly all school children can recite: Oil is bad, hydroelectric is good. Disposable diapers are bad, cloth diapers are good. Automobiles are bad, bikes are good.

National Geographic's Wonders of Learning Kit suggests this exercise to teachers of science or language arts: "Have the children write or dictate stories about two imaginary planets, 'Trashoid 4' and 'Recyclet.' What would the planets look like? How would they be different? What would the beings who live on these planets look like? How would they live?"[5]

While students may be adept at describing the evils of planet Trashoid, few can tell you exactly why something is classified as an environmental good or bad. Children are drilled to accept, for example, that recycling is the only correct way to deal with resources. They are supposed to coerce their parents to sort paper, plastic, aluminum, and glass, and then to haul it all out to the curbside. But they are never given these facts: Each additional recycling truck rumbling through the neighborhood adds vehicle emissions to the air, consumes oil and gas, and increases noise pollution. At the recycling plants, energy is used to process the materials, and huge volumes of wastewater or other waste are typically released. One ceramic mug must be reused more than 1,000 times to consume *less* energy per use than a polystyrene foam cup.[6] In other words, sometimes recycling is environmentally friendly; sometimes it is not.

Humans Are Evil

In *50 Simple Things Kids Can Do to Save the Earth,* kids are told, "When your parents were kids, hardly anyone ever worried about saving the environment. . . . They developed some bad habits. They made as much garbage as they wanted; they wasted energy whenever they wanted; they used up the Earth's treasures, just for fun."[7]

This treatment disparages parents; others suggest that parents are stupid. In a discussion of the ozone issue, children are told, "We don't think adults would keep on making these [CFC] gases if they realized they were harming all life on Earth."[8]

Should the environment be a wedge between parents and children? And should children be taught that people carrying out productive activities are evil?

In one preschool exercise, four-year-olds were given four pictures and asked to choose the one that does not belong. They were shown pictures of three different animals in the forest and a picture of a logger. The logger didn't belong. One father volunteered to speak about his industry to his son's fourth-grade class. Upon arrival, he found that the children were quite hostile towards him for being a logger.[9] His experience illustrates that even the anti-human movement has trends. Ten years ago, children were ashamed to say their dads worked for Hooker Chemical. Now, children feel compelled to hide the fact that their dads log trees.

On the Joys of Being a Child

The drive to create Ecokids has some other very disturbing aspects. For one thing, it has the potential of simply taking the fun out of being a kid.

For example, *50 Simple Things* takes a number of things that have traditionally been a source of joy for children and turns them into potential nightmares. "Helium balloons? Big, bouncing, bobbing . . . Oops? When helium balloons are released, they are often blown by strong winds into the ocean. Even if the sea is hundreds of miles away, balloons can still land there. Sometimes sea creatures think balloons are food and eat them. Sea turtles, for example, eat jellyfish—which look and wiggle just like clear balloons. If a turtle makes a mistake and eats a balloon, the balloon can block its stomach. So the turtle can starve to death."[10]

Similarly, it tells children, "most crayons are made from oil. Since oil comes from prehistoric creatures, you might be coloring with the last remains of a Tyrannosaurus Rex!" or "Have you ever made pictures with markers? Some have chemicals with names like 'toluene' and 'ethanol' in them. Creating these chemicals makes pollution and uses oil."

Even toys don't escape the wrath of environmental education. "Toys just don't come from toy stores. They come from materials taken out of the Earth. So if they break right away, and you have to buy new ones to replace them, you're not only creating a lot of extra garbage, you're using up the treasures of the Earth."

While environmental special interests may view these stories as their successes, others see failure. Are we, as William Bennett asks in his broader statement on the declining moral, spiritual, and aesthetic character and habits of society, guilty of the chronic crime against children: the crime of making them prematurely "old" before their time? "We live in a culture which at times seems almost dedicated to the corruption of the young, to assuring the loss of their innocence before their time."[11]

Isn't this exactly what we are doing by burdening children with the fright of environmental catastrophes caused by humans? Vice President Al Gore, writing about ozone, says: "We have to tell our children that they must redefine their relationship to the sky, and they must begin to think of the sky as a threatening part of their environment."[12] It certainly seems as if we are dedicated to assuring the loss of their innocence before their time. How else can we explain comment after comment from the mouths of our children that express nothing less than fear of dying and guilt of living?

Consider some of the now-famous quotes by several eco-heroes:

Melissa Poe, age nine: "Mr. President, if you ignore this letter we will all die of pollution and the ozone layer" (from *Newsweek* "Just for Kids!?!").

Catherine Mitchell: "Our Earth is getting hotter every minute and the only way we can stop it is to stop burning styrofoam. I'm also too young to die, might I add, so *stop burning the Earth!*" (from the FACE newsletter).

Jesse Hornstein, age 10: "No gases! No air pollution! It's *life* or *death*" (from *50 Simple Things*).

Adam Adler, age 11: "I think global warming and the greenhouse effect are very bad! What do we want the earth to become, a flaming ball?" (from *50 Simple Things*).

Fortunately, some educators are having second thoughts about what is happening. In the fall of 1992, Nebraska school teacher Joann Wilson developed an environmental exchange program between classrooms. Using KIDFORUM, a discussion group on Internet's KIDLINK, Wilson and KIDFORUM Coordinator Laura Stefansdottir of Iceland developed "Environment-2093." Students were asked to write short science fiction articles, projecting themselves one hundred years into the future. What would that environment look like?

Almost half the students created doomsday scenarios. Seeing the hopelessness and futility expressed in these tales, Wilson and Stefansdottir were led to examine their part in robbing kids of the youthful idealism we typically associate with "being a kid." These educators and many they have come into contact with are now examining ways to offer positive, creative, and responsible solutions to global concerns. How many others have the courage and foresight to do the same?

Similarly, an article in *Audubon* magazine suggests that children shouldn't be taught that "the sky is falling."[13] Like me, the author was moved to a new reality by the words of her daughter. As the six-year-old child settled down in her old-fashioned maple bed, newly handed down by her aunt, she said, "I love my new bed, but . . . it's made of wood. They killed trees to make my bed." To the child, the reality is that a living thing, perhaps one with feeling, was killed for her creature comfort.

In a nutshell, educators have embraced environmentalism to its extreme, fully accepting the anti-human, anti-technology, and anti-economic growth positions. Children are taught what to think and not *how* to think about environmental questions. In a society where we are no longer free to teach traditional values in the school systems, it's unsettling to find new values in the classroom. The widespread teaching of environmental values, based upon politically correct propaganda, is rampant. Those of us who are concerned about individual liberty, freedom of choice, individual responsibility, and property rights, should pay attention to environmental education. □

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1. *The UNESCO Courier*, December 1992, p. 25.
2. See, for example, Warren Brookes, "Salmon & Spillionaires," *The Washington Times*, August 29, 1990.
3. Dean Hurd et al., "Science Gazette: Tomorrow's Climate: The Heat's On," in *General Science: A Voyage of Exploration* (Prentice Hall 1992, Third edition), p. 401.
4. Patricia Poore, "Enviro Education: Is It Science, Civics—or Propaganda?" *Garbage*, April/May, 1993, p. 30.
5. National Geographic Society, Washington, D.C., "Wonders of Learning Kit—Primary Level," 1992.
6. Martin B. Hocking, "Disposable Cups Have Eco Merit," *Nature*, May 12, 1994, p. 107.
7. EarthWorks Group, *50 Simple Things Kids Can Do to Save the Earth* (Kansas City: Andrews and McMeel, 1992), p. 124.
8. EarthWorks Group, p. 59.
9. I'm thankful to William Perry Pendley, president of the Mountain States Legal Foundation in Denver, Colorado, for sharing his children's experiences with me.
10. EarthWorks Group, p. 35. Subsequent quotations are from pages 33 and 24.
11. William J. Bennett, "Getting Used to Decadence: The Spirit of Democracy in Modern America," Heritage Lectures, No. 477, Heritage Foundation, Washington, D.C., December 1993.
12. Ron Bailey, "The Hole Story," *Reason*, June 1992, p. 26.
13. Nancy Bray Cardozo, "Reading, Writing & Ruin," *Audubon*, January-February 1994.

THE FREEMAN
IDEAS ON LIBERTY

The Role of Rights

by Roger E. Meiners

The modern environmental movement was launched in the early 1960s. Rachel Carson's 1962 book, *Silent Spring*, triggered fears of chemicals. Concern about dirty air was heightened by a London smog disaster that same year and several noteworthy pollution incidents in the United States. Such events increased awareness among the public, elected representatives, and the media of the potential for damaging our surroundings. These forces helped lead to the passage of a host of major federal laws, culminating in the Clean Air Act of 1970 and the Clean Water Act of 1972. These and other federal environmental statutes began to erode traditional private property rights in favor of central government control of property.

People began to think it normal for the government to issue permits to allow the operation of plants and factories. At the same time, Americans also began to abandon their traditional rights to stop pollution nuisances through the courts; this responsibility, too, was largely given over to government regulators. Within ten years there was a regime shift in favor of federal control of environmental matters.

To many people at the time, environmental statutes seemed necessary to correct the problem that economists call "externalities," or costs imposed on others in society, such as using the air and water as free goods. It was not until the late 1980s, when government regulations on wetlands and endangered species began to prevent people from using their property in what seemed to them clearly harmless ways, that the real consequence of federal environmental regulation became obvious.

The result now is substantial restriction on the use of private property. To preserve species such as the red-cockaded woodpecker, for example, many owners of small woodlots cannot log their land. Others cannot plow their land because plowing may endanger the Stephens kangaroo rat. Some are prevented from building homes on their land because it is suddenly declared a wetland, even though it may be dry most of the year. Thus, major attributes of private property have been taken from private property owners and placed under federal regulation.

In response, hundreds of grassroots groups have arisen spontaneously around the country to form the property rights movement, as property owners have come to confront, often for the first time, the effects of direct restrictions on the use of their property. Politicians, sensing the strength of this movement, are proposing that the government compensate property owners for takings that substantially reduce the value of property. Fearing such amendments, supporters of environmental laws that restrict property rights kept numerous environmental laws off the legislative agenda of the 103rd Congress. In their view, it was better to have no new law than one that reduced the impact of laws already on the books. This was a major reason why Congress failed to reauthorize such envi-

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ronmental laws as Superfund, the Clean Water Act, and the Endangered Species Act.

The Common Law Tradition

Forgotten in the move to central environmental control was the fact that the enforcement of rights, including property rights, by citizens and communities in the past provided environmental protection without federal interference. Environmental protection occurred through the application of various parts of the common law to violations of personal rights.

Common law (also called private law) refers to the body of rules that guide judges' decisions in disputes. In particular, the common law regarding nuisance, trespass, and riparian water rights gave citizens and communities a sound basis to sue polluters who imposed damage on persons or property. While common law dealt with disputes between individuals and did not deal directly with pollution that affected everyone equally, such as automobile pollution in Los Angeles, the record of common law cases indicates that individuals and communities protected their rights to healthy air, clean water, and unpolluted land. The environmental horror stories of the past few decades ignore the fact that air quality improved more during the 1960s, before the Clean Air Act of 1970, than it did in the 1970s.[1]

The common law has never been perfect. However, it plays a key role in promoting responsible behavior and allows citizens to decide for themselves if they want to enforce their rights. The common law of torts, contracts, and property provides the key legal framework for the free market system. Individuals decide what actions they will take. Other persons injured by their actions have recourse to private litigation when their protected rights have been violated.

Yes, every day there are cases that make little sense. But occasional mistakes by thousands of independent judges are subject to review by courts of appeal, and legal rules, if mistaken, can be countered in other jurisdictions. As a result, decisions are much more likely to be correct, and less devastating in impact when wrong, than are decisions by congressional mandates and regulatory standards. The common law, like markets, evolves to take advantage of new knowledge, technology, and the desires of consumers.

In a way similar to the effects of strict liability imposed on producers of defective products, the common law used to (and occasionally still does) impose tough standards against polluters who inflicted harm on others.[2] In contrast, environmental laws and regulations tend to establish technological standards, often at the behest of special interests. They are implemented by officials who want central control, and are almost inevitably outmoded by changing technology.

We do not know what the common law rules regarding pollution would be today if common law protections had not been cut short by statutory intervention. But as occurred before regulatory controls, we could expect to see a relatively stable set of rules that adjust to take into account new scientific evidence about the effects of pollution. In contrast, the legislative process is never clear, since it involves constant pleading before Congress and regulators to modify the rules again and again, often with no rational relationship to the risk of harm from pollution.

Erosion of Rights

The erosion of our traditional rights, including the right to use our property as we wish, as long as we don't harm others, is a fundamental loss. It is a modern myth that our rights were created by the Constitution (the "supreme law of the land"); the writers of the Constitution presumed *inalienable rights* held by virtue of being free persons. As a great British legal scholar, A.V. Dicey, said over a century ago, "Personal freedom does not really depend upon or originate in any general proposition contained in any written document."[3]

Much of American law is English in origin. When the nation was founded, much

English law, especially the common law and the rights and duties it provides for all citizens, was incorporated into the new legal regime that includes the federal Constitution. The Constitution created the basic framework of government, expressly limited the powers of government, and provided express safeguards against invasions of certain rights. But the Constitution did not *grant* us all rights we have as citizens.

We are presumed to have a host of rights, often called *natural law.* Some natural law is expressed through the common law; but the elements of natural law were presumed to be understood by the judiciary. Thus a modern constitutional scholar, Bernard Siegan, points out that the framers of the Constitution "believed that liberty and personal security are the ultimate purposes of society; they favored limited government and dispersal of power, feared the tyranny of political majorities. . . . They subscribed to the belief that individuals have fundamental and inalienable rights with which government may not interfere."[4]

The United States is one of the few governments created by a free people who understood that they possess inalienable rights. This is unlike most governments in history, which grant some rights to their citizens; typically the state is presumed to be the source of all law.

This point has been lost in political and judicial talk about citizens having "rights" to assorted public benefits, such as a "right" to subsidized medical care or a "right" to Social Security. The use of the word right in such contexts has confused public understanding of what rights are. No doubt the legislature has the power to collect taxes to spend on things such as medical care and Social Security, but to presume that the "right" to receive benefits granted by the legislature is similar to the inalienable rights understood by the framers of the Constitution is a perversion of the basis of liberty. The rights that make us a free people are *natural rights;* they are not granted by a legislature created by a free people.

That is why the modern debate over the preservation of property rights is a key issue. If traditional property rights are lost in favor of legislated control of property, a major cornerstone of all liberty has been lost. We come closer to being like most peoples in the world—granted certain favors (called "rights") at the pleasure of the legislature, but having few rights that may not be invaded by the legislature and the agencies it creates to execute its wishes. The property rights grassroots movement reflects a common-sense understanding that the natural rights we have by virtue of living in the United States are being seriously eroded in favor of state control and that it is time to resist that erosion. □

1. See Paul Portney, *Public Policies for Environmental Protection* (Washington, D.C.: Resources for the Future, 1990), p. 51. See also Robert W. Crandall, *Controlling Industrial Air Pollution: The Economics and Politics of Clean Air* (Washington, D.C.: The Brookings Institution, 1983), p. 19.

2. See, for example, Roger E. Meiners and Bruce Yandle, "Clean Water Legislation: Reauthorize or Repeal?" in *Taking the Environment Seriously*, edited by Roger E. Meiners and Bruce Yandle (Lanham, Md.: Rowman and Littlefield, 1993), pp. 73–101.

3. A. V. Dicey, *The Law of the Constitution* (Indianapolis: Liberty Press, 1982; first edition, 1885), p. 123.

4. Bernard Siegan, *Economic Liberties and the Constitution* (Chicago: University of Chicago Press, 1980), p. 12.

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The War on Radon: Few Join Up

by Kent Jeffreys

Radon is a colorless, odorless gas that is present in varying quantities across almost all land environments. It is a natural by-product of the radioactive breakdown of uranium in the earth's crust. As radon seeps through cracks and fissures it can accumulate in groundwater and even in the lower levels of man-made structures. Its potential presence in people's homes has brought radon to the attention of the U.S. Environmental Protection Agency (EPA).

The EPA has decided that radon is the number one environmental health risk in America: worse than pesticides and worse than hazardous waste. The EPA bases its conclusion on its estimates of possible deaths, about 14,000 per year, that may be caused by radon.

Judging from the panic caused by environmental scares such as Alar on apples and chemicals from hazardous waste sites, one might expect the nation's "number one risk" to incite near hysteria. Yet radon has failed to instill widespread fear in the public mind. In fact, radon appears to be fading as a general concern, at least outside environmental bureaucracies. If radon is truly our biggest threat, why haven't people panicked?

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Radon has several attributes that would appear to make it ideal for arousing fear.

1. Radon can cause lung cancer. For decades, environmentalists have successfully used fear of cancer to drive the policy debate. At extremely high levels, radon has been associated with an increased risk of lung cancer among uranium miners. Thus, radon resembles other high-dose potential carcinogens.

2. Radon is radioactive. Since the dropping of the first atomic bomb, radioactivity has been the stuff of science fiction, little understood but greatly feared.

3. Radon is ubiquitous. Since radon is found everywhere, it can accumulate in almost any home, potentially justifying a massive regulatory response.

Despite these characteristics, radon fails to rank high on the public's list of fears. This lack of concern seems to derive from several factors.

1. Radon is natural. Radon is not a by-product of industrial or consumer activities. Because there is no one to "blame," it has been difficult to inflame the passions of the public. Even outdoor air has some amount of radon in it.

2. There is no subsidy for responding to radon risks. In almost every case, the property owner must pay to reduce radon risks. There are no subsidies that allow people to give full rein to fears without bearing the consequences. Although millions of homes and buildings have been tested and even "remediated" for radon, these actions were largely stimulated by a desire to protect property values rather than human life. In fact, many jurisdictions have mandated radon testing and/or remediation as a precondition of home sales. Remediation can cost from several hundred to several thousand dollars for the average home.

3. Radon "victims" are smokers. Almost all of the EPA's estimated "radon-induced" lung cancers are assumed to occur in current or former smokers. Despite the well-documented relationship of smoking to lung cancer, the EPA puts the blame on radon.

Why the EPA Goes After Radon

As with so many environmental risks, at extremely high exposure levels radon can be harmful. Much of the scientific basis for this statement comes from studies of uranium miners. Since the average home does not closely resemble a mine shaft, caution is appropriate in extrapolating from high to low doses. But the EPA assumes the risk continues down to the level of a single atom—the ultimate in low dosage. In other words, the EPA says that there is no perfectly safe radon exposure level.

Of course, there is no perfectly safe way to chew food or drive a car. Life is filled with risks, and individuals must establish some sort of response priorities or become paralyzed by even tiny risks.

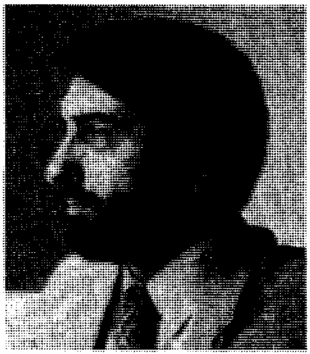
It is difficult to identify which factors have most influenced the public's non-responsiveness. The fact that radon is natural is a partial explanation, since many "natural" risks are downplayed. For example, there is little or no concern over the natural pesticides in our food supply, which are present (in up to 10,000 times the quantity of man-made pesticides) in the average diet.

However, the visibility of the cost of response is also important. Lightning is natural, for example, but everyone fears it. Since the cost of avoidance is quite small, most people respond by staying inside during thunderstorms. Costs may affect how people respond to synthetic pesticide residues as well. People express more fear about these pesticides than they do about natural pesticides. By and large, however, they aren't willing to avoid them by buying organic foods, which are more expensive and sometimes of lower aesthetic quality.

Other direct comparisons between public acceptance of or opposition to regulations can be made. For example, many people want to see local hazardous waste sites cleaned up; the cost is borne by others. In contrast, asbestos removal from schools imposes high direct costs on communities, and it is resisted. In these cases, the relative risks seem less important than who bears the cost.

The EPA's war on radon has not abated; it has only been ignored. Nevertheless, the EPA keeps trying. It has issued warnings for drinking water, schools and other public buildings, and private homes. It established a "Radon Partners" program through which it distributes grants to groups that promote radon "awareness." The EPA continues to promote short-term radon testing procedures, despite the fact that they are not very accurate or reliable.

For many potential environmental risks, the EPA behaves like a supporter of UFO theories. It's as if the EPA claimed that since there is no conclusive proof that UFOs do *not* exist, we should assume that they do! Yet in science, it can never be conclusively demonstrated that anything is impossible—even the laws of gravity could be subject to some unknown time limit and expire tomorrow. It is unscientific to present data that only support your position without adequately accounting for data that contradict your findings. Sadly, like UFO sightings, EPA cancer scares are likely to continue no matter how many times the conclusions are called into question or refuted. □



Cultural Pollution

The welfare state's destructive impacts on our economic well-being have been well chronicled by free market economists. But the inverted incentives of socialism also play havoc with the moral character of a society. All of the virtues associated with living a productive life are punished; all the vices associated with an irresponsible existence, rewarded.

The result is cultural pollution.

Market economists have long argued that environmental pollution is caused not by capitalism, but by the absence of property rights and market mechanisms. Similarly, cultural pollution is not caused by capitalism; to a large extent, it is caused by the breakdown of capitalism and the absence of markets. The discipline that comes from market relationships preserves such precious cultural resources as personal character, benevolence, and basic civility. But the welfare state has destroyed that discipline.

Those under age 30 probably can't remember a time when radio and TV stations refused to air gutter-minded "shock jocks"—or sewer-mouthed cartoon characters—or nihilistic music videos—or freak shows masquerading as "talk programs," where guests compete in revolting displays of decadence and self-abasement.

There actually was a time in this nation's not-so-distant past when most kids wouldn't use foul language around the opposite sex (not to mention *at* adults), and when those few who did would get their faces slapped. A time when no one would have dared ask the President of the United States what kind of underwear he wore . . . and when no President would have dignified such a question with an answer.

It was a time when students referred to teachers by their surnames, teachers refused to pass kids who hadn't met minimum standards of achievement, high school graduates could read job applications, and schools issued students more books than condoms. A time when unmarried girls actually felt ashamed to get pregnant—even once—and when unemployed young men actually felt ashamed to apply for welfare. When derelicts didn't use the sidewalks, nor celebrities the airwaves, as public latrines.

During the past four decades, standards of personal taste, language, behavior, dress, and manners have plunged to loathsome levels. Today, we are awash in a cultural tsunami of vulgarity and incivility. From the street corner to the school classroom, from the movies to MTV, belligerent faces stare back at us in defiant challenge to all that is decent and good, virtuous and valuable—even simply coherent and intelligible.

What is most odious is the fact that the expressions of decadence are so incongruously militant. We behold, daily and in countless forms, bizarre spectacles of self-righteous relativism and crusading nihilism. We are simultaneously revolted and incredulous and bewildered, wondering from what

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Criminal Justice? The Legal System Versus Individual Responsibility, *edited by Mr. Bidinotto and published by FEE, is available at $29.95 in cloth and $19.95 in paperback.*

buried cesspool of our national life such pollution has oozed forth.

It would be simplistic to lay blame for this cultural collapse solely at the feet of politics or economics. Ideas rule the world, for better or worse; the militancy of today's nihilists is largely the product of many decades of intellectual corruption. The concerted, ceaseless assault by generations of academics upon the standards, heroes, values, and philosophical premises of Western civilization have undermined our culture's foundations and battered its institutions. The barbarians we see around us have been unleashed and empowered by modern intellectuals who—like carriers of some deadly spiritual virus—have sapped our society of its once-vital defenses and immunities.

But to have a broad social impact, ideas good or bad must be transported from the ivory tower into every corner of society. They must be embodied in cultural institutions and transmitted by political programs. So while intellectuals may have opened the faucets, the main pipeline for carrying cultural pollution throughout society has been the welfare state.

The corrupting influences of the welfare state go far beyond the obvious. It isn't just that the National Endowment for the Arts occasionally subsidizes obscenity, or that billions of dollars in food stamps and Supplemental Security Income (SSI) checks are being cashed in and traded on the streets for drugs and alcohol. It isn't just that AFDC encourages unwed young women to have children, then remain unwed. It isn't just that unearned benefits encourage some people to remain shiftless and lazy.

More broadly, the welfare state also buffers people from any need to behave like civilized human beings.

One of the seldom-recognized benefits of the market system is its great *civilizing* influence. Socialists often denounce capitalism for promoting "competition, not cooperation." But in fact, the competitive demands of the marketplace *reward* cooperation and *punish* anti-social conduct.

To survive and thrive under laissez-faire capitalism, the individual must learn to produce goods and services valuable to his fellow man. Failing to do so dooms him to a miserable and marginal existence.

But becoming productive entails much more than simply learning a skill or creating a product. Whether employee, employer, or self-employed, each individual in a free market must also learn to *market* himself, his service, or his product. This, in turn, compels him to present himself and his wares in the best light possible, attracting rather than repelling others. Those who learn to cooperate with others will be rewarded by their fellows and flourish; those who don't will remain unmarketable and go wanting.

The welfare state short-circuits this learning and maturation process by buffering people from any need to behave themselves. In the marketplace a foul-mouthed boor will be fired from his job. In the welfare state, nothing he says to anyone will stop his government checks from coming. In the marketplace, an ignorant, illiterate, incoherent young woman has few prospects of getting a job. In the welfare state, she can remain just as she is—and the checks will keep on coming. In the marketplace, hanging out as a street-corner tough all day is a short route to homelessness and starvation. In the welfare state, though, such a lout can go home to a public housing project, his rent and food paid for by the same pedestrians he has spent the day menacing and insulting—and then, perhaps, spend his wee hours in a federally-funded midnight basketball league.

By buffering such offensive behavior from the normal punishments that the marketplace would surely administer, the welfare state has allowed and encouraged the proliferation of a nihilistic subculture. This subculture, in turn, has become its own growing market, with an insatiable demand for the lurid and depraved, fed by unscrupulous panderers in the media, entertainment, and corporate America.

A first step in restoring the quality of our social environment, then, would be to plug the poisonous pipeline of the welfare state. □

THE FREEMAN
IDEAS ON LIBERTY

Making the Polluter Pay

by Jonathan H. Adler

The experience of the past few decades indicates that "pollution control" is often a pretext by which the federal government regulates the minutiae of each and every industrial process and economic transaction. Much of this so-called pollution control is done in the name of the "polluter pays" principle. This principle, which is intuitively sensible, was trumpeted by early environmentalists as a means to discourage environmental harms.[1]

The "polluter pays" rhetoric is still often used, and most Americans probably think that current environmental policies make polluters pay. In truth, however, this approach is seldom embodied in American environmental laws.

Rarely are particular polluters forced to pay for actual damage caused. For example, when Congress enacted Superfund, the federal program to clean up hazardous waste, "polluter pays" was used to justify generic taxes on producers of materials (chemicals and oil) that ended up in waste dumps. Even if companies had acted responsibly—even if none of their materials or products ended up at waste sites—and they had caused no damage, they had to pay the tax if they happened to produce certain materials. Superfund is a policy under which polluters and nonpolluters alike are forced to pay exorbitant sums.

The polluter pays principle is valid, but it needs to be better understood and, ultimately, to be reinstated under institutional arrangements that make it effective and fair. To begin with, one must recognize that emissions per se are not pollution. Pollution is the imposition of a harmful waste product or emission onto the person or property of another without that person's consent; it is a "trespass" under the principles of common law. If the trespass is so minor that it creates no impact or inconvenience for the property owner, it will normally be tolerated. Otherwise, it will likely result in legal action of some kind.

The generation of a waste, in and of itself, does not necessarily harm other people or their property. Not every emission, waste, discharge, or industrial by-product is pollution. Thus there is no reason for government policy to discourage waste per se. Yet environmental regulators are eager to adopt "pollution prevention," "waste reduction," and "toxics-use reduction" schemes. Such programs completely miss the point. They tend to move away from any true concern for limiting pollution, and from holding polluters accountable for the damages that they cause.

Current environmental policy rarely focuses on harm. Indeed, sometimes it doesn't even focus on pollution at all! Much of the time the emphasis is on compliance with byzantine rules and requirements. Fines are levied not when the property of another is contaminated, but when a permit is improperly filed, or a waste-transport manifest is not completed in line with the demands of regulatory officials. The Environmental Protection Agency itself has observed that under current law "a regulated hazardous

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waste handler must do hundreds of things correctly to fully comply with the regulations, yet doing only one thing wrong makes the handler a violator."[2] Environmental rules are now so complex that only 30 percent of corporate counsels believe that full compliance with environmental laws is actually possible, according to a survey conducted by the *National Law Journal.*[3]

The Exxon *Valdez* Case

Even when harm occurs as a result of pollution, the "polluter pays" principle is routinely violated. Consider the case of the Exxon *Valdez*. In 1989, an oil tanker ran aground because its captain was drunk, and over 300,000 barrels of crude poured into the water of Prince William Sound, causing significant, though not permanent, environmental disruption. Few people are aware that the crime for which Exxon was punished was killing migratory birds without a permit. Extensive shorelines were covered in oil, and the government prosecuted Exxon for not having permission to go hunting!

Exxon was subject to civil suits from those, such as local fishermen, who claimed damage from the spill. However, much of the money that Exxon was forced to pay did not go to alleged victims of the spill. Exxon paid $125 million in fines to the federal government and the state of Alaska. In addition, Exxon was forced to pay $900 million into a fund to be doled out by government officials for environmental projects, habitat protection, and scientific research, among other things.[4] In May 1994, $38.7 million of this money was used to create a new state park.[5]

Exxon was under tremendous political pressure to restore the "public" shoreline so it engaged in a costly, and extensive, cleanup operation. Much of the cleanup was unnecessary—nature has its own methods of cleaning up spills of natural substances like oil—and in some cases the extensive beach cleaning actually caused harm. So, not only was Exxon prosecuted on generic offenses against "public" goods rather than for specific harms to specific parties, but the politicization of the spill resulted in a thoughtless policy response. Had a similar spill occurred in a more private setting—if, for example, a tanker truck had overturned, spilling onto private properties—the owners of the affected properties would have had clear, direct recourse. Additionally, they would have had a tangible incentive to ensure that any cleanup or remediation was a proper way to address the problem at hand.

There was no means for affected citizens to hold Exxon directly responsible for much of the actual damage caused to the Alaskan shoreline. The Alaskan coast had no private owners, stewards, or protectors who could seek redress or ensure that cleanup dollars were well spent, as they could if that oil had spilled into someone's backyard. The only direct payments made by Exxon to those actually harmed were to fishermen and Alaska natives who claimed damages from a temporary decline in the salmon and seal harvest.[6]

If we truly want polluters to pay, there need to be private property owners that can defend threatened or harmed resources. Ownership of ecological resources can serve as a deterrent against causing harm against others, in the same manner that private property provides such incentives in other areas. Private ownership also provides tangible incentives for better stewardship.[7]

Polluters such as Exxon should be held responsible, not for violating a bureaucratic proscription about the hunting of birds or for having harmed some "public" resource, but because they harmed someone else's person or property, and they have no right to do that. Moreover, any restitution should be paid to those harmed, not simply to a government agency that proclaims it will spend the money in the public interest.

Making Polluters Pay

A fishing club in England, the Pride of Derby Angling Club, demonstrates how property rights can prevent stream pollu-

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MINIMUM WAGES

Few economic laws, if any, are more malicious and malignant than minimum wage laws. They prohibit workers from accepting employment unless they are paid at least the minimum. They order employers to use only workers who qualify for the minimum and reject all others. The laws erect a hurdle over which all American workers are forced to jump.

The employment hurdle actually is higher than the stated minimum, be it $4.25 or $5.15 an hour. It is higher by the costs of mandated fringe benefits which employers are forced to pay. There are Social Security contributions, unemployment and workmen's compensation, and paid holidays. The $4.25 minimum wage is at least a $6 an hour minimum cost. In some industries with high workmen's compensation levies, such as heavy industries and construction, the minimum cost may be $7 per hour or more. If local governments levy payroll taxes, they raise the hurdle by the same amount. Similarly, the costs of health insurance which many employers carry raise the height of the hurdle.

The only relevant minimum is the total minimum, that is, all the costs an employer must bear to secure the services of a worker. If the costs exceed his or her productive contribution, they inflict losses. It does not matter whether the losses result from a higher minimum mandate or a boost in Social Security taxes or workmen's compensation. A worker who inflicts losses on his employer is likely to be disemployed.

In the United States, minimum wage legislation does grievous harm to millions of unskilled laborers, especially among the racial and ethnic minorities — blacks, Puerto Ricans, Chicanos, Mexicans, and American Indians. About one–third of these workers are teenagers, almost one–half are twenty–five to sixty–five years old, and some 17 percent are seniors, sixty–five years old or older. Two–thirds of this unskilled labor are female. Although they comprise only ten percent of American labor, the harm done to them and society is greater by far than their numbers seem to indicate.

It is an unfortunate fact that many minority youths possess lower levels of education, training, and experience than white youths and, therefore, are less competitive in the labor market. Without the strictures of labor law, they would not be able to earn as high a wage as their more productive co–workers but would find ready employment at lower rates. If the minimum wage is set above their productive ability, they are likely to be dismissed or not hired at all. This explains why the unemployment rate of black youth in recent years has ranged between 40 percent and 50 percent, which is double the rate of white teenagers. If we add those individuals who in frustration and desperation have given up their search for employment, the unemployment rate among black youth, in our estimate, exceeds 60 percent.

No matter how tragic the economic effects may be on certain groups of victims, we must not overlook the psychological harm done and the moral wrong inflicted on them. Condemned to idleness and uselessness in a highly productive society, and barred from making their own contributions, many, in desperation, turn to vice and crime. The inordinate national crime rate attests to much despair in the centers of unemployment and public assistance. Moreover, let us not forget the productive members of American society who not only must forgo the valuable services which the unemployed could render, but also are forced to support them. In return, they are compelled to live in constant fear of crimes against their persons and property.

Every well–known economist has voiced his concern about minimum wage legislation, and yet, it survives sober reasoning and cogent arguments, living on in the sphere of politics. Few politicians actually believe that minimum wage legislation is truly in the workers' interest, that it increases their purchasing power and reduces poverty; and yet, many support it for political reasons. It is clever politics, yet so cruel and insincere, to promise higher wages by law, but, unable to deliver on the promise, instead raise the height of the hurdle to employment. It is politics at its worst.

The politicians are urged on by labor unions and their members who benefit significantly from legal boosts in minimum wages. Boosts obviously hurt industries using unskilled labor in competition with union labor. They may force marginal enterprises to curtail production or even shut down, which would benefit union shops. To benefit their members at the expense of nonmembers is a primary function of all unions. They call this "self–interest"; it is injury and malice to their victims.

Most of the support for minimum wage legislation comes from people who are fully aware of its unemployment effects. Many Americans in the industrial states of the North and Northeast use the law knowingly as a barrier to the industrial migration from the states to the South. Since World War II, many companies have left the North to take advantage of lower labor costs and other advantages in the South. To impede this industrial migration and to stifle Southern competition, the Northern politicians usually clamor for higher minimum wages.

Other advocates who are aware of the harm done to unskilled workers are convinced that the beneficial effects, as they see them, tend to outweigh the evil effects. Their blind faith in political action leads them to believe that evil consequences can be alleviated by new governmental efforts, such as neighborhood youth corps, job corps, public works programs, retraining programs, more aid to education, etc. To them, minimum wage legislation is a convenient path to ever bigger government and bureaucratic control.

If minimum wage legislation could actually lift wage rates and standards of living, the poverty of the world could be eradicated forthwith. The governments of Bangladesh, Sri Lanka, and Tanzania would merely have to walk in the footsteps of the U.S. government and lift wage rates by mandate. Unfortunately, what is foolish and absurd in Dhaka, Colombo, and Dar–es–Salaam is the same in Washington, D.C.

Hans F. Sennholz

You cannot correct all the evils of the world, nor relieve all the poverty in the world.

You cannot comfort all in distress, nor support all the underprivileged.

But you can stand by FEE which brings the light of freedom to the world.

tion. In England, clubs own the right to fish along some rivers and they protect their "beats" from pollution. In 1948, several fishing club members joined to form the Anglers' Co-operative Association (ACA). The association won a major case soon thereafter, known as the Pride of Derby case. Upstream polluters were required to stop polluting, and pay damages and legal costs, since their pollution threatened the fishery. The ACA has helped fishing clubs pursue injunctions against upstream pollution ever since. To date, the ACA has been involved in over 1,500 cases, including several against municipal water authorities.[8]

This ability of private parties to restrain upstream polluters is rarely available in the United States. Historically, some communities and individuals did obtain traditional common law remedies for water pollution. However, many such actions have since been preempted by the federal Clean Water Act.[9] Under the Clean Water Act, politically preferred polluters are treated more favorably than others. Municipal polluters face cleanup goals that are often less stringent than those of industrial polluters, and their cleanup schedules are far more lenient. Yet, to the rivers and fish, pollution is pollution.

This problem of unequal treatment is compounded by the prevalence of citizen suit provisions in the Clean Water Act and other environmental laws. Although it may sound good to allow any citizen or citizen group to force the government to enforce pollution laws (and to allow the citizen or group to recoup legal costs), what it means is that special interest groups can effectively determine the enforcement priorities of government agencies. Many of the environmental organizations that engage in citizen suits have an anti-business bias. As a result, private industry is subject to more legal actions than either agricultural activities or governmental facilities, even though both of the latter are greater sources of water pollution. Indeed, between 1984 and 1988, environmentalist citizen suits against private industry were more than six times as common than suits against governmental facilities.[10] "There are no *environmental* reasons why environmental groups would display such a pronounced preference for proceeding against corporate polluters," notes Michael Greve of the Center for Individual Rights.[11]

Many environmental groups have found that citizen suits can be a lucrative source of revenue.[12] There is something profoundly unjust about limiting the legal recourse of persons harmed by polluting activities, as the politicization of pollution control has done, while at the same time encouraging the use of citizen suits by organizations with no stake in the resources they claim to be protecting.

Another example of failure to make polluters pay is the case of air pollution. It is well established that a small fraction of automobiles are responsible for the vast preponderance of auto-related emissions. Indeed, over half of all auto emissions are generated by only ten percent of the cars on the road.[13] This means that for every ten cars, the dirtiest one pollutes as much as the other nine. But federal officials insist upon imposing significant costs on the owners of all cars through "clean fuel" requirements, periodic emissions inspections, and the like, in order to meet federal air quality standards. If emission reductions are necessary in some regions to protect human health (an arguable proposition), targeting the dirtiest portion of the automobile fleet would reduce pollution more efficiently and more equitably. Indeed, if airsheds were managed privately, one would expect this sort of approach to emissions reductions.

The broad approaches (which I call "drift-net" approaches) achieve pollution reductions more through their scope than their efficiency and tend to produce environmental improvements at the expense of innocent individuals who have not contributed to environmental harm. Environmental protection and simple justice are better served when pollution reduction efforts focus on the true sources of pollution, and ensure that it is the polluters that pay for the damages caused.

Do Pollution Taxes Work?

There is one other approach that appears to embody the "polluter pays" principle: the imposition of emission taxes. This idea is generally associated with the economist A.C. Pigou, who argued that pollution taxes would force offending industries to "internalize" the costs they were imposing on others.

But there are several problems with this approach. First, such taxes would be used to enrich government coffers, not to compensate those who were harmed by the pollution. It is one thing for the state to decide disputes and ensure that polluters make restitution to those whom they have harmed. It is another thing for the state to identify polluting activities and use pollution taxes as a source of general revenue. The former is in accord with common law principles of justice; the latter encourages the continued growth of the regulatory state.

The second problem is that the state is in no position to assess the actual costs imposed by pollution. Pollution taxes enacted through the political process are likely to reflect political priorities rather than environmental ones. The federal gasoline tax, for example, is often defended as a "polluter pays" approach because oil exploration, refining, and use all have environmental impacts. However, a tax on gasoline is a poor proxy for taxing environmental impacts—the same gallon of gasoline will produce different levels of emissions in different vehicles. And special-interest pleading ensures that certain types of fuels and fuel additives receive special exemptions from the tax.

In fact, pollution tax schemes almost inevitably rely upon some proxy for pollution that can be taxed. It is far easier to levy a tax on an easily measurable factor, such as use of a resource or aggregate emissions, than it is to try and measure the impact on people—yet it is the impact on people and the environments that they are concerned about that should matter. Using tax mechanisms in place of common law principles, no matter how well intentioned the policy, is a "polluter pays" approach that is destined to fail.

In sum, making the polluter pay should not entail trying to eliminate the generation of wastes and other by-products of a modern industrial society. Nor does it mean regulating every emission, every industrial process, indeed every aspect of economic life. It means focusing environmental protection efforts on the greatest sources of harm and ensuring that polluters pay for the costs of the harms they inflict upon others. This goal can be best accomplished through a decentralization of environmental policy and a greater reliance upon common law remedies. Central government dictates are not up to the task. □

1. See, for example, Sydney Howe, "Making the Polluters Pay," *The Washington Post*, January 30, 1977, C8.
2. U.S. Environmental Protection Agency, *The Nation's Hazardous Waste Management Program at a Crossroads: The RCRA Implementation Study* (Washington, D.C.: U.S. EPA, July 1990), p. 36.
3. Figure cited in Marianne Lavelle, "Environmental Vise: Law, Compliance," *National Law Journal*, August 30, 1993, p. S1.
4. Jeff Berliner, "Exxon Pleads Guilty, Judge Accepts $1 Billion Settlement," United Press International, October 8, 1991.
5. "Oil Spill Money Creates New Alaska Park," Associated Press, May 27, 1994.
6. However, it should be noted that the jury awards to the fisherman were more likely the product of outrage over the spill than actual demonstrated damage (see Jeff Wheelwright, "Exxon Was Right, Alas," *The New York Times*, July 31, 1994, p. 15). This is another product of focusing on "public" harms rather than harms inflicted on particular parties.
7. This point is elaborated upon in Robert J. Smith, "Resolving the Tragedy of the Commons by Creating Private Property Rights in Wildlife," *Cato Journal*, Fall 1981, pp. 439–468.
8. This history is recounted in Kent Jeffreys, *Who Should Own the Ocean?* (Washington, D.C.: Competitive Enterprise Institute, Fall 1991), pp. 17–18.
9. See Roger E. Meiners and Bruce Yandle, "Clean Water Legislation: Reauthorize or Repeal?" in *Taking the Environment Seriously*, Meiners and Yandle, eds. (Lanham, Md.: Rowman and Littlefield, 1993), pp. 88–94.
10. Michael Greve, "Private Enforcement, Private Rewards," in *Environmental Politics: Public Costs, Private Rewards*, M. Greve and F. Smith, eds. (New York: Praeger, 1992), p. 111.
11. *Ibid.*
12. *Ibid.*, pp. 109–110.
13. J.G. Calvert, et al., "Achieving Acceptable Air Quality: Some Reflections on Controlling Vehicle Emissions," *Science*, July 2, 1993, p. 40; and, Donald Stedman, et al., *On-Road Remote Sensing of CO and HC Emissions in California*, Final Report Contract No. A032-093 (Sacramento: California Air Resources Board, February 1994), p. 13.

THE FREEMAN
IDEAS ON LIBERTY

Why Governments Can't Handle Risk

by Randy T. Simmons

Public opinion surveys indicate that mainstream America is worried about environmental risks.[1] In 1990, for the first time since pollsters began asking the questions, a plurality (46 percent) of American voters believed that the quality of life where they live was worse than it was five years previous, and the number who were pessimistic about the future of the environment (46 percent) exceeded the number who were optimistic (32 percent).

These surveys, reported in *The Polling Report,* also indicate that Americans expect government to resolve these anxieties. In 1982, one-third of Americans wanted more government regulation of the environment. By 1990, two-thirds wanted more. In 1982, 45 percent agreed with the statement that the environment was so important that requirements and standards could not be too high. In 1990, 80 percent agreed. People apparently remain confident of government's ability to protect them against risk.

But the truth is that the government is spectacularly ill-suited to anticipate future harms. There are a number of reasons.

First, most of the potential harms we face are low-probability future events about which no one can know very much. By putting protection against these events into the hands of a central authority, almost inevitably a single approach to the harm will be taken. Given such uncertainty, any policy of anticipation is likely to be the wrong one.

The problem with leaving prediction in the hands of a central authority is illustrated by the government's mineral assessment process (even though geology is a more certain science than assessing risks in an uncertain future). For each proposed wilderness area, the Bureau of Land Management, the Bureau of Mines, and the Geological Survey conduct mineral assessments to determine the potential for finding mineral deposits, based on existing geological theory. The agencies produce probabilistic estimates of mineral potential.

But scientists do not regard these estimates as specific, quantitative data. Even for the areas that appear to offer little mineral promise, a negative assessment report is not absolute. The vast oil and gas deposits in the Overthrust Belt were unknown only a few decades ago; several exploration companies had failed to find anything. But someone with a new geological theory applied a slightly different technology in a previously dry hole and discovered the reserves.

If we didn't have a variety of people making different assessments—if, instead, everyone relied on the government's assessments—the oil might never have been found. Such uncertainties prompted Wil-

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liam A. Vogely, head of the Department of Mineral Economics at Pennsylvania State University, to observe, "Their [resource assessment] results are so imprecise that a policy based on them may be worse than a policy that recognizes our complete ignorance of potential reserves."[2] The same can be said for government policies anticipating environmental risks.

A second reason for government's inability to be our protector against future harms is that initial risks must be taken in order to reduce future harms. Only in rare areas, such as national defense, are politicians willing to tell their constituents they must suffer in order for future benefits to happen. Congress is currently incapable of controlling budget deficits in large part because legislators fear causing their constituents immediate, visible harm.

A telling example comes from the Clean Air Act amendments of 1977, which were designed to reduce sulfur dioxide from power plants and other sources. An effective approach would have been to mandate the amount of emissions of sulfur dioxide that would be allowed, and let the power plants choose the best means of reaching them. But that concept ran into political trouble. It would have allowed power plants to meet the standards by buying low-sulfur coal from the west and would have eliminated jobs in eastern coal fields, which produce high-sulfur coal.

To protect jobs, Congress mandated that scrubbers be installed in all new construction, regardless of the sulfur content of the coal. But scrubbers are less effective than coal switching, and companies kept using their old plants to avoid the costs of the scrubbers. Serving constituents was placed ahead of the environment. The result was probably dirtier air.[3] While this case is dramatic and documented more extensively than most, politics frequently overrides environmental goals.

A third reason that governments are not suited for protecting against risk is that they have trouble carrying out the time- and place-specific experiments and trials that develop the ability to deal with surprises. Whether overseeing grazing, timber harvest, air quality, or water policy, governments are not able to discriminate by location or conditions. One size fits all.

Former EPA administrator William Ruckelshaus has pointed out that the Clean Air Act requires the Environmental Protection Agency to impose costly automobile inspection and maintenance programs in communities where certain pollution criteria have been exceeded only twice in a year. This rule applies even if the violations occurred because of the placement of the air-quality monitoring devices, not because the air was discernibly unhealthy. "The law does not allow the federal government to distinguish between (for example) Los Angeles and Spokane, Washington, in this regard—a restriction that defies common sense," says Ruckelshaus. "In the same way, we cannot distinguish between a plant discharging pollutants into a highly stressed river in Connecticut and one discharging into Alaskan waters that bear no other pollutant burden. In other words, the law does not permit us to act sensibly."[4]

A fourth reason for government's inability to anticipate errors and prevent them is that for such anticipation to work, it must be possible to make mistakes and learn from them. Private entrepreneurs receive feedback about their successes and failures through profit and loss information. But politicians' and bureaucrats' success does not depend on learning from mistakes. Instead, it depends on increasing budgets, responding to organized interests, and maximizing votes. Bureaucrats are insulated from the effects of their good and bad choices—someone else benefits or loses. Politicians are rewarded by voting for policies popular with their constituents, even if the policies' cost to the nation are greater than the benefits to their constituents. These are hardly strategies for developing the ability to anticipate harm or to be resilient in the face of it.

Fifth, the public is ill-informed and easily excited about new risks. Its hysteria can cause public agencies and politicians to act in exceedingly harmful fashion, essentially through witch hunts. As the article by Robert Nelson in this issue discusses in some detail, it is a situation not unlike that of the sixteenth and seventeenth centuries, when witches were blamed for many harms.[5] One reason why this hysteria was supported by the authorities was the fact that when witches were executed, their property was confiscated by the authorities. Something parallel happens today, write Richard Stroup and John Goodman. "Businesses [that are] politically 'convicted' are assessed billions of dollars in Superfund taxes and cleanup costs," they write, "and thus help to fund the agencies which prosecute them."[6]

In sum, governments are poorly suited for achieving safety because safety is a process of discovery, undertaken without being able to see the end, rather than an object that is freely available to public or private decision-makers. As Aaron Wildavsky has pointed out, markets provide a better route for achieving safety. "Markets overcome defects to enhance overall safety not because 'they' know the answer, but precisely because they don't; convinced that better bargains can always be struck, markets are based on the principle of incessant search. The more decentralized, dispersed, variegated, and, need I add, competitive markets become, the more likely it is there will be more different kinds of search and, therefore, more safety, especially against the unforeseen. . . .

"Attempting to short-circuit this competitive, evolutionary, trial and error process by wishing the end—safety—without providing the means—decentralized search—is bound to be self-defeating. Conceiving of safety without risk is like seeking love without courting the danger of rejection."[7]

The only meaningful alternative is to learn once again to rely on markets to help us cope with environmental and other risks. They sample the unknown, they have reliable feedback, and they allow trials, errors, and corrections. □

1. All poll results cited here are from *The Polling Report*, Vol. 6, No. 7 (April 9, 1990), published by The Polling Report, Inc., 509 Capitol Court NE, Suite 100, Washington, D.C. 20002.

2. William A. Vogely, "Estimation of Potential Mineral Reserves and Public Policy," *Earth and Mineral Science*, 52 (Winter, 1983), p. 15.

3. See Bruce A. Ackerman and William T. Hassler, *Clean Coal/Dirty Air or How the Clean Air Act Became a Multi-billion Dollar Bail-Out for High Sulfur Coal Producers and What Should be Done About It* (New Haven and London: Yale University Press, 1981).

4. William D. Ruckelshaus, "Risk, Science, and Democracy," *Issues in Science and Technology*, vol. 1, no. 3 (Spring, 1985), p. 33. Cited in Aaron Wildavsky, *Searching for Safety* (New Brunswick: Transaction Books, 1988), p. 224.

5. See also William C. Clark, "Witches, Floods, and Wonder Drugs: Historical Perspectives on Risk Management," in Richard C. Schwing and Walter Albers, Jr. (eds.), *Societal Risk Assessment: How Safe is Safe Enough?* (New York: Plenum Press, 1980), pp. 287–313.

6. Richard L. Stroup and John C. Goodman, "Making the World Less Safe: The Unhealthy Trend in Health Safety and Environmental Regulation," National Center for Policy Analysis (NCPA) Policy Report #137, April 1989.

7. Aaron Wildavsky, *Searching for Safety* (New Brunswick, N.J.: Transaction Books, 1988), pp. 227, 228.

THE FREEMAN
IDEAS ON LIBERTY

Human Health and Costly Risk Reduction

by Bruce Yandle

With the Clinton administration's misguided national health-care initiative dead, at least for now, it is time to consider an alternative. Let's improve human health by eliminating or at least sharply modifying federal rules designed to reduce risk. Does this seem paradoxical? It shouldn't.

Risk reduction is a natural substitute for health-care spending. If the incidence of cancer is reduced by proper diet and regular medical checkups, fewer people will need more costly medical treatment. Similarly, if it is cheaper to reduce the risk of respiratory illness by curtailing air pollution than by taking on the risk and later dealing with injuries and sickness, then we can bet that health-conserving actions will be taken.

But the current federal mandates for reducing risk are so ineffective that risks are not altered in many cases. In other cases, huge amounts are spent in an effort to reduce minor health risks, while larger ones go untouched. All along the burden of federal regulation continues to grow heavier.

Ineffective, costly regulation yields two unhappy outcomes. Unprotected people must still seek health care (since the risks haven't been reduced significantly). In addition, ineffective regulation wastes resources, reducing incomes. Everyone knows that lower-income people, on average, are not as healthy as people with higher incomes.

Writing in *Science* magazine, Richard Zeckhauser and W. Kip Viscusi, two respected specialists in risk analysis, said: "Society's system for managing risk to life and limb is deeply flawed. We overreact to some risks and virtually ignore others."[1] (When they refer to "society's system" for managing risk, they mean primarily the federal government's system for managing risk.) As we shall see, the federal government's risk reduction efforts are badly skewed.

A great deal of federal risk regulation involves efforts to protect against cancer by regulating or limiting carcinogens. When political proposals are made to reduce cancer risks at an apparent cost of zero to concerned citizens, regulation wins every time, no matter how costly the rules may become. But such regulations are plagued with problems.

The FDA's enforcement of the 1958 Delaney Clause is a case in point.[2] This is a federal law requiring that any cancer-causing chemical be banned from food. In 1958 there were about 12 known carcinogens, and detection capabilities were weak. Since then, the number of identified carcinogens has risen to 26 and more than 600 chemicals have been shown to cause tumors

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in rodents, which raises the Delaney presumption that the chemicals are human carcinogens.

Following orders from Congress, the FDA developed a "safe dose" procedure for regulating food carcinogens. It started with the lowest exposure level that leads to observed tumors in laboratory animals. This dose was then extrapolated to humans and divided by 100 to determine the amount that could be ingested. Eventually, the FDA developed the one-in-a-million rule. This means that a substance under review will be banned if there is evidence that using the substance in a recipe generates one additional cancer per one million exposed people.

But the annual incidence of cancer mortality for all Americans is 300,000 per one million. That is, cancer is the cause of death for 30 percent of the population. The FDA is attempting to reduce the 300,000 to 299,999. To achieve this extremely small reduction, very costly regulation is required.

In fact, research on cancer-related deaths indicates that less than one percent are related to food additives. About four percent, on average, are associated with the workplace. Pollution is estimated to cause two percent of all cancer death, on average. The largest share of cancer deaths, 35 percent, is associated with diet, and the next largest, 30 percent, with tobacco.[3]

Misdirection of Resources

A number of people have noticed that the efforts of the federal government to address risk are disproportionate to the size of the problem. For example, Keith Schneider, a national correspondent for *The New York Times*, writing in *ECO* magazine, describes the case of abandoned Western mines where immense piles of tailings contain lead, sulfur, arsenic, and cyanide. These contaminants can leach into groundwater, causing trace amounts of the pollutants to make their way into drinking water; however, experts are convinced that the risk is small. Congress has chosen to deal extensively with the tailings problem and has budgeted $10 billion to clean up the tailings piles. In contrast, the government has budgeted less than $500 million to close abandoned mines and restore land affected by mining operations. Yet unprotected mine shafts have contributed to at least 162 deaths and hundreds of injuries since the late 1970s.[4]

Whether the federal government can or should do anything about the risk of injuries from abandoned mines is a separate question; but, clearly, political factors determine how government resources are directed. Government officials are aware of this. In a widely distributed 1987 study, the EPA examined its regulatory activities and the budget allocated by Congress to each of them, and then ranked the relative riskiness of 31 areas addressed by the agency.[5] The goal was to determine how well the agency's effort to reduce risk matched the riskiness of various problem areas.

By the analysis of the EPA officials, indoor radon, indoor air pollution, non-point-source water pollution, and accidental releases of toxic materials were high risks, but little was being done by the agency to reduce them. In contrast, they viewed Superfund, hazardous waste controls, and municipal non-hazardous waste site activities as low risks, but the agency had large budgets directed to them. The EPA report concluded that "the rankings of risk . . . do not correspond closely with EPA's statutory authorities" and "the rankings of risk also do not correspond well with EPA's current program priorities."[6]

Efforts to develop a more reasonable approach to regulation have been made by U.S. presidents from Gerald Ford to Bill Clinton, without significant progress. For more than 15 years, the Office of Management and Budget (OMB) has been required to conduct reviews of newly proposed regulation to assess their cost effectiveness. A recent OMB review of 52 different costly regulations raised a number of unsettling questions. The OMB stated:

> The cost effectiveness for the regulatory actions listed varies over more than *eight*

orders of magnitude, from about $100,000 (for certain automotive safety features) to more than $5 *trillion* per premature death prevented (for treating wood preserving chemicals as hazardous wastes). [S]pending $2 million today on highway safety would save at least one life in just a few years. [T]he same amount spent regulating the cancer risks posed by wood preserving only prevents one cancer case every 2.9 million years.

Improved human health and well-being is the avowed goal of government efforts to regulate the environment, the workplace, food, automobiles, agriculture pesticides, and a multitude of other consumer products. The cost per person of all regulation is large, two-thirds that of health-care costs, which many believe to be out of control and unacceptable. Efforts to prevent harm must be considered in any overall effort to reduce health-care costs.

The historic record and understanding of regulatory politics suggest that any improvement will be difficult. To bring change requires a different set of incentives, and that requires institutional change. It is not that we are ignorant of the science, economics, and mathematics of risk reduction. What we lack are political institutions that provide incentives for intelligent people to respond logically to the forces of the market economy when attempts are made to improve human health and safety.

Two Recommendations

Two recommendations come to mind. First, all regulatory activity must be considered in the light of the effects of income on health and safety. Studies indicate that a loss in the nation's gross domestic product of $3 million to $7 million in regulatory costs yields an increase of one additional fatality.[8] Recall that EPA regulations alone now impose an estimated cost of $100 billion annually, and there are several major studies indicating that safety and health regulation has reduced the growth of worker productivity, and therefore wages, by as much as 36 percent in one decade.[9] If Congress is going to mandate a host of actions designed to increase life expectancy, then Congress should provide an annual report card to the people. Each action required by Congress should be accompanied with an analysis that accounts for the effects of lower incomes and tells us just how much life expectancy has been added. The results of all actions taken in a given year should be reported to the American people, and federal agencies that reduce life expectancies should be punished. OMB should be made the watchdog.

The second recommendation is a bit more radical. Congress should get out of the business of mandating reductions of trivial risks. We should return to common law rules that impose severe penalties on firms that inflict harm on consumers. The court system should be buttressed, not suppressed. Then, threats of costly suits and the risk of losing hard-earned business reputations would work together to reduce the cost of reducing risk and improving health. □

1. Richard J. Zeckhauser and W. K. Viscusi, "Risk Within Reason," *Science*, May 4, 1990, p. 559.
2. The discussion here is based on Lester B. Lave, *How Safe Enough? Setting Safety Goals* (St. Louis: Center for the Study of American Business, January 1990), pp. 6–13.
3. See Joseph L. Bast, Peter J. Hill, and Richard C. Rue, *Eco-Sanity* (Lanham, Md.: Madison Books, 1994), pp. 41–42, citing data from Sir Richard Doll and Richard Peto, "The Causes of Cancer: Quantitative Estimates of Avoidable Risk of Cancer in the United States Today," *Journal of the National Cancer Institute*, Vol. 66 (June 1981), p. 1256.
4. Keith Schneider, "A Policy That Set the World Standard Goes Off Track," *ECO*, June 1993, pp. 17–22, at 18.
5. U.S. Environmental Protection Agency, "Unfinished Business: A Comparative Assessment of Environmental Problems," Vol. I, *Overview*, Washington: U.S. Environmental Protection Agency, February 1987.
6. *Ibid.*, p. xix.
7. Office of Management and Budget, *Regulatory Program of The United States Government*, April 1, 1992–March 31, 1993 (Washington: Government Printing Office, 1993), pp. 10–11.
8. Ralph Keeney, "Mortality Risks Induced by Economic Expenditures," *Risk Analysis*, Vol. 10, No. 1, pp. 147–159, 1990.
9. See Gregory B. Christainsen and Robert H. Haveman, "The Reagan Administration's Regulatory Relief: A Mid-Term Assessment," in George C. Eads and Michael Fix, eds., *The Reagan Regulatory Strategy: An Assessment* (Washington: Urban Institute Press, 1984), pp. 49–80. Also see Wayne B. Gray, "The Impact of OSHA and EPA Regulation on Productivity," Working Paper No. 1405, New York: National Bureau of Economic Research, July 1984, and Wayne B. Gray and Ronald J. Shadbegian, "Environmental Regulation and Manufacturing Productivity at the Plant Level," Working Paper No. 4321 (Cambridge, Mass.: National Bureau of Economic Research, April 1993).

THE FREEMAN
IDEAS ON LIBERTY

Assessing the Risk Assessors

by Daniel K. Benjamin

Sed quis custodiet ipsos Custodes?
—Juvenal, *Satires*, VI, 1.347

Life is risky business. As we travel its uncertain voyage, hazards must be assessed and choices made among them. For most of recorded history, both assessment and choice have been the prerogative of the individual. Society and its institutions—most notably the law—have exhibited great faith in the ability of individuals to regulate the risks of their personal environments.

Over the past 30 years, however, the right (and obligation) of the individual to assess and choose among risks has been displaced by decisions of courts and government regulatory agencies. There are, I believe, two reasons for this development. One of these is the erroneous notion that individuals make systematic errors in their assessment of risks, an idea I have challenged elsewhere.[1] Here I address the second factor, the widespread view that experts at government agencies and in the judicial system can perform the risk assessment process more accurately because they are, in the words of *Webster's*, "very skillful or highly trained."

There is mounting evidence that this view of expertise is misguided.[2] Within regulatory agencies such as the Occupational Safety and Health Administration (OSHA) and the Environmental Protection Agency (EPA), experts have adopted policies of extreme conservatism. At every point in the process, the worst-case assumptions are made, so that the compound effect may be to overstate the true risks by a factor of ten or even 1,000—without saying so. Simultaneously, the judicial system has increasingly dismissed the capacity of market participants to determine the appropriate level of risk. Consumers are viewed as unable to assess risk and unwilling to bear it, while producers are judged unwilling to sell the level of safety and health that consumers demand.

The result of this regulatory and judicial intrusion into the risk assessment process is twofold. First, there have been a rapidly growing number of costly attempts to reduce health and safety hazards that are simply not very dangerous. Just as importantly, the *relative* hazards of different threats have been severely distorted; as a result, we attack the less serious risks, leaving the more deadly to wreak their havoc.

Expertise and Evidence

Two recent policy issues illustrate why experts must be tools rather than arbiters in the process of assessing risk. First, consider cadmium, a toxic industrial metal used to coat metals and to make batteries and pigments. There is general agreement that at high doses cadmium can damage kidneys and possibly cause lung cancer. During the early 1980s, OSHA investigated the possibility of imposing stringent controls on

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workplace exposure to cadmium. OSHA's review of the evidence led it to propose rules that would have reduced exposure levels 100-fold, saving the lives of 14 workers each year.

The Office of Management and Budget (OMB) subsequently reviewed the same body of evidence. It concluded that the proposed regulations, far from saving 14 lives each year, would actually kill at least 25 additional individuals! OMB reasoned that the high cost of the proposed OSHA regulations would reduce America's wealth. As people become wealthier, they demand more safety; as they become poorer, they choose less safety. Thus, the decline in wealth caused by the costly new regulations would cause a decline in the demand for safety and lead to a rise in total fatalities.[3]

So one group of experts claim that the proposed regulations are an improvement; the other group of experts say they are not. The relevant issue is that the experts disagree. *Which expert* should we choose?

The second question is which evidence should be relied on. Consider the "greenhouse effect," the apparent tendency of carbon dioxide (CO_2) and other gases to accumulate in the atmosphere, acting like a blanket that traps radiated heat and increases the earth's temperature. Humankind is producing greenhouse gases at a record rate, and they are accumulating in the atmosphere. Over the past 50 years, the amount of CO_2 in the atmosphere has risen about 25 percent.[4]

In principle, higher CO_2 levels should lead to higher global temperatures; the National Academy of Sciences has suggested that by the middle of the twenty-first century, greenhouse gases could be double their levels of 1860 and global temperatures could rise by as much as 2° to 9° Fahrenheit. Many of today's temperate climes could become arid dust bowls.

At first glance, such a view seems consistent with the fact that, on average over the past century, greenhouse gases have been rising and so has the average global temperature. Yet almost all of the temperature rise occurred *before* 1940, while most of the increase in greenhouse gases has occurred *after* 1940. In fact, global average temperatures fell about 0.5° between 1940 and 1970;[5] this cooling actually led some prominent scientists during the 1970s to forecast a coming *ice age*. Thus, less than 20 years after experts assured us the evidence pointed directly at falling temperatures, experts are now saying that the evidence points toward rising temperatures.[6] The key is that here, as in many cases, the evidence is mixed. We must still decide *which evidence* to rely upon.

The Role of Incentives

Once we admit the possibility that experts err (or at least disagree) and that evidence is sometimes ambiguous (or at least arguable), we are forced to recognize that experts' judgments often reflect the incentives they face. Indeed, the cadmium episode reveals quite clearly how those differences can depend on the incentives at hand.

As reflected in its name, OSHA is charged with protecting worker safety, and one must presume that the rewards facing its employees are structured accordingly. In contrast, OMB emphasizes managerial efficiency and ferreting out the cost implications of government actions. The positive safety implications of the proposed cadmium regulations stem from the physical protections offered workers who handle cadmium; it was the evidence on these effects that OSHA's experts found most compelling. The adverse implications of the regulations, so compelling to the OMB experts, arise from their negative impact on our standard of living and the resulting decline in the demand for safety.

It is unlikely to be sheer coincidence that the respective experts' conclusions dovetailed closely with the mandates of their respective agencies. It is far more probable that these experts—like all experts—responded to the incentives they faced. They chose to evaluate the evidence not in a vacuum, but in accordance with the costs and benefits they perceive likely to accrue to *them* as a result of their decisions.

> **"Today it is almost heresy to suggest that scientific knowledge is not the sum of all knowledge. But a little reflection will show that there is beyond question a body of very important but unorganized knowledge which cannot possibly be called scientific in the sense of knowledge of general rules: the knowledge of the particular circumstances of time and place. It is with respect to this that practically every individual has some advantage over all others in that he possesses unique information of which beneficial use might be made, but of which use can be made only if the decisions depending on it are left to him or are made with his active cooperation."**
> **—F. A. Hayek, "The Use of Knowledge in Society"**

It is arguable that only the people who bear the consequences of decisions can fully know the advantages and disadvantages of each expert decision, including decisions about what evidence to accept. In the case of global warming (or cooling), one body of evidence suggests that we act now to avoid further atmospheric warming; other evidence suggests that we should adopt a wait-and-see attitude. The physics and chemistry of the issue are insufficient to determine which body of evidence should be acted upon, just as the principles of aerodynamics and internal combustion are insufficient to determine whether you should fly to Los Angeles next Tuesday. We must know the benefits and costs for human beings. The ultimate "experts" on these are the individuals who will gain or lose as a result of the decisions that are made.[7]

It is tempting to argue that we can instruct the experts to behave in ways that are consistent with the wishes of the people affected by their decisions. But this argument assumes away key aspects of the risk assessment problem. First it supposes that the experts are already in place, without answering the question, *Which expert* should we rely on? Second, and perhaps more importantly, it supposes that these experts know *all* relevant facts about the individuals affected by their decisions. As F. A. Hayek demonstrated a half-century ago, the body of knowledge that enables the economic system to function coherently is not in the hands of any individual or subset of individuals within the economy—no matter how great their expertise. This knowledge begins as disparate bits and pieces of seemingly unrelated facts that are communicated and augmented by the operation of the market. To suppose that experts can bypass the process is to foolishly suppose that they are somehow *endowed* with the information that is *produced* by the price system.[8]

I am driven to the conclusion that both the experts and the rules under which they operate must be chosen by the people who will bear the effects of the experts' assessments. The ideal way to ensure this is to maximize the extent of risk assessment that takes place in the marketplace rather than in regulatory agencies or the courts. But if for other reasons it is necessary that government experts play a role, it is important that none be anointed "czar" of his or her respective risk arena, and that all be subject to the broadest possible review.

The participation of OMB in actively crafting OSHA and EPA regulations is likely to reduce the damages caused by regulations, because OMB participation adds to the spectrum of individuals and interests represented in the regulatory process. Similarly, requiring regulatory agencies to take the costs and benefits of their decisions explicitly into account forces them to broaden the range of people whose interests are considered. The point is not that the economists computing these numbers have more expertise, but that more interests are brought into the process.

The flip side of this is that those who are choosing the experts (or choosing to do without them) must bear the full range of costs and benefits associated with their choices. For example, if the firms that use cadmium play a role in crafting the rules limiting workplace exposures, these same firms should not then be able to hide behind the limitation of liability implied by workers' compensation laws. In other words, the firm should not enjoy all the benefits of a production process but then be able to avoid some of its costs in the event that something goes wrong.[9]

The consequences of risk assessment decisions will be borne by someone, whether that someone is the decision-maker or not. Those consequences will be the most advantageous possible only if those individuals that have the greatest incentive to decide among the unknowns—and the unknowable—are making those decisions. The answer to Juvenal's query is this: Only the owners of what is guarded are competent to select and monitor those who would guard it. And if the owners fail in these duties, their status soon will be that of *former* owners. □

1. See Daniel K. Benjamin, "Risky Business Rational Ignorance in Assessing Environmental Hazards," in Roger E. Meiners and Bruce Yandle (eds.), *Taking the Environment Seriously* (Lanham, Md.: Rowman & Littlefield, 1993), pp. 209–31.

2. See *Risk Assessment in the Federal Government: Managing the Process* (Washington, D.C.: National Academy of Sciences, 1983); Albert L. Nichols and Richard J. Zeckhauser, "The Perils of Prudence: How Conservative Risk Assessments Distort Regulation," *Regulation*, November/December 1986, pp. 13–24,; and Peter W. Huber *Galileo's Revenge: Junk Science in the Courtroom* (New York: Basic Books, 1991).

3. See Bob Davis, "Risk Analysis Measures Need for Regulation, But It's No Science," *The Wall Street Journal*, August 6, 1992, p. A1.

4. See *Policy Implications of Greenhouse Warming* (Washington, D.C.: National Academy of Science, 1991).

5. Laboratory analysis of glacial ice dating back 160,000 years indicates that global temperatures and CO_2 levels in the atmosphere do tend to move together, which would seem to suggest that the impact of today's rising CO_2 levels may be higher global temperatures in the future. But the historical CO_2 changes do not precede the temperature changes (which is the essence of the theory); instead they are either contemporaneous with the temperature changes, or they actually *follow* the climate changes. See *Policy Implications of Greenhouse Warming, ibid.*, and Sherwood B. Idso, *Carbon Dioxide and Global Change: Earth in Transition* (Tempe, Ariz.: IBR Press, 1989), pp. 51–53.

6. Robert J. Charlson et al., "Climate Forcing by Anthropogenic Aerosols," *Science*, 252 (January, 1992), pp. 423–30, argue that the warming effects of greenhouse gases are currently being offset by the cooling effect of additional particulate matter produced by the same forces (chiefly hydrocarbon combustion) that generate the greenhouse gases. The net impact on global temperatures—for the moment—thus appears to be roughly *nil*.

7. Today's decisions may affect the (potential) well-being of persons not yet born. This does not mean that these future generations will be ignored in present decisions, nor that experts must be appointed to act on behalf of our descendants. Although future generations cannot *directly* participate in today's decision-making, they are (except for unforeseeable mutations) fully represented *genetically* by individuals comprising the current generation, and thus best represented by members of the present generation. See Richard Dawkins, *The Selfish Gene* (New York: Oxford University Press, 1976).

8. See Friedrich A. Hayek, "The Use of Knowledge in Society," *American Economic Review*, September 1945, pp. 519–30.

9. This is *not* to say that the firm should be prohibited from purchasing insurance on the open market. The point is that insurance should not be subsidized by the legal system.

THE FREEMAN
IDEAS ON LIBERTY

Owning the Unownable

by Paul Georgia

One of the most fascinating intellectual debates since the calculation debate over socialism in the 1930s is now raging in the environmental arena. The debate is over the most effective means of protecting the environment: government control or private stewardship. I call this debate the stewardship debate.

The arguments that Ludwig von Mises and F. A. Hayek used in the calculation debate are an important part of the current stewardship debate. The issues they raised—the knowledge problem and the role of market prices and private ownership—are an integral part of the intellectual arsenal used by advocates of ecological privatization.

Indeed, the dynamics of the stewardship debate mirror in many ways the calculation debate. Until Ludwig von Mises fired the first shot, socialists shrewdly avoided the economic feasibility of socialism by merely asserting the superiority of socialism over capitalism. To them it was sufficient to show the weaknesses of capitalism and, having done so, proclaim that socialism was the logical and inevitable outcome. Because markets failed to produce utopian results, socialism was declared the appropriate path to societal betterment.

Mises, however, argued that without the signals that market prices provide, economic calculation is impossible—that is, producers cannot know what to produce, how much to produce, and how to produce it efficiently. Under socialism, producers would be blind to the wants of consumers because socialism lacked prices. Without market prices we are left with a system of "groping about in the dark."[1]

The socialists eventually conceded that prices mattered, but they still claimed that markets and private property were not necessary. They argued that central planners could overcome the problem of calculation by simulating market prices through mathematical and statistical models.

Hayek ultimately defeated this "market socialist" argument by pointing out that arriving at realistic prices would require an enormous amount of information, and the knowledge necessary for such an undertaking is dispersed and fragmentary, frustrating any attempt at consolidation.[2] Israel Kirzner later stated that not only would the planners lack the necessary information but that they would be ignorant of their own ignorance.[3] No mind or group of minds could possibly contain the necessary information needed for such a task.[4]

The stewardship debate has followed a similar progression. Private property advocates have made powerful theoretical and empirical arguments to show the superiority of private stewardship and markets over government-directed environmental protection. Many environmentalists have essentially conceded this point. They have agreed (in word if not in deed) that markets and private property create powerful incentives

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which lead to more effective and efficient environmental protection.

However, they say, this is only true in areas where property rights are easily defined and exchanged. In other areas, defining property rights appears to be nearly impossible. For example, Robert Stavins, an environmental economist, promotes "economic-incentive mechanisms" that allow trades of pollution rights, but only after the pollution goals have been established politically. These mechanisms, Stavins says, encourage efficiency but "avoid the impracticalities of the pure, private-property approach." He asks scornfully: "Does anybody really believe that acid rain can be efficiently controlled by assigning property rights for the U.S. airshed and then effecting negotiations among all affected parties?"[5]

Unfortunately, many who advocate market solutions fail to address this question. They acquiesce under the daunting task of defining property rights in such areas as airsheds, groundwater, and oceans.[6] But it is important that free market environmentalists take on these more difficult issues.

Defining Property Rights

Critics of free market environmentalism advance three major arguments. The first is that it is impossible to assign property rights to—or "fence"—the atmosphere, groundwater, or the oceans.

Indeed, "fencing" the airshed, groundwater, or oceans appears difficult, but so did the fencing of the Western frontier of the United States in the nineteenth century. At first, land was plentiful and there was no need to clearly define property rights. However, over time land became more scarce and therefore more valuable. The higher value spurred greater efforts to fence the frontier and to more clearly define property rights.

But wood was scarce in the arid West and the distances to be fenced were enormous. Such obstacles made the construction of visible boundaries very expensive. Various solutions evolved, as Terry Anderson and P.J. Hill have shown. For example, camp lines were used to keep cattle herds separate; these "human fences" were effective but the costs of such methods were high. Eventually, the invention of a simple technology—barbed wire—greatly reduced the costs of delineating and protecting property rights.[7]

This example shows that property rights solutions do evolve to meet the unique challenges that arise with each situation. However, framing the issue in such terms as "fencing the airshed" is misleading. It is not necessary to fence and assign property rights to the atmosphere to reduce pollution. What is necessary is the existence of clearly defined and binding property rights to pollution-causing activities, as well as to the properties that are affected by the pollution. In a system of clearly defined and effectively protected property rights, the value of clean air and other environmental amenities will be revealed.

Before discussing how these preferences will emerge, an important distinction must be made between pollution and emissions or waste. Waste is simply a by-product of human action. Every productive and useful human action creates waste. However, waste is not by definition pollution. Only when waste is dumped where it is not wanted (i.e., on another's property) does it become pollution. Property owners have the right to restrict the dumping of waste on their property, whether it is in their airspace or on the property itself.

In a society based on property rights, individuals will have the ability to sue for redress when their rights are trespassed. If the property owner is successful, then the polluter must find ways to keep the emissions from traveling onto another's land or airspace. However, if a polluter wishes to continue to pollute, and property rights are clearly defined, it can purchase the right to do so from the property owner. By allowing property owners to negotiate among themselves, the value of clean air can emerge through the revealed prices, and the optimal amount of pollution will be achieved.[8] Moreover, private ownership creates incentives to develop more effective means of protecting property rights through technological advances.

Transaction Costs

At this point, environmentalists bring up their second argument, the problem of transaction costs. Even if rights are clearly defined, it is too costly, they say, for thousands of people affected by automobile pollution to get together with thousands of car drivers and negotiate a mutually satisfying agreement that would allow some pollution but not too much. The enormous amount of time needed just to reach a consensus among such a large number of individuals is one of the prohibitive costs involved in such an undertaking.

However, just as technology solved the fencing problem in the American West, it may do so for pollution. Technology developed at the University of Denver allows the measurement of automobile emissions as a car travels in a way similar to the way that radar measures speed. Stationary emission checkpoints along the highway can measure the amount of exhaust an automobile discharges as it travels. If the car exceeds the maximum limit, a photograph of the license plate is taken and the person pays a fine.

Most people see this technology as a more efficient means for the government to control pollution by catching those who drive the dirtiest automobiles.[9] But to those who think more deeply, this new technology provides a means of reducing the transaction costs while expanding freedom.

Highways—not just airsheds—could be privatized. Those who wish to negotiate for cleaner air then would only have to deal with one entity, the highway owner. Instead of thousands of homeowners attempting to negotiate with thousands of automobile users, there would be an owner of a segment of highway. This owner could negotiate with perhaps ten, twenty-five, or fifty homeowner associations. (Such associations could address these types of environmental concerns just as they have addressed crime and a whole range of other common landowner interests.)

The highway owner, using the new emission detection device, could charge user fees or fines, or prohibit highway use to automobiles that pollute excessively and expose the highway owner to potential liability.

As the costs of such negotiations decrease, the amount of pollution will approach a level that everyone will be happy with. If homeowner associations are the recognized owners of the airspace in which they reside, the highway owner could pay them to be allowed to pollute. If the highway owner exceeded the stipulated amount, the home associations could sue for damages. In this way an optimal amount of pollution is more nearly approached.[10] In an environment free from government interference, private institutions can evolve (perhaps slowly), leading to optimal solutions. Technology acts as a catalyst through which the costs of enforcing property rights are greatly reduced.

This system also allows time- and place-appropriate solutions. In Los Angeles, clean air is scarce. In Idaho it is plentiful. Although transaction costs and the costs of defining property rights over previously unowned resources may be the same in both places, Los Angeles will be more likely—in the absence of government interference—than Idaho to undertake the necessary market transactions because Los Angelenos will value additional clean air more. Under centralized control, Idahoans would pay the same for clean air as those in Los Angeles even though they don't value it as much.

Thus, markets overcome transaction costs in two ways; first, new technologies can greatly reduce transaction costs, and second, the value of clean air may be high enough to exceed the transaction costs of negotiating a solution.[11]

Of course, people may not want a cleaner environment so much that they are willing to pay for the necessary technology or the transaction costs. Those who weren't satisfied with the amount of clean air achieved through the market might well go to the government to force the rest of us to pay more for clean air than we want to. That is probably what has happened today under political management of the environment. The costs of politically managed clean air are hidden; we may be getting more clean air than people would want if they were free to negotiate for it.[12]

The Inevitability Defense

The environmentalist's last line of defense is the inevitability defense, just as the socialists ultimately resorted to the argument that socialism is an historical inevitability and therefore not subject to intellectual debate. Environmentalists bring up apocalyptic scenarios that demand coercive responses. Global warming and ozone depletion are examples. The potential costs are so high—the end of human civilization, more or less—that Apocalyptic environmentalists argue that we can't wait for market solutions to evolve. Government must impose restrictions immediately at any cost to preserve life on the planet.

Science is showing that global warming and ozone depletion may not be any more inevitable than socialism, but, even so, environmentalists argue that we should act: "Where public health may be adversely affected, or environmental damage may be serious or irreversible, prudent action is required even in the face of scientific uncertainty."[13] But given scientific uncertainty, how do you define "prudent action"? It must be determined politically. We can expect a lot of imprudent, unneeded, and costly policies if politics determines the action to be taken.

Many are uneasy with the evolutionary market model. They feel that they are being asked to accept on faith the spontaneous and unpredictable forces of the market. They feel more comfortable with the proposition that we should, as a society, consciously plan our future in order to arrive at the desired ends. But such planning, we realize now, cannot achieve the desired ends. Of such planning Hayek once asked, "Is there a greater tragedy imaginable than that, in our endeavor consciously to shape our future in accordance with high ideals, we should in fact unwittingly produce the very opposite of what we have been striving for?"[14]

A survey of U.S. government policy in the last sixty years makes it painfully clear that the government's efforts have often aggravated the problems it was trying to solve. The track record of free societies and free institutions in satisfying human needs is far better than the track record of governments. Because of this, faith in the market is not blind, and relying on government, in light of its past performance, seems foolhardy. □

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4. For a comprehensive survey of the calculation debate, see Trygve J.B. Hoff, *Economic Calculation in the Socialist Society* (Indianapolis: Liberty Press, 1981).
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8. See Ronald H. Coase, "The Problem of Social Cost," *The Journal of Law and Economics*, October 1960, pp. 1–44.
9. See Jonathan Adler, *Reforming Arizona's Air Pollution Policy* (Phoenix: Goldwater Institute, January 1993), pp. 9–10.
10. The private highway approach was suggested by Terry L. Anderson and Donald R. Leal in *Free Market Environmentalism* (Boulder, Colo.: Westview Press, 1991), p. 165.
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12. Of course, other political factors may lead to less clean air than demanded. Because it is impossible for bureaucrats to know how much clean air people demand they may set the maximum level too high. This effectively creates a legally permissible amount of pollution giving firms the right to pollute, while depriving property owners the ability to sue for damages.
13. President's Council on Sustainable Development, *Vision Statement and Principles of Sustainable Development* (Washington, D.C., Spring 1994).
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THE FREEMAN
IDEAS ON LIBERTY

Adam Smith—"I had almost forgot that I was the author of the inquiry concerning The Wealth of Nations"

by Jim Powell

Before Adam Smith, it seemed that most people believed government was necessary to make an economy work. In Britain and Europe, governments promoted economic self-sufficiency as a bulwark of national security. They subsidized "strategic" industries like mining and silk-making. Government helped protect apothecaries, bricklayers, woodmongers, playing-card makers, and myriad other workers against what they considered unfair competition. Governments restricted imports in the name of accumulating gold hoards, thought to be a secret of wealth and power. Life without government intervention was unthinkable.

Adam Smith defied all this with *The Wealth of Nations,* a clarion call for economic liberty. Although many specifics weren't original with Smith, he created a bold vision which inspired people everywhere. He showed that the way to achieve peace and prosperity is to set individuals free. He attacked one type of government intervention after another. He recommended liberating Britain's American colonies. He denounced slavery. Smith had an enormous impact on ideas, where change begins.

Smith was an unlikely revolutionary. He came across as a serious, absent-minded, thoroughly likable man. He was a dedicated scholar all his life, amassing a library of some 3,000 volumes. He was often so preoccupied with ideas that he forgot what he was doing. Once, reportedly, he was giving a tour of a Glasgow tannery, and he absentmindedly fell right into the tannery pit, from which his friends extricated him. He seemed to make friends wherever people enjoyed playing cards or talking about such things as current affairs, history, literature, philosophy, or government policy. Voltaire, the famed French defender of religious toleration, wrote admiringly about Smith: "We have nothing to compare with him, and I am embarrassed for my dear compatriots." Madame Riccoboni, a French novelist, gushed: "I wish that the devil would carry off all of our own men of letters, all of our philosophers, and bring Mr. Smith to me. Superior men seek him out."

Writing was always tough for Adam Smith. The bookish bachelor wrote with a "schoolboy hand," forming big, round letters which were laboriously connected. Composition was just as tough. Smith wrestled with a few big ideas for decades and agonized over how to express himself. *The Wealth of Nations* was at least 27 years in the making.

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Kirkaldy, Glasgow, and Oxford

It isn't known exactly when Adam Smith was born, but he was baptized June 5, 1723, in Kirkaldy, a fishing village on Scotland's east coast. Smith's father, a customs official also named Adam, died several months before his son was born. The youngster was raised by his mother Margaret Douglas, daughter of a landowner. The only thing we know about his childhood was that at age four he was briefly abducted by a band of gypsies. "He would have made, I fear, a poor gypsy," noted John Rae, Smith's most scholarly biographer.

Smith entered Glasgow University at 14, the customary age for enrollment. The town of 25,000 prospered largely as an entrepôt for American tobacco, and this commerce stimulated intellectual life—the Scottish Enlightenment was in full flower. Glasgow University was famed for its teaching, in part because professors were compensated directly by student fees. They had an incentive to perform well. Smith studied with moral philosopher Francis Hutcheson, a forceful character who broke with tradition and delivered his lectures in English instead of Latin. Hutcheson expressed a passion for reason, liberty, and free speech, inspiring Smith. It seems to have been Hutcheson who brought his bright student to the attention of controversial rationalist philosopher David Hume; Smith and Hume were to become best friends.

To be sure, Smith was his own man, disagreeing with Hutcheson on some key issues. Hutcheson, for example, believed that self-love was a bad thing and that only well-intended actions were virtuous. As Smith wrote later: "Regard to our own private happiness and interest, too, appear upon many occasions very laudable principles of action. The habits of economy, industry, discretion, attention and application of thought, are generally supposed to be cultivated from self-interested motives, and at the same time are apprehended to be very praise-worthy qualities which deserve the esteem and approbation of every body."

How did Smith discover the wondrous effects of self-interest? Well, he was a remarkably perceptive person who spent years in a thriving commercial center, so he must have learned much from his own observations. Smith scholar Edwin Cannan thought that the Dutch doctor Bernard Mandeville must have influenced Smith's thinking, too, with his provocative satire *The Fable of the Bees: or Private Vices, Publick Benefits* (expanded edition, 1729). In it, Mandeville scandalized high-minded folks by suggesting that self-interest is good, because it leads people to serve each other and help society prosper.

In 1740, Smith accepted a £40 annual Snell scholarship to continue his philosophical pursuits at Balliol College, Oxford. It turned out that professors were paid regardless of how much teaching they did, so they did little. Smith was on his own for six years at Oxford. He educated himself in the library, gaining a considerable knowledge of Greek and Roman classics as well as modern French and Italian literature. The one thing Oxford officials felt strongly about was rationalism—they hated it. When Smith was caught reading a copy of David Hume's *Treatise of Human Nature,* which he probably got from Francis Hutcheson, he was reprimanded. The offensive volume was confiscated.

Smith wanted to teach at a Scottish university, and the traditional method of seeking a professorship was to show what you could do—deliver some public lectures. If university officials were impressed and needed to fill an opening, one might be appointed. Accordingly, in 1748, in Edinburgh, Smith began delivering lectures about ethics, economics, and defense policy. He was to spend the rest of his life expanding this material into books.

As early as 1749—before major works of the French laissez-faire economists were published—Smith had concluded that the way to promote prosperity is for governments to leave people alone. Dugald Stewart, a student of his, reported that in a lecture that year, Smith declared: "Little else is required to carry a state to the highest degree of affluence from the lowest barbarism but peace, easy taxes, and a tolerable administration of justice; all the rest being brought about by the natural course of things. All governments which thwart this natural course, which force things into another channel, or which endeavor to arrest the progress of society at a particular point, are unnatural, and, to support themselves, are obliged to be oppressive and tyrannical."

Smith's lectures were well received, and by 1751 he was teaching logic at Glasgow University. A year later, he was asked to teach moral philosophy there. Five times a week at 7:30 in the morning, he delivered an hour-long lecture. Three days a week at 11:00, he taught private classes. He seemed to have won the respect of students and faculty alike, because in 1758 he was named dean. Recalled one of his students, James Boswell, later a famous literary biographer: "Mr. Smith's sentiments are striking, profound and beautiful. He has nothing of that stiffness and pedantry which is too often found in professors."

Evenings, Smith played whist and chatted with some of Scotland's brightest minds. These included David Hume, steam engine inventor James Watt, and chemist Joseph Black. Smith participated in a discussion club started in the 1740s by banker Andrew Cochrane, which met weekly to talk about economic and political issues. Smith didn't have much luck with ladies, however; he proposed marriage two or three times but was rejected.

The Theory of Moral Sentiment

Meanwhile, Smith spent about four years transforming lecture material into his first book, *The Theory of Moral Sentiments.* It was about motivations other than self-interest which influenced human behavior. Published in London in 1759, it made him a literary celebrity. He dined with all kinds of successful people, including Benjamin Franklin.

In *The Theory of Moral Sentiments,* Smith announced his next project: "I shall in another discourse endeavour to give an 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, not only in what concerns justice, but in what concerns policy revenue and arms, and whatever else is the object of law." That project, of course, was *The Wealth of Nations.*

Hume sent a copy of *The Theory of Moral Sentiments* to the English statesman Charles Townshend. As colonial minister, he was to earn notoriety for depriving the American colonies of cherished prerogatives and unintentionally provoking the revolutionary movement. Townshend wanted someone distinguished to tutor his stepson, Henry Scott, the Duke of Buccleugh. Townshend agreed to pay Smith £300 a year plus expenses—about three times more than Smith got from the University of Glasgow—for giving the Duke a Grand Tour of Europe. Moreover, Smith got a £300 annual pension for life. Smith might never have worked in business, but he knew how to cut a good deal!

Smith met the Duke in London in January 1764, and from there traveled to Toulouse, a resort town popular among the English. In Toulouse, Smith acquired another young charge, the Duke's younger brother, Hew Campbell Scott. With letters of introduction from Hume among others, Smith introduced himself and his young charges to the most interesting people he could find.

For anyone interested in liberty, France was an ideal destination at that time. Smith saw firsthand how the French were struggling with a much more costly, interventionist government than he had experienced. Smith visited with leading intellectual rebels. In Paris, he met François Quesnay, founder of the Physiocratic school of laissez faire economics. Smith got to know Anne Robert Jacques Turgot, the passionate French advocate of laissez faire policies. Smith visited Geneva and met Voltaire who reportedly declared: "This Smith is an excellent man!"

Equally important, Smith became bored and restless in Toulouse. He resolved to

Smith never sat for a portrait, but James Tassie did a medallion in 1787, when Smith was 64 and ill. Such medallions were typically modeled from wax, so this one is presumed to be accurate. As Royal Economic Society cataloguer James Bonar described it: "The head, which appears turned in pure profile to the right of the spectator, shows a particularly full forehead, a full nose, slightly aquiline in its curve; a long thin upper lip and a lower lip that protrudes a little; and a firm, well-shaped chin and jaw. The eyebrow is strongly curved, the upper eyelid heavy and drooping, the eyeball particularly prominent, and beneath the lower eyelid the skin is loose and wrinkled. A wig is worn, tied behind in a bag with ribbons, showing small curls in front, and two large curls at the side which cover and conceal the ear." Smith admitted to a friend: "I am a beau in nothing but my books."

pursue the project he had described five years previous in *The Theory of Moral Sentiments*. On July 5, 1764, he wrote Hume: "I have begun to write a book in order to pass away the time." Thus began his initial draft of *The Wealth of Nations*.

Smith's European stay ended abruptly after Hew Scott was murdered in Paris in October 1766. Smith and the Duke returned to London, and Smith turned to revising *The Theory of Moral Sentiments*. Then he made his way back to Kirkaldy where, living with his mother, he worked on *The Wealth of Nations*. "My business here is study," he wrote. "My amusements are long solitary walks by the Sea side . . . I feel myself, however, extremely happy, comfortable, and contented, I was never perhaps more so in all my life."

By 1770, Smith plunged into laborious revisions. During 1773, he added important material on rent, wages, and the American colonies. In April that year, he moved to London so he could gain access to more research materials. He did research at the British Museum. He worked on revisions at the British Coffee-House, Cockspur Street, where many Scottish artists and intellectuals gathered. He belonged to a weekly dining club at the coffee house, joining portrait painter Joshua Reynolds and architect Robert Adam, among others. Apparently, Smith gave copies of each new chapter to friends who discussed and criticized it. Smith's friend Adam Ferguson, in the fourth edition of his *History of Civil Society*, alerted readers to what was coming: "The public will probably soon be furnished (by Mr. Smith, author of *The Theory of Moral Sentiments*) with a theory of national economy equal to what has ever appeared on any subject of science whatever."

"An Excellent Work"

Finally, on March 9, 1776, *An Inquiry into the Nature and Causes of the Wealth of Nations* was published by the firm Strahan and Cadell. Smith was 52. Smith's painstaking revisions paid off, because the book reads as if Smith were speaking to you across a table, explaining simply what makes an economy tick. "It is not from the benevolence of the butcher, the brewer, or the baker that we expect our dinner," he wrote, "but from their regard to their own interest. We address ourselves, not to their humanity but to their self-love, and never talk to them of our own necessities but of their advantages."

The Wealth of Nations conveyed a deep understanding of why a free society works best. Smith's most famous lines: "[a typical investor] intends only his own security; and by directing that industry in such a manner as its produce may be of the greatest value, he intends only his own gain, and he is in this, as in many other cases, led by an invisible hand to promote an end which was no part of his intention. Nor is it always the worse for the society that it was no part of it. By pursuing his own interest he frequently promotes that of the society more effectually than when he really intends to promote it. I have never known much good done by those who affect to trade for the public good."

The first reactions came from his friends who had seen the book evolve. For example, David Hume, April 1, 1776—"Dear Mr. Smith: I am much pleas'd with your Performance, and the Perusal of it has taken me from a State of great Anxiety. It was a Work of so much Expectation, by yourself, by your Friends, and by the Public, that I trembled for its Appearance; but am now much relieved. Not but the Reading of it necessarily requires so much Attention, and the Public is disposed to give so little, that I shall still doubt for some time of its being at first very popular."

Historian Edward Gibbon wrote Adam Ferguson: "What an excellent work is that with which our common friend Mr. Adam Smith has enriched the public! An extensive science in a single book, and the most profound idea expressed in the most perspicuous language."

Some critics like Sir John Pringle believed that *The Wealth of Nations* couldn't be a good book, since Smith never had any business experience.

But literary lion Samuel Johnson remarked: "He is mistaken, sir, a man who had never engaged in trade himself may undoubtedly write well upon trade, and there is nothing that requires more to be illustrated by philosophy than does trade." Thomas Jefferson was enthusiastic. In a letter to a friend, he wrote: "If your views of political inquiry go further, to the subjects of money & commerce, Smith's Wealth of Nations is the best book to be read. . . ."

The first printing sold out in six months and made Smith a sensation. A German edition appeared in 1776, a Danish edition in 1779, an Italian edition in 1780, and a French edition in 1781. The Spanish Inquisition suppressed the book for what officials considered "the lowness of its style and the looseness of its morals."

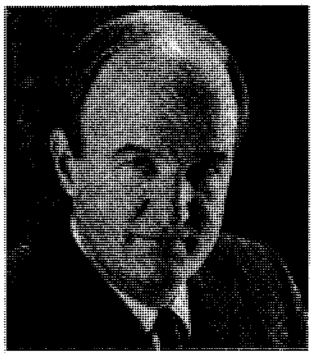
Smith had no sooner finished the book than he began revising it. New English editions appeared in 1778, 1784, 1786, and 1789. Smith seems to have had time for little else. With a mischievous flash of humor, referring to his well-known absent-mindedness, he told his London publisher in 1780: "I had almost forgot that I was the author of the inquiry concerning The Wealth of Nations."

The Duke of Buccleuch was thrilled with Smith's success and pulled strings to get his former tutor appointed Commissioner of Customs, a lucrative though not very demanding position (£600 a year) which Smith accepted. Some reward for a free trader!

Smith died quietly at his Kirkaldy home on July 17, 1790. As he had asked, his executors Joseph Black and James Hutton burned almost all his papers, frustrating generations of biographers.

His work lived on, and he became a guiding light whose love of liberty helped make the nineteenth century the most peaceful period in modern history. Now some two hundred years after Smith's death, economists have identified technical errors in his work, yet his reputation towers over challengers like Karl Marx and John Maynard Keynes. Nobel Laureate George Stigler dubbed Smith "the patron saint of free enterprise." H.L. Mencken declared: "There is no more engrossing book in the English language than Adam Smith's *The Wealth of Nations.*" He remains a commanding presence as liberty is being reborn at the dawn of the twenty-first century. □

Friedman Challenges Hayek



"The Hayek-Mises explanation of the business cycle is contradicted by the evidence. It is, I believe, false."

—Milton Friedman

Last month, I wrote about the long-standing debate between the Monetarists and the Austrians, which surfaces at practically every Mont Pelerin Society meeting. Both schools are ardent defenders of the free market, yet they fight incessantly over methodology and economic modeling.

The issue is not so much politics as economics. In fact, Milton Friedman, chief spokesman for the Monetarist school, recently wrote a flattering introduction to the 50th anniversary edition of Friedrich Hayek's *The Road to Serfdom*. But his attitude (and Allan Meltzer's) toward Hayek's *Prices and Production* and the Austrian theory of the business cycle is less charitable.

Friedman first raised the issue of Austrian business-cycle theory in a 1964 article on monetary studies at the NBER[1] and updated it in a 1993 article in *Economic Inquiry*.[2] In both articles, Friedman questions the Mises-Hayek thesis that recessions are caused by prior inflations. He examined cyclical activity in the United States (as measured by GDP and other data) between 1879-1988, excluding war cycles and 1945–49. He concludes that there is no significant correlation between the length and severity of an expansion and the succeeding contraction. However, there was a fairly high correlation between thelength and severity of a contraction and the succeeding expansion.

The Basics of Mises-Hayek Cycle Theory

Friedman has discovered a most interesting statistical phenomenon, and his interpretation deserves a careful response from those of us sympathetic to the Austrian school. But in order to respond properly, it is critical that we understand exactly what the Austrian theory of the business cycle is and what it implies.

Mises and Hayek argue that the business cycle is caused primarily by cheap credit issued by the government via expansion of the money supply or lowering the discount rate. According to the Austrians, easy money creates an imbalance in the time structure of the economy. It artificially lowers interest rates below the natural rate and creates an economic boom, particularly in the higher-order capital goods industries (mining, manufacturing, commercial real estate, etc.). However, this boom cannot last. As the economy heats up, interest rates rise above the natural rate and the investment boom turns into a bust. The inevitable recession re-establishes the proper balance between consumption and investment.

The Mises-Hayek model is often termed an "overinvestment" or "malinvestment" theory of the cycle because it focuses on the expansion and contraction of the capital investment sector during the business cycle.[3]

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Essentially, I see the Mises-Hayek model as confirming Friedman's dictum, "There is no such thing as a free lunch." The state cannot create irredeemable paper money out of thin air without paying the price. Monetary inflation doesn't simply raise prices, it distorts the economy. The first effect of easy money is a boom, but eventually a bust must follow.

The Issue Over Data

Friedman seems to have a basic understanding of the Mises-Hayek model, which is that the cause of a recession is the prior inflation, and the greater the fiat inflation, the greater the subsequent crash, other things being equal. (The higher they climb, the greater they fall.)

Friedman rejects Austrian business cycle theory because the evidence seems to counter any relationship between a recession and a prior inflation. However, I believe Friedman uses the wrong data. In order to properly judge Mises-Hayek, one should correlate "easy credit" with economic activity, not past economic activity (expansion) with subsequent economic activity (contraction). An economic recovery or recession might change dramatically with a shift in monetary policy. For example, the Federal Reserve may not allow a deep recession to run its course, e.g., in 1982, when it injected massive new reserves into the banking system. Also, GDP is not a good indicator of investment activity, the main focus of the Mises-Hayek theory. GDP measures only *final* output, not the production of higher-order capital goods.

Clearly, there is a strong link between monetary policy and economic activity. Much of Friedman's lifetime work deals with this close relationship. Mises-Hayek simply goes further, demonstrating how the monetary transmission mechanism works through the capital investment sector.

I offer two examples to elucidate the Mises-Hayek model. First, take the U.S. in the 1950s and early 1960s. Monetary inflation was relatively modest back then, and so was the business cycle. But monetary inflation grew much more rapidly in the late 1960s and 1970s, and so did the volatility of the economy. The expansions were greater and the contractions were more severe, just as Mises-Hayek would predict.

Look at Japan in the 1980s. If the Bank of Japan had adopted the Friedman monetarist rule (increasing the money supply at only 2–3 percent each year), the Austrians would predict only a mild inflationary build-up and subsequent recession. Unfortunately, the Bank of Japan engaged in an extremely liberal money policy, expanding the monetary base by 11 percent for four straight years and keeping interest rates artificially low. The result was (1) dramatic economic growth in the late 1980s, followed by (2) a crash and depression in the early 1990s. I fail to see how the data here contradicts Mises-Hayek. In fact, Japanese economist Yoshio Suzuki confirmed the Austrian thesis recently: "As Hayek teaches us, easy money does not always raise the price of goods and services, but always creates an imbalance in the structure of the economy, particularly in the capital markets. . . . This is exactly what happened in Japan [in the 1980s]."[4] He pointed out that Japanese consumer and wholesale prices were relatively stable during the late 1980s, but an unsustainable "bubble" in asset prices (stocks, real estate, art work, etc.) occurred.

Milton Friedman and I continue to exchange letters debating the merits of Austrian business cycle theory. I agree with him that more research and testing need to be done on this critical issue. Stay tuned. □

1. Milton Friedman, "The Monetary Studies of the National Bureau," *44th Annual Report*, National Bureau of Economic Research (1964), reprinted in *The Optimal Quantity of Money and Other Essays* (Chicago: Aldine, 1969), pp. 261–84.

2. Milton Friedman, "The 'Plucking Model' of Business Fluctuations Revisited," *Economic Inquiry* (April, 1993), pp. 171–77.

3. A detailed explanation of Austrian business cycle theory can be found in Murray Rothbard, *America's Great Depression*, 4th ed. (New York: Richardson & Snyder, 1983 [1964]). Hayek's *Prices and Production*, 2nd ed. (New York: Augustus M. Kelley, 1935 [1931]), is still in print.

4. Dr. Yoshio Suzuki, "Comment on Papers by Benegas Lynch and Skousen," Mont Pelerin Society Meetings, September 27, 1994, Cannes, France. Suzuki also stated, "In my 40 years' experience as a monetary economist, I have never felt as strongly as I do today the need to bring back to life the essence of Hayek's trade cycle theory."

BOOKS

Eco-Sanity: A Common-Sense Guide to Environmentalism

Joseph L. Bast, Peter J. Hill, Richard C. Rue

Madison Books • 1994 • 316 pages • $22.95 cloth; $12.95 paperback

Reviewed by Doug Bandow

Many good books have appeared on the environment and the environmental movement in recent years. Ronald Bailey, Michael Fumento, Lou Guzzo, and Dixy Lee Ray, among others, have produced devastating studies of environmental foolishness. Thoughtful environmentalists like Wallace Kaufman and Martin Lewis have written sharp critiques of the dishonesty and radicalism of movement activists. But if you want the one book that concisely explains both the real ecological state of the world and offers sensible, market-oriented solutions to environmental problems, it is *Eco-Sanity: A Common-Sense Guide to Environmentalism*. Written by a trio of free market analysts and outdoorsmen, *Eco-Sanity* should provide the standard against which future environmentalist claims are measured.

Such a book is long overdue. It was another book, Rachel Carson's *Silent Spring*, that helped create the modern environmental movement three decades ago. Carson was completely wrong in her warning that chemicals were going to create a "silent spring," but that didn't matter to many readers. As the authors of *Eco-Sanity* observe: "Though the language of *Silent Spring* has more in common with *Night of the Living Dead* and *Frankenstein* than it does with a scientific treatise, the book was presented to the public as objective science." Unfortunately, Carson's apocalyptic fear-mongering has been widely imitated by the likes of Lester Brown, Paul Ehrlich, and many others over the years.

Eco-Sanity comes at a propitious moment. During the 1960s and 1970s the environmental movement was able to generate substantial political support for what was in truth a radical regulatory agenda. Although better environmental protection was achievable at far less cost, "it is unlikely that calls for more research or cost-benefit analysis would have captured the attention of the nation's policy makers," observe the authors. During the 1980s and 1990s, however, popular resistance to environmental extremism stiffened as the cost of making ever smaller ecological advances soared. Yet the environmental movement "has been slow to change its tactics in response to these changing realities," contends *Eco-Sanity*. "Environmentalists continue to issue demands without acknowledging their real costs and effects on others. They cling to the obsolete notions of villains and crusaders, blinding them to the contributions of science and economics and making them easy prey for alarmists and media hype." *Eco-Sanity* should help change this.

The authors begin by reviewing the actual state of the world. If one listens to the prophets of doom, one would think that life on the planet was deteriorating at an alarming rate. Indeed, you could be forgiven for believing that there are few aspects of our lives *not* getting worse: the globe is warming, population is growing, ozone is dissipating, trash is piling up, deserts are expanding, forests are disappearing, toxic wastes are flowing, and more. Yet, in the main these claims are false. Genuine environmental problems exist, of course, but the world is not in crisis. To the contrary, reports *Eco-Sanity*: (1) "Most Americans today live in an environment that is cleaner than it was at any time in the past half-century," and (2) "The environment in the U.S. today is safer than it has been at any time in recorded history."

The bulk of the book is dedicated to proving the truth of these two propositions. For instance, various major air pollutants fell between 24 percent and 94 percent from 1975 to 1990. Total emissions of these pollutants were 12.6 percent lower in 1990 *than* *in 1940*. Similarly, water in America has become cleaner over the last two decades. U.S. rivers like the Mississippi are less polluted than major waterways in Britain, France, and Germany. Food supplies are safe and abundant. Timber growth has exceeded harvests every year since 1952; today's annual increase is treble the level of 1920. Waste disposal technologies are safe and potential landfill capacity is vast. Global oil reserves are climbing. In short, there's a lot of good news to celebrate.

Not that the authors are Pollyannas. There is still work to do—particularly to combat perverse government policies, such as below-cost sales of timber from federal land. But, as *Eco-Sanity* demonstrates, Americans' "hard work and major investments of tax dollars have purchased a cleaner environment for them and their children."

Despite the obvious good news about these more traditional areas of environmental concern, however, people still face a raft of frightening predictions involving new issues. *Eco-Sanity* patiently debunks the multitude of impending disasters with which we are supposedly threatened. This section alone makes the book worth reading, since it demonstrates how radical environmentalists have regularly twisted data and made wild extrapolations to demonstrate that the world is about to end . . . unless the government is immediately invested with huge new powers to regulate, tax, and spend.

Eco-Sanity performs critiques of a number of issues: global warming, ozone depletion, acid rain, deforestation, pesticides, resource depletion, population, electromagnetic fields, toxic wastes, and more. The authors' discussions are always concise, objective, persuasive, and readable, and should do much to help educate a public that has until now proved far too vulnerable to shameless scare-mongering.

After debunking the worst of environmentalist propaganda, the authors offer a primer on clear thinking about the environment and a detailed "common-sense agenda" for dealing with the major environmental problems that continue to face us. Were their ideas turned into law we would be likely to see far better environmental protection at far less cost. For this reason, their thoughtful approach should appeal to any environmentalist who does not put ideology before conservation, who is committed to achieving a reasonable balance between economic prosperity, individual liberty, and environmental protection.

"Eco-sanity means applying reason, sound science, and a respect for the rights of others to environmental issues," write Joseph Bast, P.J. Hill, and Richard Rue. Unfortunately, reason, sound science, and respect have long been lacking in the environmental debate. But *Eco-Sanity* may be the book to help transform the national debate. It is a critically important work and deserves the sort of attention heretofore reserved for the latest alarmist screed. □

Mr. Bandow is a Senior Fellow at the Cato Institute and the author of The Politics of Envy: Statism as Theology *(Transaction Publishers).*

No Turning Back: Dismantling the Fantasies of Environmental Thinking

by Wallace Kaufman

Basic Books • 1994 • 212 pages • $25.00

Reviewed by Lance Lamberton

Wallace Kaufman courageously challenges the environmentalist establishment in his compelling and persuasive book, *No Turning Back*. Kaufman's credibility in taking on that establishment is founded on his having worked for 30 years for that very establishment, as president of two state-level environmental groups and lobbyist for the Wilderness Society.

The principal virtue of *No Turning Back* is the way in which it organizes and presents its arguments. It is what I would call an effective "outreach book" that will appeal to and inspire non-ideological men and women in business who are generally too busy going about the day-to-day task of producing goods and services to focus on why they are the target of environmental activists. Moreover, these same people feel vaguely guilty that what they are doing is somehow wrong. *No Turning Back* gives them the intellectual ammunition to shed the guilt, and leaves them with hope that the inevitable march of science and technology will eventually triumph over the Luddites of the nineties.

While *No Turning Back* is primarily a restatement of free market applications to environmental issues, its discussion of the roots of environmentalism and the emergence of scientific ecology and the property rights movement does provide some fresh insights.

The idea that nature is sacred was a reaction to the ability of science to reveal the secrets of nature and strip away its mystery and power over mankind. Most prominent among the Enlightenment reactionaries was Jean-Jacques Rousseau, who claimed that primitive peoples always led the happiest lives.

Rousseau's vision of "paradise lost" found its way to America by way of England through the English Romantics. From this foundation emerged Henry David Thoreau, who became the godfather of the American environmental movement, calling for a return to communal harmony, as if such a thing ever existed. Fortunately, his ideas were not taken up on a large scale in nineteenth-century America, with its drive to settle a continent and create a level of prosperity unimaginable to previous generations.

That was to change in the twentieth century, when the traumatic events of World War I and the Great Depression planted the seeds of command-and-control economics, which took root and eventually found their most fertile soil in the environmental movement of the sixties.

However, in culture, as in physics, every action has a reaction. Kaufman points out that the reaction to "command and control" environmentalism is manifesting itself with the emergence of scientific ecology and the property rights movement. Scientific ecology challenges the most cherished assumption of environmentalists: that nature exists in perfect balance except when upset by man's intervention. On the contrary, the new ecologists say that nature's preference is not for balance, but for change.

All of nature's creatures have been living on a planet where changes are unpredictable, swift, and devastating. The challenge, then, is not whether to protect or destroy the environment, but rather how to protect the environment *and* achieve economic growth. Critical to meeting this challenge is understanding and accepting the premise of ecologists that changing the environment for man's use does not entail environmental disaster. On the contrary, it recognizes man as a responsible steward. While this perspective has been extensively researched and chronicled in the scientific literature, rarely has it been brought forth in popular writings. Kaufman is to be applauded for doing so in *No Turning Back*.

Finally, Kaufman provides a fresh discussion of the nascent property rights movement. One of the most cherished ideals in American society is the right to own and use property. When the Endangered Species Act prevents, for example, an owner from selling 38 acres of land because a pair of bald eagles have nested on it, it is not surprising that landowners rise up to say enough is enough. Now, at long last, the courts are beginning to recognize these rights, and have begun enforcing the takings clause of the Constitution, which requires government to compensate landowners for property where their laws prohibit development.

Kaufman envisions a future where property rights are recognized, scientific principles are applied to public policy, and technological advances address the dual societal requirements of environmental stewardship and economic growth. If such a confluence of changes were to occur, it would relegate today's environmental movement to the dustbin of history. I just hope I live long enough to see it. □

Mr. Lamberton is the Public Affairs Director for a cable operator in Texas, and the former Deputy Director of the White House Office of Policy Information under President Reagan.

The Spirit of Freedom: Essays in American History

edited by Burton W. Folsom, Jr.

The Foundation for Economic Education • 1994 • 212 pages • $14.95 paperback

Reviewed by Wesley Allen Riddle

Dr. Burt Folsom, Professor of History at Murray State University in Kentucky, has compiled a collection of essays previously published in *The Freeman* between 1961 and 1992. The 23 essays relating to various themes in American history are authored by 21 different university professors and other professionals. *The Spirit of Freedom: Essays in American History* is an excellent addition to American historiography and a welcome contribution to a new, emerging consensus about America's past. Through this book, FEE reinvigorates serious study of political economy, a term rarely entertained of late on American campuses.

The Spirit of Freedom also challenges some Marxist and New Deal revisionism, which is largely responsible for the diminished lexicon in American academia, as well as for a generation of young Americans who cannot name the Father of their Constitution. Much in the way of liberal ideological bent has found its way into historical literature and distorted objective assessment and contextual understanding of American history. Policy decisions have even come to hinge on such disinformation and error. It is because assumptions about the nature of American institutions and interpretations concerning the factual historical record are so crucial that FEE has become a leading foundation for *American history* education.

The Spirit of Freedom is suitable for course work by college undergraduates, advanced high school students, and home-schoolers. The collection is edited to high academic standards and is both well end-noted and indexed. While one is tempted to label the collection according to the Consensus or Neo-Whig schools of history, it defies easy categorization. Rather, the book is refreshingly free of parametrical confines and looks at history in a number of creative ways, both old and new.

The Spirit of Freedom contains four subsections: (1) Origins of Freedom; (2) Triumph of Freedom; (3) Obstacles to Freedom; and (4) Overcoming the Obstacles. The first section covers America's founding era from 1620 to circa 1830, with excellent essays on New England and Middle Colony groups; a comparative history essay on the American and French Revolutions; an examination of George Washington's thoughts concerning the political dialectic of liberty and order; and a wonderful primary source account on public assistance, written by Davy Crockett. One essay on the Pilgrims is intriguing to those interested in intellectual history, in that it traces American libertarian tradition to the Dutch, as opposed to the English. Another essay on Pilgrims develops little known details about socialist land use experiments in the early years of Plymouth Colony.

Part Two picks up in 1869 and includes events to circa 1960. The third section traces contrary historical trends along a chronological path from 1911. The real strength of this book may be the articles in these two sections. Major essays radically reinterpret liberal historical consensus about the Gilded Age, Progressive Era, and New Deal. One essay convincingly re-examines the monopolistic, greedy, and exploitative reputation of so-called Robber Barons. Dr. Hans Sennholz dissects the Great Depression with clarity and insight, proving it to be four consecutive depressions, compounded and prolonged by ill-advised government financial policies from Coolidge to Roosevelt. Essays also introduce important developments in science and technology, as well as in business, economics, and government.

The concluding section offers three short contemporary examples of American success, as well as tentative lessons derived from history. Indeed, the whole book implicitly supports a kind of faith that history does contain positive instruction for present condition and future promise. Having said that, *The Spirit of Freedom* does not posit an

American Utopia that fell from grace. It does, however, purport to isolate and explain certain characteristics that were and are responsible for America's unparalleled material prosperity and social and political stability (if not always harmony).

After all, America is the oldest fundamentally unchanged government in the history of the world; no nation has reunited so completely after a terrible civil war; diverse peoples live neither as peaceably nor on as equal terms anywhere else. The presumption is that some things are therefore unique about America, that much is right about America, and that much of what is right constitutes an *exceptional* identity among nations. *The Spirit of Freedom* is a departure from some modern historiography, which de-emphasizes American exceptionalism and American achievements. Moreover, the book reverses a trend in history away from biography, as if people no longer mattered.

The Spirit of Freedom portrays a number of famous and lesser-known personages—real people in real situations, with real effects which ensue. In a society that languishes from want of good role models, *The Spirit of Freedom* reminds us that history is replete with them. The essays contain significant cameos of William Penn, John D. Rockefeller, John Arbuckle, James Duke, Edwin Armstrong, Cornelius Vanderbilt, Henry Flagler, Sam Walton, and Frank Perdue, as well as interesting biographical information on a host of other characters.

Dr. Folsom and FEE are to be commended for this valuable collection of essays. *The Spirit of Freedom* corrects many historiographical distortions, without being doctrinaire or unsophisticated. Indeed, those who prize both scholarship and truth will find this anthology gratifying and useful. Many current and future policy proponents are, in the words of one essay, "oblivious to both economics and history." The education crisis in the country has produced a situation about which Santayana's dictum connotes some urgency, since ignorance of the past has never once proven to pardon a people's mistakes. The book is a pleasure and an education to read. It is also a good guide for those who seek and find wisdom through history—*sapientia per historiam.* □

Wesley Allen Riddle teaches American History at the U.S. Military Academy, West Point.

Public Goods and Private Communities: The Market Provision of Social Services

by Fred Foldvary

Edward Elgar Publishing • 1994 • 288 pages • $59.95

Reviewed by Roy E. Cordato

The primary purpose of academic programs in urban economics is to train central planners. Traditionally college courses in state and local public finance and urban economics have rationalized everything that local governments do, while invoking elaborate formulations about how these governments might do what they do more "efficiently." Dr. Fred Foldvary's new book, *Public Goods and Private Communities*, turns the standard model of urban economics and local public finance on its head. He first argues that the economic theory of public goods, which supposedly "justifies" government provision of many goods and services, is irreparably flawed. He then argues that most if not all of the services that local governments provide can be, and are, provided more efficiently through private contractual arrangements.

Courses in public finance all begin by discussing the theory of "public goods." Basically a good or service is said to have "public" characteristics if private producers cannot capture all of the benefits associated with its consumption. The idea is that once such a good is produced people can enjoy the benefits that it provides without having to pay for them. Consequently, it is argued that public goods will either be "underproduced" in the free market or not produced at all. The government therefore should either subsidize their production or simply produce these goods or services and pay for them through taxation.

As an example Dr. Foldvary uses the building of a dam that would provide flood prevention services to a community. It is easy to see how once the dam is produced, anyone living in the area would automatically receive the flood prevention benefits whether or not they pay for them. This is the so-called free rider problem. Public goods theory argues that people will not voluntarily pay for such services and the private sector would have no incentive to undertake projects like the dam. Other frequently cited examples of public goods include roads, parks, police and fire protection, national defense, and education. The theory of public goods allegedly provides the economic justification for extensive government involvement in these and many other areas.

Foldvary attacks the standard theory of public goods from several perspectives. Drawing on arguments made by "public choice" economists, he points out that there is no reason to expect the government to succeed where the market has supposedly failed. Once the political process, dominated by special interests and the self-interest of politicians and bureaucrats, is analyzed, the economic efficiency justification for government provision of "public goods" falls apart. There is no reason to favor the results of the political process, even over the caricatured results of the free market that are described in the theory of public goods. Even on its own terms, the policy conclusion of public goods theory simply substitutes government failure for "market failure."

Foldvary also argues that public goods theory starts with faulty assumptions about the real world—namely that people live atomistically rather than in geographically defined communities and that public goods must be provided in isolation from private goods. His analysis challenges these assumptions. More realistically, he assumes that people live in communities where societal pressures can be brought to bear on would-be free riders and that the provision of public goods can be "tied" to the provision of private and excludable goods.

Foldvary argues that there is no reason to expect that public goods will not get produced through private contractual arrangements. Drawing on the works of "Austrian" and "constitutional" economists such as F. A. Hayek, James Buchanan, and Richard Wagner, Foldvary advances an economic theory that explains what is observed in real world communities around the country, i.e., the private provision of public goods and services. It is a phenomenon observed in private neighborhood associations, planned communities, apartment complexes, condominium associations, and even shopping malls and amusement parks. All of these represent communities, i.e., voluntary social arrangements, of one form or another. They also require as a condition of membership (to invoke the analogy of a club) the purchase of a bundle of public and private goods. For example one might buy into a condominium association because he wants the private services of having his lawn mowed or the use of tennis courts. But these services are typically "tied" to the provision of other more "public" goods and services such as the provision and maintenance of roads or police protection, i.e., security guards.

Foldvary illustrates his theory with a number of case studies. He examines several institutional arrangements that have successfully dealt with public goods and free-rider problems. These include Walt Disney World in Orlando, Florida; the community of Arden in Delaware, where buildings are privately owned but all land is owned by a private trust that charges rent and provides public services (founded in 1900 by followers of Henry George); the Ft. Ellsworth Condominium Association in Alexandria, Va.; and the massive "planned" contractual community of Reston, Virginia.

Foldvary's book also provides a valuable explanation of why private communities that collect fees for the privilege of living there aren't the same as governments. He gives some convincing reasons. First, such communities are based on an explicit contractual arrangement. All the standard laws of contract apply, including the right to sue because of breach of contract. Second, the powers of the neighborhood association are limited to those specified in the contractual arrangement. Third, the community association does not have the power to redistribute wealth, which is a standard use of tax revenues. Lastly, decision-making power within the contractual arrangement is typically held by property owners only. As Foldvary points out, under government democracies property owners typically "have no more voting power than other residents."

Fred Foldvary has made a valuable contribution to the economic literature on public goods and public finance. If it is fully appreciated by the economics profession it could revolutionize and dramatically improve the study of urban economics specifically and public economics in general. Unfortunately it is not in the interest of individual economists to buck the system as it currently exists. In this sense maybe Dr. Foldvary's book, itself, should be the subject of some public goods analysis. □

Dr. Cordato is Lundy Professor of Business Philosophy at Campbell University, Buies Creek, North Carolina.

Systems of Survival: A Dialogue on the Moral Foundations of Commerce and Politics

by Jane Jacobs

New York: Vintage Books • 1993 • 236 pages • $12.00

Reviewed by Peter J. Boettke

Ever wonder what it would have been like to sit in on a conversation with Ludwig von Mises, Henry Hazlitt, and Leonard Read? Sitting in the backyard at FEE's compound in Irvington or around the library table, they must have engaged in the give-and-take of good conversation many a time. For perhaps an even more animated dialogue, imagine yourself in old Vienna, in one of the famous coffee houses. Mises is on one side of the table, and his old classmate and friend Otto Bauer, the famous Austro-Marxist, is on the other side. Mises counters Bauer's insistence that the forces of history are on the side of Marxism. Mises' challenge is straightforward—and devastating in its logic: the Marxist project of simultaneously abolishing private ownership in the means of production and rationalizing production is *impossible*. Without private ownership, economic planners will not be able to rationally calculate the best use of scarce capital resources.

Mises' challenge shook the foundation of the Marxist sense of destiny. Marxism was not the way to the future, but rather a path that would only lead to political and economic barbarism. Bauer, we are told in Mises's autobiographical essay, *Notes and Recollections*, never recovered from their conversations and their friendship eventually cooled.

There is something about good conversation concerned with fundamental issues that entices, frustrates, and teaches us so much. It is also something that eludes most of us in our daily lives. We have known the teaching power of dialogue ever since Socrates. If we cannot partake in the art of good conversation, then the opportunity to be a "fly on the wall" offers the next best alternative. In Jane Jacobs' *Systems of Survival*, she invites us into a dialogue among a group of New York intellectuals who all share some connection to the same New York publisher. Jacobs, as many of you know, is perhaps the last great public intellectual of this century. Fiercely independent, Jacobs blazed a trail in the analysis of cities. In *Systems of Survival*, she turns her skills to analyzing the moral "syndromes" (as she terms them) that govern our life. She does not disappoint.

Systems of Survival is well-written and well-argued. Moreover, it is amazingly radical in terms of its outright support for the moral *superiority* of the commercial syndrome throughout most of the book. Almost echoing Ayn Rand, Jacobs' character Kate (a young professor) states that we have at our disposal only two ways to acquire resources—we can either voluntarily trade or we forcefully take. It is that simple.

Jacobs' conversation gets started when Armbruster (a retired book publisher) invites five others to join him in an exploration of the breakdown of honesty in society: Jasper (a successful novelist), Kate, Ben (an environmentalist), Quincy (a successful banker), and Hortense (Armbruster's niece and a successful lawyer). Kate takes the challenge to explore the moral foundations of social interaction to get the group started. She concludes from her study that there are two syndromes that are characterized by the following:

Moral Syndrome A	*Moral Syndrome B*
shun force	shun trading
voluntary agreement	exert prowess
be honest	be obedient and disciplined
collaborate	adhere to tradition
compete	respect hierarchy
respect contracts	be loyal
use initiative and enterprise	take vengeance
open to inventiveness and novelty	deceive for the sake of the task
be efficient	make rich use of leisure
promote comfort and convenience	be ostentatious
dissent for the sake of the task	dispense largesse
invest for productive purposes	be exclusive
be industrious	show fortitude
be thrifty	be fatalistic
be optimistic	treasure honor

Much of the remainder of the book is an extended argument amongst the group on the implications of Kate's "discovery." The book contains a very subtle argument concerning the tension between moral syndrome A (commercial) and moral syndrome B (guardian). The guardian syndrome is the source of much of the stagnation and oppression in the world. However, it is also essential in some areas. Without a proper guardian infrastructure, for example, the commercial moral syndrome could be threatened. Jacobs, though, realizes that commercial life has ways to "police" itself—the discipline of repeated dealings or the historical development of commercial contract law outside of official state channels (such as the law merchant). Jacobs is particularly sharp in her analysis of hybrids of the commercial and guardian syndromes—such as the mafia and the state socialist systems of the former Eastern Bloc.

Ben, the environmental activist and author, is often the "leftist" foil of the book. But Jacobs is too good a writer and storyteller to turn Ben into a wooden caricature. Her characters appear real. Kate preaches too much, but this doesn't distract from the power of her argument. This is human conversation with all its frailties and foibles—and its wonderment. Jacobs uses the vehicle of the dialogue masterfully.

One thing Jacobs is looking for in her search of moral systems is *cosmopolitanism*. Which syndrome encourages cosmopolitan tolerance of alternative life-styles, beliefs, races, etc.? Her connection of cosmopolitanism and commercial life reminds one of Mises' statements in *Liberalism* or Nock's in his wonderful essay "On Doing the Right Thing." This is something many on the conservative right in America simply don't understand. Tolerance does not mean acceptance, but it does mean openness to new ideas and cultures, a willingness to live and let live, and, as Jacobs listed in her syndromes, it values "dissent for the sake of the task." Commercial life flourishes within an environment that is characterized by liberal tolerance and cosmopolitan virtue, but not within an environment of provincial values bound by tradition. Provincialism can exist within cosmopolitanism, but whenever traditional values assert superiority over cosmopolitanism, innovation is stifled and commercial life stagnates. Liberalism is the only social philosophy that can constrain guardianship within its appropriate limits and unleash the productive and progressive force of commerce.

Jane Jacobs' *System of Survival* is a wonderful little book. Easy reading, yet profound in implications, this book should be on the reading list of anyone concerned with the moral foundations of society. *Freeman* readers especially will find much of value in this book. It is highly recommended to all. □

Dr. Boettke teaches economics at New York University.

The press is filled with horror stories about higher education in America: college teachers and textbooks that attack Western civilization, administrators who enforce "politically correct" views, and college courses that have no intellectual or spiritual value.

The situation is alarming, but there is some good news about higher education in America. One college—The CSW Freedom School—is swimming strongly against the academic tide toward socialism.

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Economics 101—From Prison

Education, as the late Malcolm Muggeridge observed, has become the great mumbo-jumbo and fraud of our time. But prison, as it has through the ages, continues to teach invaluable lessons.

It was only when lying on rotting prison straw that Alexander Solzhenitsyn finally understood that the line between good and evil does not run between nations, political parties, or social classes, but right down the middle of every human heart. The great Russian writer would not have learned that essential truth in any American public high school, or even at Harvard, where he once received a rather frosty reception.

A more recent case in the United States brought home some lessons about the prison system itself.

Patrick J. Nolan was once the rising conservative star of the California Assembly, where he served as Republican leader. Mr. Nolan became embroiled in an elaborate FBI sting operation, in which the federal agency went so far as to establish a phony shrimp-processing company and even float phony bills in the California legislature. One of these bills passed and agents had to tell Governor George Deukmejian to veto the measure because it was a fake. This case itself is a lesson in how the government spends our money but there is much more.

Nolan was one of those who accepted contributions from the agent-entrepreneurs. While the details of the case would require a lengthy article, some Sacramento insiders believe Mr. Nolan is innocent. But after another high-profile target of the scam pleaded guilty, Mr. Nolan didn't like his chances and caved in. A lawyer with a degree from the University of Southern California, Mr. Nolan found his economic education continuing at the Federal Prison Camp in Dublin, California.

"It came as quite a shock to me," Mr. Nolan writes, "to learn that our judicial and penal systems are just like every other bureaucracy . . . [W]here was my healthy suspicion toward government structures? Why did I think these agencies were exempt from the excesses of other parts of government just because I agreed with their aims?"

Like all bureaucracies, says Mr. Nolan, "the judicial-penal complex spends lavishly trying to convince us they are doing all they can to protect us and if they had a little more money they could get the job done."

Mr. Nolan realized that the system had a stake in expanding, not reducing, the number of people under its control. Hence, bureaucrats indulge a classic "bait-and-switch" operation in which they exploit the public's legitimate fears of violent crime as the basis for yet more spending. But Nolan notes that when they get the money, as they have in the recent Clinton crime bill, they don't target murderers, rapists, and muggers. Rather, says Nolan, "when the dollars are spent most go to combat a newly expanded list of non-violent, often unintended and, in fact, often quite innocent transgressions against the bureaucratic regulations and controls government increasingly imposes to hamstring the people." In fact, he says, "they go after non-violent criminals because they are easier to get." And here Mr. Nolan speaks from direct experience.

The former assemblyman noted that a "substantial portion" of his fellow inmates had been incarcerated for "bureaucratic 'crimes' arising from disputes with government employees over billing procedure, loan documentation, late filing of documents or other violations of statutes that are technical in nature." The message the system sends, he says is "submit to the bureaucrats or be destroyed." And that process comes with a price.

"Bureaucrats and government lawyers," he adds, "consumed massive resources in prosecuting these men. Courtrooms were tied up for weeks while their cases were tried. Now they languish in prison, costing the taxpayers thousands of dollars for food, housing, and prison guards, not to mention the loss of their productivity to the economy." But on paper each conviction looks good, "like the body counts that came out of Vietnam."

Mr. Nolan also observed that government lawyers, prison builders and suppliers have done very well under the current system, which welcomes lock-'em-up measures such as "three strikes and you're out." According to the most recent figures, American prisons now house over one million inmates—a staggering, unprecedented number.

It would be easy to dismiss Mr. Nolan's rude awakening as a self-serving defense, but that would be to miss an important lesson, indeed, a challenge to his fellow conservatives. Says Mr. Nolan: "All government bureaucracies—even those founded to do things we like—not only tend to become self-perpetuating, they expand to serve those who work for them and do business with them."

It has seldom been put any better, even by someone not in prison. □

—K.L. BILLINGSLEY

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THE FREEMAN
IDEAS ON LIBERTY

How Gold Was Money—How Gold Could Be Money Again

by Richard H. Timberlake

1. Gold and Silver: The Money of the Constitution

Students, scholars, and some curious people who occasionally stray into the text of the U.S. Constitution are properly puzzled by what seems to be that document's "plain language" and some of the things they see around them in the world today. One such thing is the paper money and checks everyone uses to make ordinary transactions. The Constitution stipulates that, "No state shall . . . coin money, . . . or make anything but gold and silver coin a tender in payment of debts . . ." (Article I, section 10). Yet on every unit of paper money the U.S. government asserts without apology: "This note is legal tender for all debts public and private." By what political alchemy has gold and silver become paper?

Not only is the paper money legal tender, meaning that it must be accepted as payment for any debt owed by any person to another person or to a government, but the gold and silver specified in the Constitution are nowhere to be seen. Gold and silver coins rarely appear, and then only as collectible artifacts not as money.

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This seeming contradiction between the fundamental monetary law of the Constitution and real life conditions might suggest to a thinking person that gold and silver had somehow disappeared from the face of the earth in the 200-plus years since the Framers included that simple clause. However, such is not the case. The world's governments own more than 35,000 tons of gold as bullion and coin, and private persons own another (estimated) 50,000 tons. Silver is even more plentiful. Its current market price, reflecting its abundance, is only about one-eightieth the price of gold.[1]

The absence of gold *money* correlates with the accumulation of gold hoards in the possession of government central banks and treasuries. If it's there, it obviously cannot be out in markets transacting business dealings, or in banks serving as a base for bank-issued notes and checks.

It was not always this way. Until the time of the Civil War in the United States, banks routinely held gold and silver as redemption reserves for their outstanding notes and deposits while the federal government held just enough to expedite its minting operations. Congress had the constitutional power to "coin money," but that power did not presuppose that it keep any stock of gold and silver beyond the inventory requirements of its mints. Indeed, even though Congress had the power it was not required to coin money at all. Private mints flourished until the Civil War, often minting coins of slightly greater gold content than government mints.

2. Paper Money and Gold after the Civil War

Civil War policies, however, changed fundamentally both the monetary system and the polity norms for governmental management of money. Congress authorized two new paper moneys, U.S. notes, or "greenbacks," which were declared full legal tender, and national bank notes that were legal tender for debts due to and payment due from the federal government. For all practical purposes, both these issues of paper money were obligations that the U.S. Treasury had to redeem in gold on demand after 1879. In addition, silver money at the specified mint price began to decline in real value starting about 1875 due to the burgeoning supplies of silver from the American West, so that it, too, was a viable currency only because it was redeemable in Treasury gold. Gold held for monetary purposes in the 1880s and 1890s therefore became concentrated in the U.S. Treasury and sub-treasuries, whereas 50 years earlier several thousand commercial banks had held the gold to meet the demands of their local depositors and note holders.

The laws that authorized the three major fiat currencies changed the character of the gold standard from a widely dispersed gold standard, kept operational by thousands of local banks, to a "collectivist" gold standard operating from Washington and New York. Almost all the pressure for redemption of paper currency was transmitted to the U.S. Treasury and its sub-treasury offices. During the Panic of 1893, for example, the Treasury allowed its gold reserve to decline from $259 million (average for 1892) to $126 million (average for 1895), or by 51 percent.[2]

The Federal Reserve Act that Congress passed in late 1913 continued and aggravated the centralization of gold. The Treasury still held gold as a reserve against its paper currencies outstanding, and the twelve new Federal Reserve Banks received the gold deposits of their "member" banks and gave them in return a bookkeeping reserve asset labeled "Reserve Bank credit." Presumably, the member banks could get these deposits converted into gold whenever they needed it—much as an ordinary householder or businessman could write a check against his deposit at a commercial bank to get cash.

The events of World War I witnessed an extraordinary gold flow into the United States to pay for war materials and services. By 1922 total gold in the U.S. Treasury, including the amount held for the Federal Reserve Banks, was $2,109 million, or 3,188 tons. Treasury gold fluctuated somewhat during the 1920s, but by 1929 was at $3,278 million or 4,956 tons.

3. New Deal Gold Policy: The Government's Great Hoard of Gold

As the Great Contraction began in 1929, the Treasury and Fed *increased* their hoards of gold—as though the stockpiling of gold in government vaults would serve as some kind of magical panacea that would reverse the disastrous ongoing contraction of money, bank credit, and employment. By 1931, Treasury gold was $3,696 million—over 5,500 tons, while commercial banks were failing literally by the thousands for want of reserves.

The compulsion of the U.S. Treasury and Federal Reserve Banks to hoard gold between 1929 and 1933 was in sharp contrast to Treasury policy between 1892 and 1896. In the earlier period the Treasury felt duty-bound to redeem its paper currencies with gold and in so doing lost over 50 percent of its gold reserves. All through the 1929–1933 period, except for a brief interval in the middle of 1932, the Treasury and Fed added to their gold holdings while the banking system collapsed as its reserves disappeared. The net change in Treasury gold holdings was a minuscule decline of 1.8 percent.[3]

Given the gold flow into the United States at this time, the commercial banks would have had significantly greater reserves for redemption purposes and credit expansion if the Treasury and Federal Reserve had not existed! Rather than an "engine of inflation," the Federal Reserve System at this time was an absorber of gold and an "engine of contraction." Between 1929 and 1933 it allowed the economy's monetary stock of hand-to-hand currency and bank deposits to decline from $26.2 billion to $19.2 billion, or by 27 percent.[4]

Instead of relieving the depressed monetary and credit conditions of 1933 by getting the gold out of the hands of the Treasury and Federal Reserve Banks and into commercial banks and households, New Deal monetary legislation only made matters worse. Congress and the Roosevelt Administration passed several acts in 1933–1934 that added more gold to the government's holdings and at the same time induced the surviving banks to be even more squeamish about extending new credit. On May 12, 1933, Congress passed the Thomas Amendment to the Agricultural Adjustment Act. This provision, among other things, gave the President the power to raise the dollar value of gold by 60 percent. Then on June 5th, three weeks later, Congress passed the Act Abrogating the Gold Clause, which repudiated all gold clauses in all contracts public and private, including the bonds issued by the government itself to help finance World War I.

Next came the expropriation of privately held gold. By the Gold Reserve Act of January 30, 1934, President Roosevelt called into the U.S. Treasury all domestically owned gold and paid for it at the official mint price of $20.67 per ounce. Then, by the fiat power of proclamation given to him in the Gold Reserve Act, he raised the mint price of gold by 59 percent to $35 per ounce. Since the government now owned all of the gold, none of the "profit" from the gold price increase went to private households, to banks, or to business firms where it was desperately needed. Rather it enhanced the already bloated hoard of gold in the U.S. Treasury. Treasury gold, which was valued at $4,033 million in *January* 1934 was accounted at $7,438 million in *February* 1934![5]

The political uncertainty in Europe, in addition to the enhanced price of gold in the United States, caused significant exports of gold to the United States in the 1930s. By 1941, Treasury gold had reached $23 billion, which even at the new price amounted to over 20,000 tons! At the same time, private persons and businesses by the Act of 1934 were not allowed to own gold or to use gold for monetary purposes. And certainly the Treasury gold was not their gold.

4. Treasury Gold Policy after World War II

The gold in fact had become nothing more than a balance sheet adornment for the Treasury Department and the Federal Reserve Banks. Government spokesmen dishonestly claimed that the Treasury's hoard of gold "backed" Federal Reserve Banks' notes and reserves. But what does "backed" mean if no one is allowed to own or use the gold? It meant in this case that the U.S. government through its Federal Reserve Banks could issue almost as much paper money as it pleased.

Paradoxical as it might seem, foreigners, unlike U.S. citizens, could legally claim the U.S. Treasury's gold through their central banks and treasuries. Consequently, in accordance with balance of payments adjustments in the 1950s and 1960s, more than half of the Treasury's gold stock was exported to other countries. This continued outflow prompted President Nixon to discontinue even the pretense of a gold standard. On August 15, 1971, he barred any further gold redemptions to foreigners who held dollar claims. The price of gold then became an object of world market forces, but the U.S. Treasury holding since 1971 has remained almost constant at around 260 million ounces, or 8,125 tons.[6]

5. Why the Gold Should Be Separated from Government

What should be done with all this gold—the 8,000-plus tons the U.S. Treasury holds as well as the other 27,000 tons that other governments sequester? It seems obvious from the history of the relationship between gold and the state that the more gold there is in the hands of governments the less surely the gold serves as money. Therefore, the only way to restore gold and silver as media of exchange is to get the metals out of the possession and control of governments.

Certainly the gold has no current monetary or fiscal function for its government owners. It generates no revenue of any sort. It has no effect whatsoever on central bank monetary policies nor on the credit volume of the private banking system. In its present status as a government-owned "surplus" commodity, it is the "barbarous relic" that John Maynard Keynes characterized it in 1923. It may serve in the minds of Treasury bureaucrats as psychological starch for something or other that the government does, but the role it could play, and did play in earlier eras, as a viable money is completely absent.[7]

The gold cannot be forced into a monetary role. No government, including especially the U.S. government, is going to re-establish a gold standard by specifying the gold content of gold coins and declaring them legal tender. Treasury spokesmen would claim with some validity that it would be impossible to estimate the gold value of the current Federal Reserve dollar. They would argue that the indeterminacy of gold's monetary value was a good excuse for doing nothing. So the gold would lie there, a useless heap similar in its non-function to other surplus commodities the government has stockpiled.

Even if the Treasury went through the formality of giving dollars a fixed gold value, it would insist on keeping the gold in the Treasury's vaults in order to "back" the existing monetary aggregates that would now be "based" on gold. Central bank policies would continue to operate much as they do today. Rather they would now have an undeserved aura (literally) of respectability behind which Treasury and Federal Reserve managers could conduct business as usual.

Therefore, sound money advocates should not waste their resources lobbying for a gold *standard,* which by definition would include the state as overseer and manager of a gold currency, specifier of a gold price in terms of dollars, custodian of the gold, and continuing manipulator of a central bank-issued paper money.

No. The only way to ensure that gold becomes a viable money is first to separate the gold from the state and the state from any further role in the operation of a gold money. Indeed, the separation of gold and the state would begin as an economizing measure—a form of privatization. Here are all those thousands of tons of gold lying idle and useless. Give them back to the people from whom the gold was unconstitutionally snatched in 1934.

6. Redistributing the Treasury Gold to the People

The Treasury Department collects and disburses money for the federal government through its Internal Revenue Service (IRS). In some given taxable year, say 1996, the IRS would note the total number of dependents on the various income tax forms—1040, 1040A, and 1040 E-Z. It would then issue one one-ounce gold certificate for each listed dependent to the heads of households who had filed the returns.

The stored gold is in the form of ingots each of which weighs 400 troy ounces (27-plus pounds), and is worth somewhat more than $15,000 at the current market price of gold. The Treasury would offer to exchange (sell) these bars in the open market for the appropriate number of gold certificates to any private firm or individual tendering them in the proper quantities. It would leave the actual disposition of the gold completely in the hands of private wholesalers and brokers.

In order to get the gold bars from the Treasury, a wholesaler would have to collect enough gold certificates to make his effort worthwhile. Very quickly, the gold market would establish a dollar price for the gold certificates. The price would be slightly less than the spot gold price currently posted in markets because the wholesaler-distributor would have to get some return for his services, which would include shipping, handling, storing, and packaging the gold.

Taxpayers who received the gold certificates would be elated. After all these decades of paying taxes, they were finally getting something in return. True, it would be far less than what they had paid in, but at least the gesture would reflect a disposition on the part of a grateful government to reward its supporters by returning to them some real wealth that the government cannot use and that cost it nothing in the first place.

The new gold owners—virtually all of us—would next ponder what to do with their windfalls. Some would at first want to deposit their gold certificates in banks as gold demand accounts until they were more certain of its value and utility to them. Because many people might want this option, banks would cater to their wishes by offering gold-deposit accounts distinct from conventional checking accounts. The banks would use the gold certificates to claim the gold bars from the U.S. Treasury, and the gold would then become a true reserve backing the gold demand deposits.

Industrial users would also want the gold to make art objects as well as other gold items. And some amount of the gold would probably be used in medical technology and the physical sciences.

Finally, some certificate holders might want to exchange their certificates for gold coins that would be something like the half-eagles, eagles, and double eagles of the pre-1914 era. (The double eagle was a "twenty-dollar gold piece" and contained slightly less than one ounce of gold.) To satisfy the demand for coins, private coinsmiths would buy bunches of one-ounce certificates from the taxpayers who had received them and exchange them at Treasury offices for ingots. The coinage specialists would then produce coins in convenient denominations and sell them to their numismatic clients.

7. How the People's Gold Would Become Money

The gold redistribution would find everyone a winner. True, the U.S. Treasury would lose the gold. But since Treasury executives realized no travail in collecting the gold, and since the gold currently has no fiscal or monetary function to the government or any other use, parting with the gold should cause no more concern than clearing out obsolete records and other trash. Its departure would in fact markedly reduce the administrative costs of Treasury operations.

The now-privatized gold that had become the basis for special bank-administered checking accounts would develop monetary functions. Gold depositors who wished to transact in this medium would have checkbooks appropriately identified with gold logos, and would write checks to anyone who would accept title to the designated quantity of gold as payment for a debt. Gold reserve banks would clear gold balances with each other based on their daily or weekly debits and credits. They would perforce redeem deposits on demand in gold for any gold depositor who so wished. Eventually, borrowers might base their loans on gold, whereupon the gold would complete its restoration as a viable money.

Gold would not become *the* monetary standard. It would continue to have a dollar-price in the world's gold market but it would not have a mint price specified by Congress. No government department or bureau would own gold. Federal Reserve notes as currency and Federal Reserve Bank reserve-deposit accounts for commercial banks would still be the only legal tender (in spite of the Constitution) and available as they are now for those who want conventional fiat paper money. The gold would simply be an alternative money for people who chose to use it for transactions and contracts.

8. The New Gold Money as a Check on Federal Reserve Policies

A final interesting feature of the privatized gold would be the effect of its market price in paper dollars on present-day Federal Reserve policy. Some responsible Federal Reserve officials on the policy-making Federal Open Market Committee (FOMC) are currently trying to implement a policy of long-term price level stability, that is, a policy of zero inflation. However, they are constantly badgered by monetary "activists" in Congress and the Administration who want the FOMC to revert to a short-run inflationary "cure" for unemployment and economic slumps. If the privatized gold became fairly widely used as money side-by-side with Federal Reserve fiat money, the price of gold in Federal Reserve dollars would tend to be an instant check on the state of inflation—much more so than it is today. When the market price of gold rose, everyone would know that the Fed was inflating—that the real value of the paper dollar was falling—and would substitute private gold money for Federal Reserve money. The market price of gold, therefore, would be a constant check on too much monetary activism by the FOMC. It would thereby contribute significantly to the Fed's desired policy of price level stability.

To achieve a gold-based money, the gold must be held ubiquitously so that individual people may endow the gold with monetary properties and monetary functions. But to have this effect, the gold must be in everyone's possession so that everyone "can get the idea." For the last 60 years the Treasury has hoarded thousands of tons of gold, and has only disbursed it to foreign central banks and governments; and for the last 20-plus years the gold has been a largely inert mass of no use to anyone. Even Treasury officials are largely ignorant of its physical details. Suppose, however, that an astute politician promised to return the gold to the people as a means of economizing on the inventory of "surplus" government commodities. Can anyone imagine that such a plank in a political platform would be unpopular? "No, no," the candidate would declaim, "I am not buying votes with gold. I would not stoop to that. I simply want to economize government operations and, at the same time, return a useful commodity to the public so that people can use it as money if they wish to do so."

Yes, Mr. Candidate, you have my vote. □

1. Lewis Lehrman and Ron Paul, *The Case For Gold*, Washington: The Cato Institute, 1982, pp. 160–161.
2. Richard H. Timberlake, *Monetary Policy in the United States*, Chicago: University of Chicago Press, pp. 158–159.
3. *Ibid.*, pp. 280–281.
4. Milton Friedman and Anna J. Schwartz, *A Monetary History of the United States, 1867–1960*, National Bureau of Economic Research, Princeton: Princeton University Press, 1963, pp. 712–713.
5. Timberlake, *ibid.* Also, Horace White, *Money and Banking*, rev. and encl. by Charles Tippets and Lewis Froman, New York: Ginn & Co., 1935, pp. 696–721.
6. Paul & Lehrman, *The Case for Gold*, pp. 159–161.
7. Treasury officials and other government spokesmen often speak reverently about the "country's gold reserves." This reference is at least 66⅔ percent inaccurate. The gold does not belong to the "country"; it belongs to the federal government. And the gold is not a "reserve" for anything. It is an inert stockpile of precious metal. I do not doubt, however, that it is truly gold, and that it exists. Nevertheless, I would like a little more on-the-spot confirmation of this presumption.

THE FREEMAN
IDEAS ON LIBERTY

The Forgotten Private Banker

by Richard Sylla

What is a private banker? Or rather, since the species has more or less disappeared, what was a private banker? Private bankers, to American banking historians, were individuals and organizations that engaged in the business of banking without first obtaining a permit to do so from governmental authorities. As a consequence, the private banker often was free to practice the banking trade with little or no governmental regulation. That was one of the private banker's principal advantages. But it also became a leading reason for the private banker's undoing and eventual disappearance from the economic scene.

Today, when nearly every U.S. (and foreign) bank operates under a license from, and is regulated by, one or more governments, the idea that the provision of banking services could be left to market forces might strike many people as somewhat bizarre and perhaps even dangerous. Nonetheless, this idea was central to the development of the banks and banking systems of England and continental Europe during much of the seventeenth, eighteenth, and nineteenth centuries. The celebrated Rothschilds, for example, were private bankers, and so were all the banks of England—except the Bank of England—until the second quarter of the nineteenth century.

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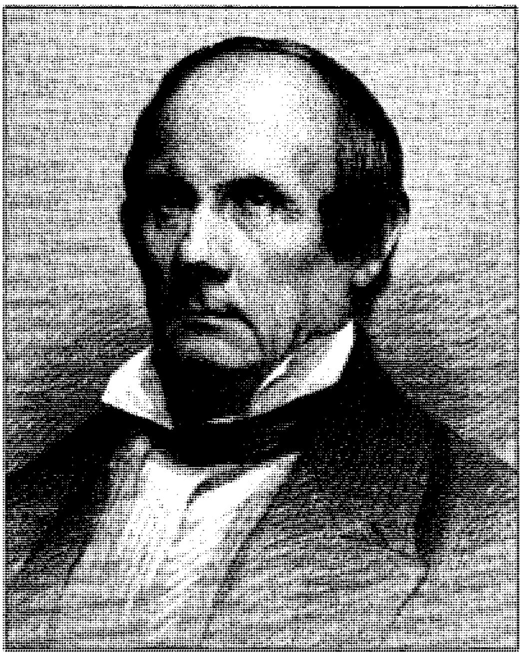
Prominent U.S. Private Bankers

Given the new world's roots in the old, it is not surprising that the idea and the practice of unlicensed, unregulated banking would migrate to the United States. Indeed, a number of the leading figures and financial institutions in U.S. history were private bankers and banks. Alexander Hamilton was instrumental in founding the Bank of New York as a private bank in 1784, although less than a decade later the bank applied for and received a charter from the state of New York. This venerable American institution still carries on its business from its headquarters at 48 Wall Street. Across the street, at 59 Wall Street, is Brown Brothers Harriman & Co., the only remaining private bank of any size in the United States; it is the exception that probes the rule that banks ought to be licensed corporations. This bank began its career in Philadelphia in 1818 as the Merchant Bank of Brown Brothers, with representative branches in Baltimore and London. It moved its headquarters to New York in 1825.

At 60 Wall Street, next to the Bank of New York, are the headquarters of J. P. Morgan & Company. The Morgan bank is now a corporation, but it was a private bank during the time of its legendary founder, John Pierpont Morgan (1837–1913), and it remained so long after his passing. Another noted private bank was the Bank of Stephen Girard in Philadelphia. Girard, possibly the



James Guthrie (1792-1869)

wealthiest American of his era, operated this bank from 1812 until his death in 1831. Girard's bank took over the building of the first federal Bank of the United States after that institution passed out of existence in 1812. The structure still stands as a prominent feature of Independence National Historical Park in Philadelphia.

Extent of Private Banking

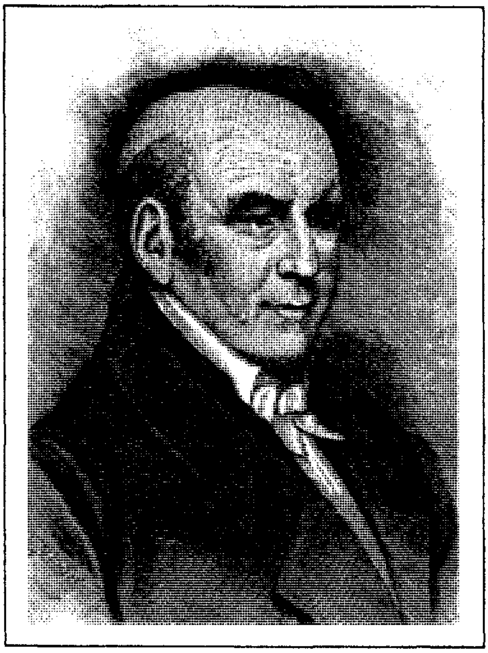
Most of America's private bankers were not as large or as prominent as the ones identified here. But they were quite numerous in U.S. history, especially in the early decades. In 1856, U.S. Treasury Secretary James Guthrie reported to Congress on a survey of the extent of private banking as compared with that of licensed, that is, "chartered" state banks. Guthrie found the capital of private bankers to be at least $118 million, which was more than a third of the capital of the state-chartered banks. He went on to note, "The combined capital in chartered and unchartered banks being over $460,000,000, proves that banking is a favorite as well as a profitable business, and does not need chartered privileges to generate or protect it."[1] My own work on U.S. banking history in antebellum times led to an estimate of more than 700 private bankers operating in the country by the mid-1850s.[2] If the estimate is close to accurate, about one American bank in three was a private bank at the time.

Even then, however, private banking had entered a protracted period of relative decline that would in time lead to its virtual disappearance. Secretary Guthrie's statement to Congress that banking did not require "chartered privileges to generate or protect it" probably indicated that even by 1856 most people thought otherwise. Why?

Private Banking and the Public Interest

There are, it seems, two possible sets of answers to the question of why banks ought to be licensed and regulated by governmental authorities. One involves public interest arguments. If banks are not licensed by government, then there is a greater probability that scoundrels and crooks will enter the banking business. And without continuing governmental oversight by government-appointed bank examiners, such bankers would mismanage or even abscond with the funds entrusted to them by the public. Since each bank is a component of the banking and monetary system, a few such "bad" bankers could undermine, even destroy, the whole system, which is built on confidence.

These are microeconomic considerations. But they have obvious macroeconomic implications. A "crisis of confidence" in banking could cause a monetary collapse and plunge the economy into depression. At the other extreme, unregulated banks might flood the economy with money in the form of bank notes and deposits created by making excessive loans. Unsustainable inflation would result before the arrival of the inevitable collapse. To prevent either extreme of too little or too much money from happening, the argument goes, governments must regulate banks to provide just the right amount of money for sustainable, noninflationary economic growth.



Stephen Girard (1750–1831)

There are problems with these public-interest arguments. It is not evident, for example, why customers would deal with, or allow themselves to be victimized by, scoundrels and crooks in banking more than in other businesses that are unlicensed and unregulated. Moreover, it is amply evident from history, even quite recent history, that governmental licensing and regulation have prevented neither individual bank frauds and failures nor depressions and inflations. But here I shall only mention these still vigorously debated issues without further exploring them. The so-called public-interest arguments in fact had little to do with the decline of private banking.

The Political Economy of Banking

The decline of private banking had far more to do with the self-interest of both government officials and the non-private banks they licensed and regulated than with the public interest. The United States of the 1780s and 1790s was both capital poor compared to the West European countries and free of the English laws that required banks to be entities with unlimited liability and no more than six partners. In these circumstances, most early U.S. banks were institutions chartered by state legislatures as limited liability corporations. Attracted by limited liability, their owner-shareholders clubbed together their limited liquid funds to start the banks, through which they then made loans to each other and to non-owner customers. In return for their charters representing governmental authorization to provide banking services, the banks agreed to make loans to, and perform other services for, the states that granted them their charters. The states especially liked this arrangement after the adoption of the U.S. Constitution, for that document prohibited them from continuing the century-old practices of colonial, and then state, governments of issuing fiat paper money. Because of the Constitution, the states could no longer pay their bills by printing state paper money, but they could still charter banks that issued money.

The earliest state-chartered banks were thought of by legislators, shareholders, bankers, and the general public as public utilities. They were given exclusive privileges, namely monopolies of banking in their towns, in return for providing financial services to the state and the public. As the American economy grew and prospered, these state-chartered banking monopolies became highly profitable. Inevitably, new banks sought to enter the field to get their piece of the action, whereas those already in the field sought to keep out the would-be entrants. Resolution of these conflicting politico-economic pressures took several decades. The ultimate result in the leading commercial and industrial states was an American version of "free banking," which meant relatively free entry into banking provided the bank agreed to follow rules and regulations prescribed by state governments.

State legislatures and individual legislators thrived on the early American procedure of chartering banks individually by specific legislative acts. The grant of a bank charter gave the grantees a lucrative set of privileges not possessed by others. Bank charters therefore had economic value. The states and the legislators were not oblivious to this fact. They responded to it by charging the banks for their charters. These charges sometimes took the form of bonus payments to the states when charters were granted or renewed. They also took the form of bank stock issued to state governments on favorable terms so that the states could share in bank profits. Other types of charges included special taxes placed on banks and of state directives to the banks to finance out of bank resources certain institutions (such as schools) that the states deemed worthwhile.[3] These were above-the-board payments the states could demand of the banks in return for grants of charter privileges. They were popular because they kept down taxes on individuals. In addition, there were under-the-table payments to individual legislators for seeing that some banks received charters and that others did not. In state capitals, because of all these payments for privileges, bank chartering and state politics more or less became extensions of each other.

Enter the Private Banker

On account of all the political considerations involved in bank chartering, the number of chartered banks grew more slowly than it might have, given public demands for banking services. And for good reason. Charter values, and hence the payments that states and individual politicians could extract from banks, were greatly enhanced by restricting entry into banking. Restrictive chartering practices created a yawning gap for the private bankers. A demand for banking services was there, and growing. The chartered banks, the states' creatures, were not meeting the demand for politico-economic reasons that had little to do with economic efficiency. And nothing, at least for a brief time, prevented individuals and partnerships from plying the trade of banking without a license, just as private bankers long had done in England and Europe.

We do not know how many private bankers entered the field. Their numbers must have been large, however, at least large enough to annoy both the chartered banks and the state legislatures. The former had paid for their charters; the latter had received the payments. Unauthorized competition in banking threatened to undermine this neat political arrangement.

Hence, between 1799 and 1818, no fewer than eleven states and the District of Columbia enacted laws to restrict private banking. The larger states, where private banking likely was most vigorous, acted on more than one occasion. New York passed four acts to restrain private banking between 1804 and 1818, Pennsylvania three, and Virginia two.[4] The typical restraining act either banned private bankers from issuing their own bank notes, which was the primary method of providing bank credit at the time, or it laid a prohibitive tax on such note issues.

Such legislation served two politico-economic purposes. It reduced or eliminated competition for existing chartered banks, thereby raising the value of bank charters and the payments the states could extract for granting them. And it drove many private banks into applying for charters, so that they, too, would have to pay the tolls levied for governmental authorization to engage in banking.

Nonetheless, private banking persisted in the United States for decades. Privacy and minimal regulation were among its advantages, but the main reason for its persistence was that the states, and later the federal government, dragged their heels in chartering enough banks to satisfy the demand for banking services. American state governments and public officials were not inept in their slowness to charter banks. Both they and the banks already in the field had a financial interest in restricting banking development. That this interest was different from, and even inimical to, the real public interest was a small consolation to the private bankers. They were harassed by restraining acts and eventually driven out of banking or into "authorized" banking on terms set by government.

An Implication for Our Time

Although the private banker, with few exceptions, passed long ago from the economic scene, the history of U.S. private banking sheds light on quite recent events. In September 1994, the 103rd Congress enacted legislation to allow interstate banking. Thus, early in the third century of the republic, American banks at last obtained the freedom to do what flour millers, meat packers, and clothing manufacturers could always do, namely market their products throughout the country.

Why did it take so long? The fundamental reason, I think, is that in U.S. political economy banking is the last bastion of states' rights. Banking is the one area of regulated economic life in which the federal government almost always has deferred to the preferences of the states.

Federal deference to states' rights is unusual in American history. The Constitution transferred substantial but limited economic powers from the states to the federal government. During the first century of the republic, Congress and the federal courts used those powers to prevent the states from interfering with the emergence of a nationwide free trade area. And during the second century of the republic, right up to the present, the federal government further weakened states' rights through federal laws, regulations, programs, and mandates that, for good or ill, increased the political and financial clout of the government in Washington relative to the governments of the states.

Given this record, how did the states manage until 1994 to resist the federal juggernaut and maintain their power to regulate their own chartered banks as well as federally chartered banks operating within their boundaries, and to keep out banks chartered by other states? No doubt many reasons could be given. But underlying all of them must be this: Banking became the last bastion of states' rights because it was the first bastion of states' rights to matter in government-regulated economic life.

Early in U.S. history, the financial interests of state governments and politicians became substantially wedded to the interests of the banks they had chartered. Because banking was the first great corporate interest to be regulated in our history, state governments and banks together were able to resist encroachments into their terrain by outsiders in ways that later corporate interests, less regulated and less intimately tied to state financial interests, were not. Private bankers as a class were only one of the trespassers on the intertwined interests of the state-chartered banks and the state governments that chartered them. The first and second Banks of the United States established by the federal government were likewise trespassers. Like the private bankers, the two federal banks were beaten down and, in 1812 and 1836, eliminated by powerful coalitions of state banks and state governments. In most areas the federal government discovered ways to override parochial state interests, but in banking it was itself overridden. Hence, the federal government learned the hard way to accommodate itself to state interests in banking, for a longer time than made much sense. The fragmented U.S. banking system, which continues to look peculiar when compared with the banking systems of other countries, is a result of the defeats suffered by both private bankers and the federal government in the early decades of the republic's history. □

1. U.S. Secretary of the Treasury, "Report on Banks," (1856), 34th Congress, 1st Session, House Executive Document No. 102, p. 1.
2. Richard Sylla, "Forgotten Men of Money: Private Bankers in Early U.S. History," *Journal of Economic History* 36, March 1976, pp. 173–88.
3. Richard Sylla, John B. Legler, and John Joseph Wallis, "Banks and State Public Finance in the New Republic: The United States, 1790-1860," *Journal of Economic History* 48, June 1987, pp. 391–403, and John Joseph Wallis, Richard E. Sylla, and John B. Legler, "The Interaction of Taxation and Regulation in Nineteenth Century U.S. Banking," in Claudia Goldin and Gary D. Libecap, eds., *The Regulated Economy: A Historical Approach to Political Economy* (Chicago: University of Chicago Press, 1994), pp. 121–44.
4. Sylla, "Forgotten Men of Money," p. 182.

THE FREEMAN
IDEAS ON LIBERTY

The Failure of Central Banking in Developing Countries

by Kurt Schuler

Twenty-five years ago, most of the world's currencies were linked to the dollar by fixed or pegged exchange rates. (I will explain those terms later.) The system was known as the Bretton Woods system, named after the New Hampshire town where an international monetary conference establishing the system had been held in 1944. Although the dollar was far from perfect, it provided some discipline against inflation and thereby aided economic growth, especially for developing countries. From 1960 to 1970, average annual inflation in developing countries was 3–4 percent, about the same as in developed countries.[1] The rather spotty statistics of economic growth for developing countries indicate that growth per person was increasing roughly as fast as in developed countries.

The Bretton Woods system began to unravel in 1971 and collapsed completely by 1973. It unraveled because the U.S. government abandoned the policy of keeping the dollar convertible into gold at $35.00 per troy ounce. Over the years the Federal Reserve System, the U.S. central bank, created money too fast to be compatible with the government's stock of gold at the existing exchange rate. Foreigners therefore converted dollars into gold at a rapid rate, which reduced the U.S. government's stock of gold. Rather than replenish the stock of gold by having the Federal Reserve raise interest rates, the U.S. government decided to make the dollar a floating currency in terms of gold.

Other countries thought that they could do better by floating their currencies also, rather than maintaining pegged exchange rates with either the dollar or gold. At first it was mainly developed Western countries that floated their currencies. Over time, though, more and more developing countries also floated their currencies against the dollar.

After the collapse of the Bretton Woods system in the early 1970s, developing and developed countries alike experienced lower growth and higher inflation. From 1970 to 1980, average annual inflation was 9.1 percent in developed countries and 26.2 percent in developing countries. But since about 1980, developed countries have reduced inflation, while developing countries have not.

From 1980 to 1992 average inflation for developed countries fell to 4.3 percent a year, while for developing countries it accelerated to an astounding 75.7 percent. The result has been a slowdown in economic growth for developing countries. From 1980 to 1992, economic growth was 2.3 percent per person a year in developed countries, but only 0.9 percent in developing countries. The trend has continued since 1992. Only a few East and South Asian developing countries grew rapidly; many other developing countries actually had declining income per person.

Central Banks Responsible

The dramatic rise in inflation and fall in economic growth in many developing countries since 1971 has been caused by their

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central banks. Except in Latin America, few developing countries had central banks before the 1950s. Until then most developing countries were colonies of European countries, particularly Britain and France. The currencies of almost all developing countries were linked in one way or another to the dollar, pound sterling, or franc. The dollar, sterling, and franc all experienced difficulties before 1971, but even so they imposed a sort of quality control on the currencies of developing countries by means of exchange-rate links.

Before developing countries established central banks they had a variety of arrangements for maintaining exchange-rate links with the dollar, sterling, or franc. A few countries had free banking—competitive issue of banknotes by commercial banks—although government intervention ended that system before World War II in most places where it had existed. Other countries, including some French and Portuguese colonies, had monopoly issue of notes by a commercial bank that was granted the monopoly privilege by the government. Still other countries, mainly French colonies, had monetary institutes. A monetary institute is a government body that issues banknotes under fairly strict rules, such as a requirement that it have foreign reserves (bank deposits or high-quality bonds in a foreign currency) of 50 percent or more against its banknotes in circulation and other liabilities. Monetary institutes in French colonies were supervised by the French government, which kept a watchful eye on them because it did not want to pay for their mistakes.

Still other developing countries, mainly British colonies, had currency boards. A currency board is a monetary authority that issues banknotes and coins (and, in some cases, deposits) backed 100 percent by assets in a foreign "anchor" currency and fully convertible into the anchor currency at a fixed exchange rate and on demand. As reserves, a currency board holds low-risk, interest-earning bonds and other assets payable in the anchor currency, equal to 100 percent or slightly more of its bank notes and coins in circulation (and deposits, if any), as set by law.

Although there were differences in the ways that these monetary systems worked, they shared two important features. The first was that all provided relatively low inflation by means of stable exchange rates to their anchor currencies or to gold or silver. The second feature, which was related to the first, was that all kept government away from the monetary printing press, through private ownership (in the case of free banking and monopoly issue of notes by a commercial bank) or strict rules governing monetary policy (in the case of the currency board and monetary institute systems).

The record of these pre-central banking monetary systems was very good. Devaluations happened occasionally except in currency board systems, but they were imposed by governments and were not the fault of commercial banks or monetary institutes. Most of the pre-central banking systems maintained full convertibility of their own currencies into their anchor currencies; that is, there were no restrictions on exchanging their currencies into the anchor currencies.

The record of central banks in developing countries was much worse even before the 1970s. During the Bretton Woods period (1946–1971), central banks in developing countries that had signed the Bretton Woods agreement carried out more than 150 devaluations. All but a few developing countries with central banks devalued against their anchor currency—typically the dollar—at least once during the period. And few had currencies that were fully convertible into their anchor currency; instead, they had extensive restrictions or outright prohibitions on exchanging their currency into any foreign currency.

Exchange-Rate Systems and Inflation

Developing countries have done much worse by having central banks than they would have done by continuing their previous monetary systems or by ceasing to issue their own currencies and using the dollar, sterling, or franc instead. The reasons have to do with the relation between exchange-rate systems and inflation.

There are three types of exchange-rate systems: fixed, pegged, and floating. In theory a developing country could have a high-quality currency under any of these systems, but in practice a fixed exchange rate is the only system with a consistent record of doing the job. Free banking, monopoly issue of notes by a commercial bank, the monetary institute system, and the currency board system were all systems of fixed exchange rates.

People often confuse fixed and pegged exchange rates. They are quite different, however, and have quite different effects. Both are maintained constant in terms of an anchor currency (which can be gold), but the similarity ends there. A pegged exchange rate is maintained constant for the time being in terms of the anchor currency, but carries no credible long-term guarantee of remaining at its current rate. A fixed exchange rate is preferably established by law as permanent, or at most is alterable only in emergencies. A rough-and-ready classification is that a truly fixed exchange rate is altered no more than once every thirty years. (Thirty years is the longest period for which there are active bond and mortgage markets in many countries.) If the exchange rate is altered more than every thirty years it should be considered pegged.

Many people think the Bretton Woods system was one of fixed exchange rates. It was not; rather, it was a mixture of fixed and pegged rates. Few currencies in the Bretton Woods system floated: in 1970 the only ones were the Canadian dollar, South Korean won, and Lebanese pound. As I mentioned, most central banks in developing countries that had signed the Bretton Woods agreement devalued at least once during the Bretton Woods period. The record of central banks in developing countries was no better: most of them devalued at least twice during the period. In contrast, few of the pre-central banking systems (and no currency board systems) devalued during the Bretton Woods period.

Since the Bretton Woods system ended the pattern has continued. The collapse of the Bretton Woods system continued the weakening of barriers to inflation that began when developing countries established central banks. Of the more than 150 developing countries with central banks, the currencies of all but a dozen have depreciated against the dollar since 1970. Some of the depreciations have been huge: a Russian ruble is today worth about 1/4,000 its 1970 value in dollars, and the Brazilian currency, adjusted for all the zeros that have been chopped off it over the years, is worth less than one-billionth its 1970 value.

Central banks have performed so poorly in developing countries because pegged and floating exchange rates alike do not furnish enough of a barrier against political pressures for inflation. Pegged exchange rates have not worked well in developed countries or developing countries. They invite currency speculators to profit from a devaluation that is almost certain to occur eventually. The Bretton Woods system collapsed because the U.S. dollar was pegged rather than fixed to gold. The largest attempt to peg exchange rates since the Bretton Woods system is the Exchange Rate Mechanism of the European Monetary System, which links several West European currencies to the German mark. It has experienced great difficulties leading to successful speculative attacks on most of its currencies on several occasions, most recently in 1992 and 1993. Among developing countries, the devaluations of the CFA franc (the currency of 13 former French African colonies) and the Mexican peso in 1994 are recent examples of the difficulty of maintaining pegged exchange rates.

Floating exchange rates have a better record in developed countries. After the painful inflationary experience of the 1970s, developed countries found ways to keep inflation to levels not much higher than during the Bretton Woods period. Control of inflation in developed countries has been erratic, but it has been superb compared to developing countries. However, few developing countries have succeeded for long periods in combining low inflation and floating exchange rates. For example, the severe inflations that have occurred in many former Communist countries since 1989 have occurred mainly in floating exchange-rate systems.

All this experience suggests that the only way for most developing countries to have low inflation is to forget about pegged or floating exchange rates and to have a truly fixed exchange rate with a relatively stable anchor currency issued by a developed country, such as the dollar. And the only way to have a truly fixed exchange rate is to abolish central banks in developing countries and return to one or another of the pre-central banking systems.

The Ebb of Central Banking?

In the 1950s and 1960s a powerful combination of misplaced nationalism and interventionist economics convinced most developing countries that to assert their sovereignty and to fine-tune the economy they needed to replace their monetary institutes or currency boards with central banks. All but a handful of developing countries established central banks.

Recently the tide has begun to turn. On the heels of an inflation exceeding 2,000 percent a year, Argentina stabilized its currency by means of a currency board-like system in April 1991. Estonia, which had suffered inflation exceeding 1,000 percent a year under the Soviet ruble, issued a new currency by means of a currency board-like system in June 1992. And after breaking free of the Soviet Union, experimenting with central banking, and suffering inflation exceeding 1,000 percent a year in 1992, Lithuania established a currency board-like system in April 1994. Argentina and Lithuania use the dollar as their anchor currency, while Estonia uses the German mark.

Like orthodox currency board systems, the Argentine, Estonian, and Lithuanian systems have 100 percent foreign reserves. Unlike orthodox currency board systems, though, they have had some restrictions on convertibility (now weak or removed) and the fixity of the exchange rate is not entirely secure because the monetary authorities are not well insulated from political pressure. Even so, since establishing currency board-like systems all three have had much lower inflation and have reversed the economic decline they were previously suffering. Their experience contrasts with the experience of other countries in their regions that have retained central banking. Estonia and Lithuania are enjoying economic growth while Russia, Ukraine, and most other former Soviet republics continue to have economic decline and inflation of hundreds of percent a year. Argentina has had four consecutive years of economic growth and has reduced inflation to mid-single digits, which is highly unusual for Latin America.

Other countries in Latin America and the former Soviet Union are now considering establishing currency boards or currency board-like systems. Monetary institutes are not experiencing a similar revival because their principles are not as simple and understandable as those of currency boards. Free banking has received attention from a growing number of economists, but has not yet convinced a broader political constituency.

Developing countries established central banks with high hopes that have been unfulfilled. The best thing they can do to reverse their poor monetary and economic performance of recent years is to abolish their discretionary central banks and fix their currencies to foreign currencies with relatively good records of low inflation. The currency board system is a well understood and eminently practical way of doing so. Other alternatives to central banking are also worth considering. The important thing is to minimize, and preferably eliminate, discretionary government control in monetary policy. □

1. Statistics of inflation and economic growth cited in the next few paragraphs are from World Bank, *World Development Report*, 1982, pp. 110–11, and 1994, pp. 162–63. Within groups, statistics are weighted by gross national product (GNP), so countries with large GNPs affect the group statistics more than countries with small GNPs.

Comparable Worth or Incomparably Worthless?

Panned a decade ago as "the looniest idea since Looney Tunes" and left to die as an idea whose time ran out before it got off the ground, "comparable worth" is making headlines again. It was raised several times in last fall's elections by candidates who argued that it was a "fair" and "compassionate" thing for governments to adopt.

Comparable worth—known also as pay equity—is not to be confused with "equal pay for equal work," which free markets tend to promote if there's good reason to—namely, when all relevant factors in wage determination are identical across different labor markets. Besides, equal pay for equal work, for better or worse, is also the law of the land. Equal pay for *comparable* work is an entirely different animal.

Equal pay for equal work requires, for instance, that a woman be paid the same as a man, or another woman, who is doing exactly the same job. Comparable worth, by contrast, focuses on paying *an entire profession or occupation* the same wage as another, very different, profession or occupation determined by some outside authority to be of the same "worth" or value to an employer.

The idea is that individual workers who perform jobs of substantially comparable value to their employer should be paid similar wages. If the work done by an accountant is deemed to be as valuable to an employer as that done by a typist, for example, the law would require the two employees to earn the same wage. In Minnesota, firefighters in the city of St. Paul were ranked as having the comparable worth of the city's librarians.

When many people seek employment in an occupation for which there is declining demand, the tendency in free markets is for wages to fall, sending a signal that people should look for a different line of work. Likewise, wages rise during a labor shortage, sending a signal that more people are needed.

A comparable worth scheme imposed on private sector employers would arbitrarily and effectively abolish the role of supply and demand in the labor market. Conditions in the market wouldn't matter, because some authority's "calculation" of the value of one job compared to another would take their place by force of law.

Employers and employees can always produce "experts" who will rank jobs differently than any arbitrary formula, which is why imposing comparable worth would produce a playground for lawyers and a bottomless pit of costly litigation. It rests on the dubious notion that the relative worth of different jobs can be mystically divined and distilled into a cookbook recipe by "experts" who aren't even in the kitchen.

Advocates usually tout comparable worth as a tool to end discrimination against women in the workplace. They see wages in

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female-dominated occupations lower than wages in male-dominated occupations and assume that the disparity is entirely caused by discrimination. However, many rational factors explain the disparity.

Men, for instance, do not leave their jobs to have children and are less likely than women to leave their jobs to care for children. Men are less likely to move if their spouses must relocate for professional reasons. Men are usually physically stronger than women and tend to work in jobs that have a higher probability of physical harm. (Men, in fact, account for 94 percent of the occupational fatalities each year.) Differentials between the pay of men and women exist because women entering the work force generally have less education and fewer skills and are higher risks for employers than their male counterparts.

The National Committee on Pay Equity claims that women earn only 71 cents for every dollar men earn. Not only does that often-quoted figure ignore the factors cited above, it doesn't even take into account the number of hours or weeks that workers put in. Women, for many reasons, work fewer hours a week and fewer weeks a year than men do.

If employers were guilty of wage discrimination against women for no reason other than stupidity or the desire to be nasty to the opposite sex, then studies would show that female employers pay their female employees more than male employers pay *their* female employees for equally productive work. There are thousands of women who own and manage businesses and to my knowledge, they pay market wages just like their male counterparts do.

What happens when an employer decides to pay a worker less than the market wage? That worker soon leaves, gets hired away, or goes into the business himself (or herself). High turnover boosts the employer's training and transition costs, which can quickly make that "cheap" employee a very expensive one. In free markets, the employer must heed the signals of supply and demand or see the competition benefit from his shortsightedness. These days, labor is highly mobile and information travels faster than ever before, so markets work better and quicker to bring about fairness and efficiency than their critics are willing to admit.

Some comparable worth advocates unwilling to overturn supply and demand in the *private* sector have focused instead on putting it in place in the *public* sector. In 1984, Minnesota became the first (and so far, the only) state to mandate that all local units of government devise and implement comparable worth schemes. St. Paul is a city whose experience with the law typifies that of local government across the state: $32 million in additional salary expense between 1985 and 1992, endless disputes about who is comparable to whom, and lingering uncertainty if the city is even in compliance with the law at all.

In his authoritative 1993 book, *Incomparable Worth,* University of Virginia economist Steven E. Rhoads showed that after depressing the wages of computer specialists and nurses in order to achieve "pay equity," Minnesota localities can't find people willing to take those jobs. Women, according to Rhoads' findings, are not clear winners when labor markets are distorted and wages are set by politics and politicians.

The last thing this country or any of its states need is another expensive mandate that substitutes the judgment of bureaucrats for that of the marketplace. Comparable worth—a silly and artificial invasion of free association between participants in the labor market—is incomparably worthless. □

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The Prejudice Against Midnight Dishwashing

by Ralph R. Reiland

Child Labor Regulation No. 3 mandates that 14- and 15-year-old kids can't work more than three hours on school nights. As a restaurant owner I can be fined up to $10,000 per incident if a 15-year-old works an extra half hour on a busy night.

These same teenagers, however, are permitted to participate on school nights in Midnight Basketball leagues, funded in the 1994 crime bill. Once again the private sector has been double-teamed by prejudice and erroneous economic reasoning.

It's assumed that everyone involved with Midnight Basketball is compassionate and well-meaning, and that a program that keeps kids busy and out of trouble at night is worth millions of tax dollars. But a different assumption applies to a restaurateur who keeps the same 15-year-old busy till midnight cutting vegetables for soup. He's seen as some kind of slave driver—a capitalist robber barron who exploits neighborhood youth for profits.

When my two sons were teenagers, I often thought how fortunate I was that on most Friday and Saturday nights, and plenty of school nights, my kids were here with us in our restaurant grilling shish kabobs and busing tables instead of out driving around. They were never forced to do it, but somehow over the years my sons became as committed to the restaurant as my wife and I. It was a team effort and on Saturday nights it was as exciting and challenging for them as being on a basketball team. Serving 250 perfectly cooked meals in an atmosphere of hectic fun was our goal.

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One morning we got a call at the restaurant from the grandfather of one of our employees. "Jay was riding his bike home from a friend's house last night" he said, "and he was hit by a car." Jay, 15, was a dishwasher on school nights and a busboy on weekends. He had left work at nine o'clock. At eleven he was killed.

I think about the irony of that night when I hear Labor Secretary Robert Reich assail Burger King because some kid worked an extra hour. The reality is that kids can be a lot safer in a restaurant kitchen than they are in the streets.

When it came to funding for Midnight Basketball many politicians understood the importance of keeping kids busy and off the streets. Far better to play ball than be drinking and driving, doing drugs, or getting some tenth-grader pregnant. But there's no three-hour limit on the games and the labor secretary won't be there at 4 a.m. to regulate the coaches or hand out multi-million dollar fines if someone cuts his finger.

Those who get the largest number of kids dribbling till dawn will be invited to the Rose Garden to pick up kudos from the president and a big check from the taxpayers. The most successful restaurateur, on the other hand, who creates real jobs for the largest number of kids, is more likely to find himself demonized.

"These kids will be learning sportsmanship," said a Labor Department spokesman when I questioned him about the double standard. "The difference is that you're involved in commerce." Somehow it's not commerce or trade when millions of dollars are extracted from a taxpayer's pocket to buy basketballs and pay coaches and administrators. And because I have a bottom line, there's no White House ceremony when I keep a kid out of trouble by having him do real work—learning how to clean, cook, and work with people, seeing the connection between work and reward, earning tuition money, helping his mother pay the rent, building self-confidence by earning income.

"The myth of the Triumphant Individual may have outlasted its time," proclaims Secretary of Labor Reich. "To the extent that we continue to celebrate the traditional myth of the entrepreneurial hero, we will slow the progress of change essential to our economic success. . . . We must begin to celebrate collective entrepreneurship." Mr. Reich is fond of hyperbole, condemning the private sector, indulging in wild accusations about companies "who sacrifice workers on the altar of profits."

Since the health-care debate, I've developed a sensitivity about public officials who tour the land condemning business owners. "These are greedy people who have no social conscience," said California Congressman Pete Stark. "These people don't care about their employees," said Senator Edward Kennedy. And it was, of course, the first time a First Lady has taken to the road to insult business owners as "freeloaders" if they weren't paying for health insurance for every worker.

The assumption is that we are to be mistrusted and stereotyped as greedy profiteers. Midnight Basketball is smart and moral, while midnight dishwashing is exploitative and illegal. It's an ideology that has delivered billions of tax dollars to failed public sector programs and excessive fines, confiscatory tort law, and regulations to the business sector.

When Secretary Reich dismisses the "entrepreneurial hero," as he so cynically puts it, as a "myth," he ignores the reality that small businesses create the bulk of the jobs—and the virtues that go with these jobs—in this economy. Collectively the Fortune 500 provide fewer jobs than they did ten years ago. One can only speculate as to why Reich has such a distaste for triumphant individuals.

The labor secretary has deliberately missed the key economic and political lesson of our time. In every part of the world, the arrogant and counterproductive policies of overblown governments have flunked the test. Does anyone in the Labor Department ever wonder why the thousands of Cubans fleeing "collective entrepreneurship" never see anyone paddling in the opposite direction? □

THE FREEMAN
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First-Class Mail, Third-Class Competition

by Robert A. Collinge and Ronald M. Ayers

Picture a storefront in a strip mall. "Letter Express" declares the façade. On display in the window is the sign: "Why pay 32 cents and worry if it gets there on time? Guaranteed letter delivery anywhere in the country within two days for $3." You have a letter to mail. Not an urgent letter, but you'd just as soon have it get there sooner rather than later. You enter the store and hand over your letter and $3.

"You're under arrest! You have the right to remain silent. You have the right to an attorney. . . ." Yes, you have broken the law, by stumbling into a "sting" operation by the United States Postal Service. You have stolen 32 cents from the Postal Service, and will be forced to hand it over, along with a fine.

Okay, we exaggerate. In reality, the U.S. Postal Service (USPS) does not run sting operations, and has yet to seek significant punitive damages from letter senders. Still, it could. Indeed, the Postal Service does seek damages from businesses that employ overnight mails for non-urgent billings or the like. For each such letter mailed via FedEx or another private company, the sender by law must pay first-class postage to the USPS. The USPS intends for that law to be enforced.

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The Natural Monopoly Scam

The post office is an example of a legal monopoly. Why does our government prohibit free choice when it comes to selecting a company to transport mail? Judging from the many firms that survive in the package delivery business, it is likely that competition could thrive for letters as well. Different firms could carve out different niches by offering different combinations of price and service. Of course, some view competition less favorably.

One claim is that postal service is a natural monopoly, so that one firm is able to serve the market more efficiently than could multiple firms. We are told that government restriction is necessary because it would be too costly and confusing to allow more than one company to operate. Without such limitation, the argument goes, there would be a complicated and expensive mess of overlapping routes, along with a proliferation of mailboxes to serve each of the various carriers. Supporters of government regulation worry that customers would wind up footing the bill for such inefficiencies. They are wrong.

If the post office were in fact a natural monopoly, competition would reward firms for getting larger and larger, until only one survived. Unlike the current bureaucratic arrangement, the surviving firm would obtain that status by offering the most valuable combination of service and price. Costs would be competed to as low a level as possible.

Again, if for the sake of argument, we accept for the moment the notion that the post office is a natural monopoly, we must acknowledge that there is a great deal of potential competition from package delivery services, couriers, telephone services, and fax. Such competitors "lurking in the wings" would motivate the purported natural monopolist to keep prices low and quality high. No regulation would be necessary or even desirable. Thus, one justification for government's legal guardianship over the post office is demonstrated to be false. Is there another rationale?

Politics

The justification is political. Surveys routinely show that, at a personal level, the American public holds postal workers in higher esteem than nearly any other category of worker. Perhaps this is because millions of Americans look forward to receiving the mail each day. Whatever the reason, there is widespread support for mail carriers. So, when postal employees throughout the country argue to maintain the status quo, is it any wonder that most Americans support them?

Postal employees themselves have every reason to support the status quo. Mail carriers are among the most highly paid unskilled labor in the country, with annual salaries averaging nearly $30,000. Including fringe benefits, 1991 compensation for USPS employees averaged nearly $45,000.[1] Salaries are much higher than necessary to attract qualified applicants, as thousands of unsuccessful postal job seekers can attest. With popular postal employees throughout the country supporting the status quo, and with a powerful lobbying effort by the postal workers' union, it is no wonder that Congress is reluctant to open the doors to competition.

There is no strong lobby on the other side. While there are an increasing number of complaints about slower and less reliable service than in the past, the general attitude among the public is "if it ain't broke, don't fix it." The post office seems to work adequately, and is cheaper and more reliable than state postal systems found in other countries. Closer analysis reveals that those other countries also take the government monopoly route, and often have less well-developed markets and infrastructures to keep costs down. However, studying postal services is not a priority in customers' lives, so they pay little attention to the details.

Voters in rural areas also have a compelling interest in maintaining the status quo. Rural residents can send and receive mail daily at the same rates paid by urban dwellers. Since the cost to the post office is much higher in sparsely populated areas, rural mail is implicitly subsidized by urban mail. A government could maintain these subsidies if postal services were to become competitive. In that case, though, the subsidies would need to be explicit. The costs of subsidizing rural pick-up and delivery would then be a visible expense in the federal budget.

Congress shows little interest in debating whether all Americans should have a right to uniform postal service at uniform cost. Yet such a debate could be expected if the expense of subsidizing rural routes is no longer hidden within common postal rates. The higher the profile of the subsidies, the more likely they are to be cut. Urban residents are likely to balk when they see the monetary cost of subsidizing rural lifestyles, especially when all rural residents are there out of choice. For their part, rural residents can best protect their subsidies by keeping the issue out of the spotlight.

Honesty and Good Policy

There are many good reasons to allow competition in the market for first-class mail, and no good reason for the government to be one of the competitors. Competition keeps costs down, and matches services to what customers are willing to pay for. In contrast, restricting competition stifles innovation. Is it worth fining users of alternative services in order to force them to use what they obviously view as inferior service from the United States Postal Service? How far does this go—do we seek to eliminate the substitution of faxes for letters? Do we fine fax users? Do we fine users of the Internet?

Honesty requires us to address the question of rural subsidization explicitly. Likewise, if postal employees have some special status that merits above-market pay, then government could subsidize their wages explicitly. Such an elite status would prove hard to justify. Neither questions of rural subsidization nor high postal pay are valid reasons to prohibit postal competition. If economically and ethically valid reasons do exist, no one has yet stated them.

The essence of competition is privately owned firms facing off against each other in order to provide the best value to the customer. When the USPS does battle with private firms, a portion of the tax dollars paid by those private firms is spent to hamper their ability to compete against the government monolith, the USPS. That's not efficient, and that's not fair. Ultimately, policy that is open and honest must allow enterprise the unhampered freedom to compete. Not only should government allow competition, but it should sell off its Postal Service assets, and exit the business. A level playing field in business enterprise does not allow the government to be one of the competitors! □

1. U.S. Department of Commerce, *Statistical Abstract of the United States, 1993* (Washington, D.C.: U.S. Government Printing Office).

Freedom, Legislation, and Disabilities

by James Rolph Edwards

The Americans with Disabilities Act, which took effect in January 1992, attempts to prevent discrimination in employment against the disabled and to guarantee access to "public" (i.e., business) accommodations. Providing "access" to disabled employees quickly began to generate costly adjustments in physical facilities by businesses all over the nation. Within little more than a year, over 9,000 legal complaints had been issued under provisions of the law by individuals who felt that they had been discriminated against or denied physical access to places of business.

Most members of the academic and intellectual class have welcomed the ADA as a landmark piece of legislation. Complaints by businesses about the costliness of the Act have been dismissed as self-serving. Warnings by economists, based on more systematic data and estimates, have simply been ignored, washed away in a pious river of emotional arguments. The lack of wheelchair ramps, we are told, indicates that "society cares nothing for the disabled"; for the sake of equality we must provide access for the disabled, "whatever the cost."

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The emotive, anti-business argument used to justify the ADA completely mischaracterizes the treatment of the disabled by producers and employers in the market economy. True, not every factory, office, or store has wheelchair ramps, nor have businesses adjusted their physical facilities to accommodate all of the special needs of people with various disabilities. Forcing employers to readjust their facilities every time a person with a different disability is hired, would wreak financial havoc if tried. As a matter of simple economics, physical facilities are best designed around the function of ordinary people. Other customers and clients must make personal adjustments.

But this does not mean that businessmen are indifferent to the needs of the disabled. Such modern innovations as wheelchairs, prosthetics, hearing aids, and eyeglasses are supplied by business entrepreneurs to meet the specific set of needs of a specific set of market demanders. Such products narrow the effective differences between individuals with disabilities and other persons, giving the disabled more access to society and social institutions, and in particular, making the disabled more employable. Industries making such products themselves generate additional employment and add to aggregate real output and income.

Few of these good works resulted from any specific altruistic impulse. Instead, the businessmen who provide such products do so out of self-interested desire for profits. But the genius of the competitive market system, as Adam Smith pointed out, is that it motivates people seeking their own self-interest (as most of us do most of the time) to learn about and supply the needs and desires of others. In the resulting voluntary market transactions, both parties gain by obtaining something they want more than what they traded to the other in exchange.

Consider, in contrast, the effects of the ADA. While it certainly makes some disabled persons better off, it reduces the net earnings of employers who must, under threat of coercion, make costly adjustments to accommodate the disabled. In addition, reduced earnings of firms throughout the nation mean that aggregate employment must fall relative to its prior level or growth trend. Reduced aggregate employment means reduced aggregate real output and income. Indeed, we may already have experienced this decline.

Perhaps worst of all, discrimination against the disabled may even be increased, rather than reduced, contrary to the intent and despite the penalties of the act. This result follows because the ADA, in contrast to the voluntary market provision of products aimed at reducing disability impairment, increases the disadvantage of disabled persons relative to others being considered for employment, by adding to the costs incurred by firms employing a disabled person.

Suppose you were a business executive considering two applicants of equal skill for a position that pays $25,000 annually. One of the applicants has a disability. Hiring him would cost your firm an additional $10,000 in legally mandated adjustments to the workplace. Which applicant would you hire?

It seems likely that disabled applicants will often either not be hired, or hired only at salaries low enough to offset the prospective additional costs they generate for the firm.

The ADA is a perfect example of the harmful character of coercive morality legislation that harms society at large without even benefiting, on net, those it seeks to help. □

THE FREEMAN
IDEAS ON LIBERTY

Fortunately, It's Just a Game

by Candace Allen

I haven't played Monopoly for years and years. But a few nights ago I was given another chance. After I'd banned the television for the evening, my twelve-year-old son persuaded me to play the game with him. It was not the same as I'd so nostalgically remembered. After being soundly beaten, I found myself reflecting on Monopoly's negative and misleading economic messages.

Had I won the game that evening, I may not have made any connections between the assumptions inherent in Monopoly and my previously held attitudes that wealthy people were usually greedy money mongers. But my son beat me, and this caused me to do some thinking. He owned four houses each on the yellow spots (Atlantic and Ventnor Avenues and Marvin Gardens), hotels on Boardwalk, Park Place, and the three magenta spots (St. Charles Place, Virginia, and States Avenues). Though I owned three railroads, the two utilities, three houses on the red spots (Kentucky, Indiana, and Illinois Avenues), and hotels on the light blue spots (the cheap part of town), I could not long compete with him in the win-lose game. When the game was over my son added up his assets and gloated that he was richer and more powerful than I. I felt slightly irritated that he had taken me to the cleaners by owning so much! His kiss goodnight included a pleasant, "Thanks, Mom, for losing all of your hard-earned money and property to me!" No doubt the real meaning for him was in the time he and I had spent together, but I can't help considering the subtle effects that Monopoly may have on his views about the world of wealth and wealth creation, as well as the effects playing it had on me as a child.

According to the Monopoly insert, the game was originated by Charles Darrow in 1934 during the Great Depression. To Mr. Darrow, who was unemployed, and to thousands of others, the game's "exciting promise of fame and fortune" provided amusement and hope. The object of the game is to become the wealthiest player through buying, selling, and primarily renting property. Monopoly remains today the leading proprietary game in the United States and Western world.

Wanting, intuitively, to measure the effects of exposure to the game, I called my parents to ask them what they remembered about playing it. Essentially, they told me that the game let them dream about becoming rich and having more than anybody else. It was about trying to get on top by taking other people's money in the form of rent. Mostly, it was about being lucky enough to become wealthy. Monopoly seemed to them a game of real life, because the rich would take anybody's money if they could. In short, becoming a winner meant that someone else had to lose. I realized that before becoming a student of economics, I, too, held the belief that when the rich get richer it is always at the expense of others.

Just how much of this attitude may have

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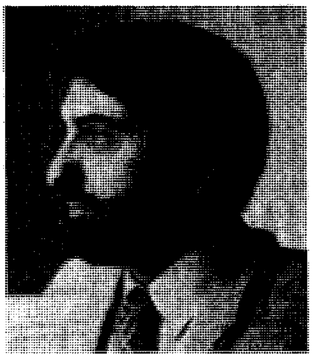
come from playing Monopoly is anyone's guess, but it may be worth identifying the implicit assumptions in Monopoly which could foster erroneous beliefs about wealth creation. One inherent assumption is that luck is the main factor in building a fortune. Luck directs a player to the more lucrative places on the board and only luck can land a sucker on another player's property with a grand hotel. No choices about where to stay and what to pay! Market competition and choice do not temper the rise or fall of the rich, nor does the productivity of the players enter as a factor.

Another assumption is that the acquisition of more and more assets will benefit only the greedy property owner. Successful buying and building in the game never creates new opportunity and new wealth for anyone other than the property owner. At no time does a wave of the invisible hand channel self-interest into the service of others. Rather, more dollars of profit reduce other players' wages each and every time their tokens land on an owned and developed piece of property. The wealth-creation process is equal to the poverty-creation process in Monopoly. Probably the major problem in the game is that the little economy is made up of only two groups of people: those trying to become real estate owners who can develop their property and those who unluckily must land on the property and pay the high rents set on the cards. Nowhere can a customer be found!

Now the purpose of this essay is not to propose a ban on the playing of Monopoly. But surely it is worthwhile to consider its subtle influence on players' attitudes—an influence that may undermine potential understanding and appreciation of the market's ability to generate new wealth. Unless one's children play Monopoly with awareness of the game's limited and untrue assumptions, they may take on negative biases against the allocative functioning of the market. They may, in fact, come to believe that governmental mechanisms that protect the poor from the wealthy should take priority over the Constitutional protection of property rights, including the implied right of transfer of one's property to others by voluntary and mutual agreement. The productive effort of hard work is essential to wealth creation—certainly not the same activity as merely "passing GO and collecting $200." But that understanding is not enough. Children need to realize that productive resource allocation is critical in income generation. And how are resources best allocated? By allowing folks the freedom to trade and enter into contract with one another, not by forcing victims of chance to buy products (or pay rent) that they don't choose to buy.

Though this year's Christmas list won't include Monopoly games for any of the other children I know, I don't think I could convince my son to give it up. Until a wiser game-maker develops a game that can parallel the emotional appeal of Monopoly, I will make it a point to play with him again, and each time I do, I will include questions which will allow dialogue about real world economics. Such conversation may include reasons why developed property is profitable (investment) and what it means when "the bank pays dividends" (interest). It might also be fun to pose hypothetical situations such as, "What would happen if a property tax were imposed on all improvements?" and "What would happen if an income tax were placed on all unearned income?" and "What would happen if all prices rose by five percent and were expected to rise again soon?" In this way my son would learn valuable lessons not only about wealth creation, but about the effects of government policies and inflation upon incentive structures, which influence all players' behavior—in Monopoly, of course, but also in real life. □



Values or Virtues?

As a young man, I wondered why the principles of freedom had failed to win more adherents. Despite the best efforts of freedom's proponents—and after decades of philosophical refinement and practical demonstration—most people remained unswayed.

I became convinced that the public was both apathetic and unprincipled, concerned solely with indulging their most venal, narrow, and immediate interests. Most people, I figured, couldn't care less about matters of moral principle—of distinctions between earned and unearned, just and unjust, "mine" and "yours." I concluded that they *preferred* interventionism, because it let them to profit at the expense of others.

I became embittered, less and less motivated to promote the ideas of liberty. My sporadic writings acquired a combative tone that only further alienated readers—and editors. As a result, my writing career seemed headed for a Hobbesian end: solitary, poor, nasty, brutish, and short.

Through it all, I clung to the comforting fantasy that I was being rejected solely due to my commitment to *principle*. In the years since, I've met other proponents of liberty who likewise revel in their own cultural marginality, as if their very unpopularity and ineffectuality confirmed their status as lone pillars of integrity in a corrupt world.

It's a reassuring self-image . . . but a false one. Abandoning that illusion, in fact, is a precondition to succeeding in persuasion.

My own climb from the depths of cynicism began with the slow realization that most of those whom I'd been condemning were, as individuals, benevolent, productive people of considerable integrity. Yet I still couldn't grasp how such good people could fail to appreciate principled arguments. Somehow, we seemed to be talking past each other.

My epiphany—and the turning point in my professional career—was in grasping the distinction between *virtues* and *values*.

Virtues, such as honesty and justice, are abstract moral principles. Properly understood, they serve as indispensable guides to our actions. However, they aren't ends in themselves. Virtues are only abstract *means* to concrete *ends*. The ends are values: the things in life that we aim to gain or keep.

However, most ordinary people aren't very abstract or theoretical: they're focused on values, not virtues. It's not that they're unprincipled or immoral; they're simply just not very proficient in linking abstract principles to life's concretes. They don't fully grasp the relationship between means and ends, principles and practice.

This also applies to their approach to politics. Most people are rightly concerned with the *values* a social system can bring

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them. But if they don't see how certain principles will promote their values, they'll jettison those principles as "impractical."

Individual rights, limited government, and the free market are, after all, complex abstractions. If ordinary people don't understand how they serve the ultimate values of human life and well-being, they'll abandon those principles as unworkable.

In my persuasive efforts, I'd been focusing almost exclusively on promoting the *virtues* of a free society, rather than its *values*. I'd been dwelling on why liberty was a "moral" and "just" framework for social action, while neglecting to emphasize the personal values and benefits ordinary people could derive from living in a free society.

In short, it wasn't their "immorality" that was causing my message to fall on deaf ears; it was my own deafness—to their very real and legitimate value concerns.

Once I realized this, I began to refocus my persuasive efforts with a sensitivity to the public's value priorities. No, I didn't "compromise" my principles or water down my philosophy. But I did become acutely aware of the need to tie *my* principles to *their* values, whenever possible. I also became cognizant of the need to address their highest-priority, concrete concerns.

For example, the polls show crime is consistently among the highest worries of the public. Yet though our philosophy of individual rights and individual responsibility has vast implications for this issue, I found virtually nothing in libertarian and free-market literature addressing the problem. Given the typical subject matter in such books and journals, it was as if we were confronting the concerns of inhabitants of some alien planet, rather than the real-world worries of ordinary folks right here.

But I discovered quickly that the public, far from being hostile to our philosophical premises, was warmly receptive to them—*if they addressed their own value concerns.* My *Reader's Digest* crime articles, for instance, have garnered enormous popular responses. The national reaction to *Criminal Justice?* confirms that popular interest is neither superficial nor unprincipled.

On the contrary, far more than social scientists and "experts," the typical American is passionately interested in restoring truth and justice to our legal system. Indeed, on most issues, I've found his value concerns to be quite rational—hence, fertile grounds for our persuasive efforts. But exactly how do we confront those concerns?

Take the drug issue. The typical free-marketer simply declares his principled commitment to free trade in drugs, and discusses the economics. But this utterly fails to relieve the worries of the typical American parent. "Are you *endorsing* drugs?" he asks. "What about our kids?"

Those are *rational* value concerns. So why don't we reply as follows:

"Personally, I hate drug abuse. Drug dealers are the scum of the earth, and I want to put them out of business. And as a parent, I want to protect kids. But too many kids are getting seduced into the drug trade as suppliers, all because of the high profits.

"There are two things we should do. First, to protect children, there should be much *higher* criminal penalties for any adult who involves kids with drugs in any way. The second thing we can do is take the profits out of the drug trade. Drug laws unintentionally create higher-than-market profit margins. That entices criminal dealers. Legalizing drugs—for adults only—would end the excessive profits in drug sales. That would take away the drug dealer's fancy cars, jewelry, homes. Making drugs available through legal channels would also get criminals out of the trade, and end street violence by competing gangs."

Such an argument, based on shared *values*, will persuade far more ordinary people than any mere declaration of moral principle.

People aren't stupid or corrupt; they simply aren't very theoretically minded. If we wish to reach them, we have to learn that the doorway to minds and hearts is formed by their deepest values. Appealing to those shared values has brought my messages from obscurity to national attention. The same approach can work for anyone else. □

THE FREEMAN
IDEAS ON LIBERTY

Have Doctors Forsaken Their Ethics?

by Jeffrey A. Singer

Government health-care reform is like Frankenstein's Monster: dead, it seems, but threatening to arise from the grave, regenerated by countless, often contradictory parts. Like the Monster's creator, our politicians and health-care bureaucrats—eager to create *something*—often give short shrift to ethical considerations. This failing is the focus of my essay.

While medical ethicists disagree on a number of issues, there are certain principles nearly all share. Whether or not we intend to adhere to these principles is the question we must answer.

The Hippocratic Ethic

One conflict that must be resolved is the choice between remaining committed to the "Hippocratic Ethic" or embracing what is called the "Veterinary Ethic." The Hippocratic Ethic holds that a physician's ultimate responsibility is to the patient. Consequently, all advice given regarding therapy is based upon what the physician perceives to be in the patient's best interest. The Veterinary Ethic holds that the physician's ultimate responsibility is to the payer, and that advice is therefore based upon what the physician perceives to be in the payer's best interest. An example of this is when the veterinarian recommends to an owner that an animal be "put to sleep" rather than undergo costly treatment.

As our health-care system is reformed, we risk abandoning the Hippocratic Ethic in favor of the Veterinary Ethic. If the system pushes more and more of us into a "managed-care" setting, where the physician is under the management of insurance company administrators who ultimately answer to government regulators, the physician will be put in the position of conforming to a method of practice where the interests of the payer are paramount.

Similarly, if our system is changed to a "single-payer" type of health-care system, the physician will be under the management of government bureaucrats, who in turn are influenced by budgetary constraints and pressure from special interest groups. The doctor will be forced to comply with practice guidelines set up by the government. Again, the interests of the payer prevail.

Patient Autonomy

The issue of patient autonomy is also important. A fundamental precept of prevailing medical ethics is that patients who are conscious and mentally competent should have control over their bodies in medical decisions. Put another way, nothing should be done to the patient without the patient's "informed consent."

To this end, medical schools and teaching hospitals have institutional review boards to

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oversee research on patients. These boards insist that researchers develop informed consent documents which explain, in layman's terms, the reason for the research, what the researcher predicts the patient to experience and gain, and what the researcher hopes to learn or accomplish by the experiment. Implicit in this policy is the belief that it is possible to make this information clear and understandable to nonphysicians, and that most patients can make a reasonably informed decision about whether to consent, even in the case of a complex and esoteric procedure.

When patients are moved into a situation where their doctor must answer to an overseer, they lose the ability to give "informed consent." The doctor must follow regulatory guidelines when ordering tests or recommending procedures, and can only prescribe medications that are listed in a formulary. Is the patient ever aware of other options that could have been considered, even if they were more expensive?

When a doctor prescribes a drug in the formulary, is the patient aware of other drugs that could have been prescribed, and their relative risks and benefits as well as their relative prices? Is the generic drug always as good as the brand-name drug? Is there a more expensive alternative form of treatment that does not involve the use of drugs and yields quicker results that is not being brought to the patient's attention? These questions apply whether we place the patient in a "managed-care" system or a Canadian-style "single-payer" system.

When people are placed on prioritized waiting lists for surgical or diagnostic procedures, they are not fully informed about the risks being taken with their lives by being forced to wait. The ultimate power for decision-making is in the hands of a health-care bureaucracy that determines how much money will be allocated for each problem, and in some cases, to each health-care facility. People may be given a degree of choice regarding who their doctor will be, but they are allowed to make very few choices about what type of health care they receive. In most cases they are kept completely in the dark regarding the various options that exist. This is because a third party—government or "managed-care provider"—controls the money.

While it is reasonable and appropriate to consider these ethical issues when determining how we intend to transform the existing health-care system, it is important to realize that the time-honored ethical precepts discussed above are already ignored. Over the past several years, policy-makers and health-care providers have begun to change the way in which health care is delivered with complete disregard for medical ethics. In many cases the individual doctor unconsciously violates his ethical credo on a daily basis. As a clinician in private practice, I make this statement based on firsthand observations.

Medicare and Medicaid

Consider first the 40 percent of Americans who are on either Medicare or Medicaid, single-payer types of health-care delivery arrangements. The patient pays little or nothing out of pocket for health-care expenditures. The government is the payer.

Over the years, in order to control Medicare and Medicaid expenditures, the government has begun to manage the way health care is delivered. One way in which it has done this is by changing the way in which it reimburses hospitals for services. Rather than reimbursing on a fee-for-service basis, it does so on the basis of Diagnosis Related Groups (DRG's). The hospital is reimbursed on a flat rate pegged to the patient's diagnosis, regardless of the severity of the illness or the amount of hospital-based services a particular patient requires.

In order to reduce losses, hospital staff-utilization review committees have resorted to intimidating and pressuring physicians to treat certain problems ordinarily handled in the hospital on an outpatient basis. They are also pressured to discharge patients sooner than they would ordinarily recommend. If doctors are found to be "poor utilizers" of hospital resources from a cost-effectiveness perspective, they often must go to great lengths to defend their actions before peer review committees or else face sanctions. Most doctors don't have the time or inclination to face such hassles. For this reason, most physicians find themselves taking certain risks with their patient's health that go against their better judgment, rationalizing that they are following the prevailing "standard of care" in making their decisions.

Also in the interest of controlling costs, hospitals have gone to a formulary system for dispensing medicines. A Pharmacy and Therapeutics Committee determines what drugs will be available in that institution. If a doctor wishes to place his patient on a medication, he can select only from the medications in the formulary, a catalog of drugs that the Committee decided should be available to doctors practicing in that hospital. If the doctor wants to prescribe Antibiotic "A" for his patient, but this drug is not in the formulary, he has to select his second-best (or third-best) choice. Otherwise, the doctor has to go through a maze of procedures in order to get special authorization to order Antibiotic "A." (The Pharmacy and Therapeutics Committee determines by consensus vote of its members which drugs to place on the formulary, cost being the overriding concern. This formulary affects all hospitalized patients, not just those on Medicare, since the hospital is trying to recoup its losses from operating under the DRG system.) In most cases, the doctor just decides to "go with the flow" rather than take the time to fight for what he sees as the patient's best interest. Again, he finds solace in the rationalization that a hospital committee has made this practice the "standard of care."

Leaving the hospital setting, doctors are under constant pressure to see patients in their offices for a particular illness at a frequency prescribed by Medicare or Medicaid. If they see these patients more often than Medicare or Medicaid "allows" they are not reimbursed for their service. They must choose between practicing medicine that's not in their patient's best interest, or facing financial loss. Oftentimes they opt to follow the Medicare- or Medicaid-prescribed guideline, rationalizing that the fact this is prescribed by a government agency makes it the "standard of care."

The same can be said for the ordering of certain diagnostic screening tests. From chest x-rays, to mammograms, from cardiograms to prostate-specific antigen (PSA) tests, the proper frequency and indications for ordering these tests are determined by a government bureaucracy. If doctors don't follow these guidelines, they don't get paid. What's worse is that they run the risk of being excluded from Medicare or Medicaid if they become identified as "problems." In most cases, doctors simply acquiesce.

"Managed Care"

Of the remainder of the population not on Medicare or Medicaid, roughly 90 percent receive employer-provided low-deductible health insurance. Few health-care costs are paid out of pocket by the patient. The insurance company pays most of the bills, and passes the cost on to the employer in the form of premiums. In an effort to hold down rising premiums employers have resorted to placing their employees in "managed-care" plans. Today, if we include Health Maintenance Organizations (HMO's), Preferred Provider Organizations (PPO's), or regular fee-for-service plans that have "utilization review" and "pre-certification," more than 90 percent of the non-Medicare/Medicaid population is in "managed care."

In the managed-care setting the same pressures on the physician exist as in the Medicare/Medicaid single-payer system. The doctor must get authorization from an overseeing entity in order to order tests and diagnostic procedures, perform surgeries, or prescribe medications not in the managed-care company's formulary. The doctor must get permission to place a patient in the hospital. In many cases, the doctor must get permission to refer a patient to a specialist. The criteria used by the oversight entity granting permission are closely linked to the issue of cost. Whenever there exists a diversity of opinion in the medical literature regarding the proper management of a particular medical problem, it enables the managed-care company to seek refuge behind a credible source in defending its policy medico-legally. The overseeing entity will then tend to only allow the least expensive approach to be authorized. These criteria can be overruled if the doctor is willing to jump through enough bureaucratic hoops to get special permission. Of course, if he does this too often he becomes too expensive for the insurance company to maintain on contract. It might terminate the doctor. Consequently, most doctors tend to comply.

It should come as no surprise that, according to the National Ambulatory Medical Care Survey, managed-care programs are less likely to authorize expensive diagnostic tests. For MRI and CT Scans the difference is a factor of two to one. As a consequence, patients with diseases such as cancer are likely to have their conditions detected at a later stage, making treatment more difficult.

Studies by Mark Schlesinger and David Mechanic *(Health Affairs Supplement,* 1993) conclude that although managed-care and traditional fee-for-service plans tend to adopt the same method of treatment where normal practice guidelines are well-defined, where norms are vague the prepaid plans provide significantly diminished levels of treatment.

As an adjunct to their own oversight entities, many HMO's use the primary care physician in the capacity of "gatekeeper." Many of the decisions regarding appropriateness of referrals to specialists, or regarding authorization of procedures or tests recommended by these specialists, are placed in their hands. The primary care physician is financially penalized for expenditure outlays by the managed-care program and rewarded for expenditure savings. This again places him in the bind of having to choose between the interests of the patient and possible financial ruin.

New Medical Ethics

In all of the above examples, the physician is implicitly forsaking the Hippocratic Ethic. He is making decisions based upon what is in the payer's best interests. All of these decisions are being made without the patient having informed consent. The patient is never aware of what other options existed with respect to tests being done, medicines being prescribed, procedures being performed or not performed, or specialists being consulted.

As Merrill Matthews has said, "In effect, medical ethics has succumbed to medical economics, as paternalism is given precedence over autonomy."

A recent well-known victim of the new medical ethics is former Secretary of Defense Les Aspin. He needed additional vaccinations because of the travel requirements of his job. His doctors gave him a vaccine slightly more risky than one which would have cost $1.55 more. Secretary Aspin was hospitalized in an Intensive Care Unit as a result. Did anyone ask him if he was willing to pay an additional $1.55 out of pocket to avoid the risk? Was he even aware such an option existed?

When Senator Bob Dole opted for a prostate-specific antigen test (PSA) in 1991, it led to a biopsy that detected early prostate cancer, and then an operation which the Senator believes saved his life. Most managed-care plans don't see much benefit in this blood test and therefore don't routinely provide it. Fortunately, Senator Dole had the opportunity to make his own decision.

This ethical dilemma need not exist. Doctors need not confront the choice between the Hippocratic Ethic and the Veterinary Ethic. If the patient were again the primary payer, there would be no conflict of interest between the patient and the payer.

If the patient had control of the money, the burden would be on the doctor to get "informed consent," and to give advice in accordance with the Hippocratic Ethic. The patient would settle for nothing less.

But as long as politicians in Washington continue to show a blatant disregard for the ethical consequences of their policies, they will not avoid creating a health-care monster with a tragic destiny. □

THE FREEMAN
IDEAS ON LIBERTY

Rising Health-Care Costs: Who's the Villain?

by Charles Van Eaton

Why is the level of health-care spending what it is? Why does the rate of growth in health-care spending tend to rise faster than spending on other things? Can anything be done to control the rate of growth, if not the level, of health-care costs, short of having government take control of what now constitutes almost 14 percent of our entire Gross Domestic Product? What can be done to decrease the number of persons who are without some form of private health-care insurance?

As the political debate about health-care unfolded, it became clear that virtually no one in the federal establishment thought that trying to get answers to these questions made any difference in what the politicians were trying to do to move government even more heavily into the health-care-services production system than it is now.

It does make a difference. There are strong differences of opinion on why the level of U.S. health-care costs are what they are, why these costs have been rising faster than the cost of other goods and services, and what government can do both to reduce the level of costs and to arrest the rate of cost growth.

On one side is the view that if the level of spending on health care is the product of forces over which government can, at best, have little control, there is no reason to give government more control. However, if part of the reason health-care spending tends to rise faster than other streams of spending is the product of policies generated by government programs, and if the goal is to reduce this rate of spending growth, the obvious place to start would be to do away with those government policies which contribute to spending growth.

Those who believe that both the level and rate of growth in health-care spending are problems unique to the private-sector character of the American health-care-services production system see no solution which does not involve granting considerably more power to government.

Why are costs what they are and why do they tend to rise as fast as they do?

"Villain Theories"

On one side of the debate one hears what may be called "villain theories" of health-care costs. These theories focus on the production side of services and conclude that both the level and rate of growth in costs are the product of greed on the part of insurers, pharmaceutical companies, hospitals, and physicians.[1] Until these parts of the health-care-services production and financing system are brought under control, this argument goes, nothing can be done to

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reduce health-care spending. Clearly, policies based on this approach must eventually come to rely on command over, and control of both producers and consumers of health-care services.

Against the villain theory of health-care costs lies the view that the level of health-care costs is a product of six factors, none of which involves villains of any stripe.

1. The level of health-care costs relative to Gross Domestic Product is higher in the United States than it is in other countries because the American health-care system has been so successful in treating conditions which, in past times, would have been untreatable.[2] Consequently, good medicine increases rather than reduces the proportion of people in our population who have illnesses requiring continued treatment.

Dr. Willard Gaylin argues that "There are more people wandering the streets of the cities of the United States with arteriosclerotic heart disease, diabetes, essential hypertension, and other expensive chronic diseases than there are in Iraq, Nigeria, or Colombia. Good medicine keeps sick people alive, thereby increasing the number of sick people in the population; patients who are killed by their diseases are no longer part of the population."[3] (Put another way, while the dead are no longer a cost burden to the health-care system, survivors are.)

2. The technological superiority of the American health-care-services production system has resulted in an increase in the quantity of health-care services demanded. The technical diagnostic capacity to test for that additional one percent of information, which might provide answers to a medical puzzle, results in a demand for additional testing and additional treatment—at additional cost, of course. (If this reflects a basic American value—wrong in the view of some critics—which says "damn the costs, save lives and use expensive technology whenever necessary," costs are bound to be higher than would otherwise be the case.) Consequently there are many who argue that American medical technology is a major reason for the high level of health-care costs.[4]

3. What is all too often overlooked when the level of American health-care spending is unfavorably compared to spending in other nations is that the United States, in many ways that are unfortunate, is not like other nations. Therefore comparing the level of health-care spending in the United States relative to spending in other nations is not particularly useful unless all those distinguishing factors are addressed and statistically held constant before cost comparisons are made.

For example, many Americans lead lifestyles that contribute to strong demand for health-care services. As former Secretary of Health and Human Services Louis W. Sullivan noted, "It cannot be overemphasized that the top ten causes of illness and premature death in our nation are significantly influenced by personal behavior and lifestyle choices."[5] Comparing data collected in 1977 and 1983, researchers found more obesity, less exercise, more drinking, and less sleep in 1983 than in 1977.[6] Add to this those other factors which extend beyond health care *per se* while simultaneously imposing greater demands on the system—problems having to do with rates of drug usage, crime, family breakdown, rates of HIV infection, and low-birth-weight babies born to unwed mothers—and it is not surprising that health-care spending is as high as it is.[7] In addition, the United States has a broad underclass enmeshed in poverty. Because they are often uninsured, low-income people with health problems often enter the medical system through emergency wards—the most costly part to the health-care production system—and often postpone treatment to the point that when treatment is given it is more costly.[8]

4. Despite having a persistent poverty segment, America is a high-income nation. A nation with high income is going to spend more on everything, especially health care, because health care is, to use economists' jargon, highly income elastic. When income levels rise by some given percent, the demand for health care rises proportionately more.[9] It's both as simple and as complicated as this: a rich nation spends more on health care simply because it is rich.[10]

N O T E S F R O M

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Budget Deficits

An old English proverb may help us understand the nature of debt: "A small debt makes a man your debtor, a large debt makes him your enemy." When the national debt amounted to just a few million dollars, the federal government was a gracious debtor, a protector of all its subjects, enjoying public trust and admiration. Today, with the federal debt approaching $5 trillion, it is a public enemy feared and disdained by millions of suffering taxpayers.

The pyramid of debt is growing at an annual rate of some $300 billion and is expected to accelerate in the future. Both the White House and the U.S. Congress are unwilling and incapable of balancing the federal budget. In a sense of desperation about the growing alienation between the people and their government, many Americans favor a constitutional amendment which would require that "total outlays for any fiscal year do not exceed total receipts for that year."

No matter what we may think of such an amendment, the deficits, whether they are on or off budget, are too big to be ignored or taken lightly. They are felt not only in every home and business but also in the money and capital markets of the world. After all, the U.S. economy is a substantial part of the world economy, and the U.S. dollar the paramount world currency.

Budget deficits of the present magnitude are a prominent cause of all that ails the American economy: declining private investments, stagnant or even falling standards of living, unemployment of millions of workers, and inability to compete in many world markets. It is a fundamental economic principle that economic productivity, income, and wealth primarily depend on the instruments of production in use, that is, on the amount of capital invested per worker. When government deficits consume the capital coming to market, they impede progress and bring stagnation. The trillion–dollar deficits of the federal government have curbed American productivity, obstructed production, and brought on much economic and social evil.

The federal debt is a pyramid of IOUs for income and wealth consumed in the past. It differs fundamentally from business debt which generally is productive and indicative of rising productivity. Government neither forms nor accumulates capital; it merely consumes the savings of its subjects. Even when it spends the funds on public works, it usually wastes them serving lesser needs than they would have served if left in the hands of taxpayers.

Budget deficits are objectionable also on moral grounds. No generation has any right to impose a debt burden on future generations. And yet, our generation did not hesitate to hang a $20,000 first–mortgage around the neck of every baby born in this country and does not scruple to increase it by more than $1,000 every year. As individual debt is the worst measure of poverty, so is political debt placed on our children the greatest outrage.

Yet, it is imperceptive to fault only politicians and bureaucrats for their spending predilection. In an open society, like ours, they are merely the representatives and agents of the public which is condoning or even demanding the deficit spending. In final analysis, we must fault the ideas and morals that guide the people in their political aspirations.

Most Americans live under the spell of progressive economic thought which confers respectability on political profligacy. On all levels of education the "new economics" teaches that government spending sustains, stimulates, and invigorates economic life. Government spending is presented as a benefit without cost, a grand addition to general welfare, a social achievement of the highest order. In reality, it does not sustain, stimulate, nor invigorate an economy; it diverts economic resources to many nonproductive uses and thereby aggravates the situation.

The popular view of government spending as a grand addition to general welfare springs from man's inclination to prefer the seen over the unseen. Government largess is visible to all in many forms, as benefit checks and subsidies, public housing and office buildings, many of which look like Greek temples built to the gods. Few observers see the costs borne by millions of people who are forced to tighten their belts and do without. They must forgo better housing, warmer clothing, comfortable transportation, better education, medical insurance, etc., etc. To a thoughtful person, the marble temples of politics, which may last a thousand years, are durable monuments to the supremacy of political power over individual freedom and economic prosperity. They speak of onerous taxation and deficit spending.

Our growing national debt casts a shadow over our future. Profligacy always comes to an end. Unless he changes his ways, the spendthrift falls in disgrace, facing bankruptcy. A national government need not fear bankruptcy in the usual sense, with complete discovery and equitable distribution of its property. No government on earth has the power to hold the U.S. government responsible for its debt, and the U.S. government does not apply and enforce its own laws on itself. But, like bankrupt individuals, it may be hopelessly discredited, as in resources and character. It may pretend to make payment with depreciated dollars or conduct currency and credit reforms which defraud the creditors. It may declare an indefinite moratorium. After all, a vast army of constabulary is ever ready to enforce its laws, no matter how predatory and immoral.

No law or constitutional amendment can break the spending predilection. It will take a radical change of political thought and public morality to reverse the trend. The change will come when, pressed upon by public opinion, the politicians themselves will begin to forgo some of their own largess. It is difficult for legislators who thrive on expensive gratuities, fees, perks, and shady salary increases to cut the entitlements of welfare mothers and children and to reduce federal outlays for the sick and homeless. Any such attempt is bound to run aground the fury of the beneficiaries and the wailing of many politicians who are humorless hypocrites or hypocritical humorists.

Example draws where precept fails. The federal budget could be balanced promptly if the President himself would be made to suffer a salary cut of 50 percent, if the legislators were made to take a cut of 25 percent, and if all entitlements were frozen immediately. Such cuts would signal an honest beginning and allow us to look forward with hope.

Hans Sennholz

> The principle of spending money to be paid by posterity, under the name of funding, is but swindling futurity on a large scale.
>
> *Thomas Jefferson, 1816.*

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5. If there are reasons to believe that Americans spend more on health care because, to an important extent, we are what we are, this only explains the level of health care spending, not the annual rate of growth in spending. (The issue of medical malpractice litigation, too, is one that affects the level of health-care costs.) Why have U.S. health-care costs been rising? Is the cost-increase issue one that also requires a "villain" explanation?

What can government do to change these cost factors? Virtually nothing.

The rate of growth in American health-care costs relative to the cost of other things Americans buy, New York University economist William Baumol argues, is due to the relative difficulty of expanding productivity in services production compared to goods production.[11] In Baumol's view, there are no villains.

Baumol, long considered one of America's foremost scholars in the field of productivity analysis, argues that "There is no advanced country in which complaints about rates of cost increase are not heard." In fact, "in fourteen of eighteen countries in the years 1960 through 1990, health-care prices rose more rapidly than prices in general. The U.S. rate of increase was exceeded by that in seven countries—Australia, Austria, Canada, the Netherlands, New Zealand, Norway, and Switzerland. The universality and persistence of the problem suggests something which lies deeper than the particular administrative or institutional arrangements adopted in any single country."

Those inclined to see the rise in health-care costs in terms of villains who must be managed by direct government intervention into the health-care-services production system may be failing to grasp the nature of services production relative to goods production. Both data and theory compel serious observers to acknowledge that it is far more difficult to increase productivity in services such as health care, law, welfare programs, mail, police, sanitation, repairs, and the performing arts, compared to manufacturing, because in the latter the continual development of new tools and management techniques makes it possible to expand output with fewer units of labor input.

By contrast, services—particularly health-care services—all have a "hand-craft" attribute in their supply process. Consequently, when productivity rates differ across different sectors of an economy, say, manufacturing compared to health care, the money price of health care will rise relative to the money price of outputs in those sectors where productivity gains are real and substantial. Therefore, Baumol concludes, rising health-care costs are "an inevitable and ineradicable part of a developed economy and the attempt to do anything about it may be as foolhardy as it is impossible."[12]

But even when services productivity is relatively stagnant, real services costs can be seen to be falling despite the rise in services' dollar prices because there is in fact no service whose productivity is untouched by technical progress in other sectors. A general rise in productivity led by those sectors where productivity gains are easier to accomplish means, by definition, that it requires ever less labor time to acquire all things. "In an economy in which productivity is growing in almost every sector and declining in none (modern medical technology has certainly improved some aspects of medical-labor productivity, particularly the development of new tools and techniques which make it possible to do surgical procedures on an outpatient basis compared to an inpatient basis), it is a tautology that consumers can have more of every good and service: they simply have to transfer some of the gains from the sectors that are becoming more productive into the sector that's becoming only a little more productive."[13] Consequently, the rise in the dollar price of health-care services is not evidence of a system in despair, but only of a broad difference in relative productivity rates between services and goods.

But, Baumol rightly notes, "This happy conclusion is just a bit too simplistic. . . . It will not be easy to convince the layperson that, even though the prices of personal services appear to be rising at a phenomenal rate, in fact the costs of these services (in terms of their labor time equivalent) are really declining because of increases in labor productivity generally."[14]

6. While Baumol's argument as to why the dollar cost of health care has risen relative to the cost of other components of GDP is compelling, it is not, as he would be the first to acknowledge, the whole story. The rest of the story deals with the fact that health-care demand may now be the most heavily subsidized component of aggregate demand. Subsidizing demand for the output of a relative-productivity-lagging health-care sector adds an additional source of pressure to increasing health-care costs.[15]

For example, even though the German insurance system is bankrupt despite premiums that come to 13 percent of payroll, after paying the tax, Germans "graze themselves to obesity on medical services because the price of care, as perceived by individuals, is essentially zero."[16]

A new econometric model developed by Gary and Aldona Robbins of Fiscal Associates, Inc., which looks at how America finances health care, provides insight into why our current system for subsidizing health care distorts demand and adds costs that increase the probability that some people will be priced out of the market for affordable health insurance coverage. The Robbinses note the following:

• Prices matter. People are not price sensitive in the market for health care as they are in the market for other goods and services because some third-party (Medicare or a private insurer) pays most of the cost of health services. For the same reason, health-care providers are less concerned about the costs of the services they supply because someone other than the patient will pay all or the major part of the bill.

• Health spending has been rising because prices paid by patients have been falling. When we are using someone else's money, we pay less attention to costs and thus spend more. Over the period 1960–1990 the share of personal income spent out-of-pocket on health care declined from 4 percent of total consumption expenditures to 3.6 percent. Over the same period the amount spent from all third-party sources has more than tripled—from 4 percent of consumption on all goods and services in 1960 to 13.3 percent in 1990. Clearly this increase reflects the fact that the demand for health-care services is the most heavily subsidized component of household spending.

• Most Americans are overinsured because of government policies. Through generous tax subsidies to employers, government "pays" up to one-half of the cost of employer-provided health insurance. A corporation that pays, say, 50 percent of its income in federal and state taxes combined would be able to "escape" half the cost of providing such insurance to its employees. Through Medicaid and Medicare, government directly pays medical bills for the poor and elderly.

• Because it is easier to subsidize the demand for health care compared to the supply of health care, increases in demand result mainly in higher prices rather than in more services. On average, each additional dollar spent on health care buys only 43 cents more of real services but adds 57 cents more to prices.

• The main cause of rising health-care spending is government. Direct government spending has increased from 24 percent of all health-care spending in 1960 to 42 percent in 1990. When tax policies are included—which means provisions in the tax code that make employer-provided health insurance tax-free while individuals who purchase their own insurance must do so with after-tax dollars—the government's share of health spending has risen from 34 percent in 1960 to 53 percent in 1990.

• Because of the third-party character of our health-care finance system, most people have no idea how much they are personally contributing to cover the costs. In 1992 national health spending was equal to $8,821 for every U.S. household, with most of this burden hidden from view.

• Because of third-party insurance and government subsidies, the most costly services are often the cheapest to patients. On average, patients pay only 4.5 cents out of pocket for every dollar spent on hospitals, but 68 cents out of pocket for every dollar spent on pharmaceuticals. Thus, to patients, hospital therapy appears cheaper than drug therapy while for society as a whole the opposite may be true.

- Because of government policy, many Americans are uninsured. In 1990, through the tax system, government may be said to have "spent" about $64 billion subsidizing private health insurance by encouraging employer-based health insurance which is deductible for business tax purposes. At the same time, people who purchase their own insurance are penalized. When state mandates require insurers to cover a wide range of "health services" (hair transplants in Minnesota, for example) and larger firms which self-insure are exempted from such mandates, larger firms are exempted from the cost-increasing effects of such mandates while smaller firms and individuals are not. Add the tax deductibility component and small firms and individuals are often priced out of the market.[17]

One must conclude that, however unintentionally, our current system of third-party-driven health-care finance has yielded an unusually perverse outcome: while it contributes to higher levels of health cost for the nation as a whole, it sends a signal to individuals which leads them to believe that health-care costs are cheap. Consequently, the direct effect of rising health-care costs are largely hidden from the majority of individual health-care consumers.

In short, if the word "crisis" has any place at all in the debate, it should not be applied to the health-care-services production system, it should be applied to how we finance the demand for health-care services because this system, which is based on having someone other than the health-care consumer pay the bill, robs individuals of a direct stake in health-care cost control.[18]

What should government be trying to do? It certainly should not be trying to impose a massive Medicare or Medicaid system on the whole country. Neither should it be moving to bring all Americans under the umbrella of employer-provided health insurance. These two systems, to the extent that they have contributed to disguising health-care costs to individuals, have been the single most critical factor in forcing health-care costs upward. Government should move the system away from its heavy reliance on third-party payments toward a system based on individual accountability for health-care spending. Is that the direction government will finally take? We shall see. □

1. In *Putting People First*, President Clinton blamed greed for the growth in health-care costs. "What we need," he said, "is leaders willing to take on insurance companies, the drug companies, and the health-care bureaucracies to bring health-care costs down." Princeton economist Dr. Uwe E. Reinhardt, a frequent speaker before The American Medical Association, believes that physicians earn too much relative to the quantity of real health-care services supplied to patients. See, "Why You're Afraid of the Doctor," *The New York Times Book Review*, April 20, 1990; and "Resource Allocation in Health Care: The Allocation of Lifestyles to Providers," *The Millbank Quarterly*, Vol. 65, No. 2, 1987, pp. 153–176.
2. Willard Gaylin, M.D., "Faulty Diagnosis: Why Clinton's Health-Care Plan Won't Cure What Ails Us," *Harper's Magazine*, October, 1993, pp. 57–64.
3. Gaylin, p. 59.
4. This is not a settled question. See, for example, Stuart H. Altman and Stanley S. Wallack, "Is Medical Technology the Culprit Behind Rising Health Care Costs? The Case for and Against," in *Medical Technology: The Culprit Behind Health Care Costs?* (Washington, D.C.: U.S. Department of Health, Education, and Welfare, Public Health Service, 1977), pp. 24–38. Note: while medical technology may be expensive, these advances almost always lead to more cost-effective total care and better quality of life. It is interesting that in no other industry is less technology considered progress.
5. Alf Siewers, "Don't Socialize U.S. Medicine, Sullivan Says," *Chicago Sun-Times*, June 24, 1991.
6. Leonard A. Sagan, *The Health of Nations: True Causes of Sickness and Well-Being* (New York: Basic Books, Inc. 1987).
7. Nicholas Eberstadt, "Why Are So Many Babies Dying?" *The American Enterprise*, September/October 1991, p. 38.
8. Alain C. Enthoven and Richard Kronick, "A Consumer-Choice Health Plan for the 1990s," *New England Journal of Medicine*, 320:29–31, January 5, 1989, p. 30.
9. In cross-section studies of differences in health-care spending among nations, George J. Schieber and Jean-Pierre Poullier found that each 10 percent difference in per-capita Gross Domestic Product is associated with a 14 percent difference in per-capita health-care spending. Schieber and Poullier, "Overview of International Comparisons of Health Care Expenditures," *Health Care Financing Review*, Annual Supplement 1989, p. 72.
10. Studies conducted by A. J. Culyer reveal that the significantly higher income level Americans enjoy accounts for 80 percent of the amount they spend on health care compared to other nations. See A. J. Culyer, "Cost Containment in Europe," *Health Care Financing Review*, Annual Supplement 1989, p. 23.
11. William J. Baumol, "Anatomy of an Illusion. Do Health Care Costs Matter?" *The New Republic*, November 22, 1993, pp. 16–18.
12. *Ibid.*, p. 16.
13. *Ibid.*, p. 18.
14. *Op. cit.*, p. 18.
15. Does the presence of subsidy really increase demand? According to a Brookings Institution study, as reported by David Kelley in *Reason*, January 1994, in 1964 before Medicaid went into effect, the non-poor saw physicians about 20 percent more frequently than the poor. By 1975, the poor were visiting physicians 18 percent more often than the non-poor. In 1963 among those with incomes under $2,000, there were only half

as many surgical procedures as among those with incomes of $7,500 or more; by 1970 the rate for low-income people was 40 percent higher than for those with middle-class incomes.

16. Wilfried Prewo, chief executive of the Chamber of Industry and Commerce in Hanover, Germany, "Germany is Not a Model," *Wall Street Journal*, February 1, 1994.

17. Gary Robbins, Aldona Robbins, and John Goodman, "How Our Health Care System Works," *National Center for Policy Analysis Policy Report No. 177*, February 1993.

18. Grace-Marie Arnett, president of Arnett & Co., a Washington, D.C., health-policy consulting firm, argues that "In virtually all developed countries, the concept of using health insurance as a protection against financial risk has been lost. Instead, health insurance has become a plan for pre-payment of routine medical expenses." See "You Bet Your Life," in *National Review*, May 24, 1993, pp. 30–34. In the same vein, Peter Samuel argues that "While America's medical technology and professional expertise are unmatched, our health-care financing arrangements are collapsing." See "Health Reform Politics," in *National Review*, May 24, 1993, pp. 34–37.

Letters to the Editor

Libertarians and Crime

In his article "The Real Enemy of Liberty" (December 1994), Robert James Bidinotto laments that crime "curiously . . . has gotten scant attention from most proponents of the free market system."

Bidinotto goes on to say that "Free marketeers typically posit government per se as the *enemy* of individual rights and liberty. . . . [And] in their eagerness to denounce *governmental* violations of rights, these same individuals ignore the very evils that governments were established to eradicate: *individual* violations of rights."

If all our taxes were used by government officials for the sole purpose of defending against and punishing internal crime, and defending from attack from enemies outside our country, it is probable that no free market and libertarian organizations would ever have come into existence.

But we are skewered to geometric tax levels to pay for the cost of thousands and thousands of functions that government *should not be involved with.* If the attention of government today were focused on and confined to combat crime, crime would once again become the entire focus of government action, with undivided attention.

Surely Mr. Bidinotto is not suggesting that libertarians opt for *another crime bill to spend billions to be raised by further increases in taxes!*

My greatest fear by far is of those who plunder and enslave me *legally.* I have no personal protection against government plunder, except to enter the overwhelming battle of numbers where it may take forty years to throw the rascals out via the ballot box. That is the fear libertarians are immersed in and talking about.

Hopefully, Mr. Bidinotto, will distinguish the difference and get off the backs of libertarians.

—JOHN C. SPARKS
Canton, Ohio

Robert James Bidinotto replies

I agree that government has diverted resources and attention away from its basic goal—that of fighting crime—into a vast array of activities that are morally onerous and constitutionally unwarranted.

In fact, that's exactly what I argue in my book, *Criminal Justice?* Welfare state programs "diverted badly needed funds from the criminal justice system. . . . [As a result,] police are underfunded and undermanned to face the ever-mounting crime wave; court dockets are flooded with impossible caseloads; jails and prisons are filled to overflowing." (Pages 66–67) If public spending were redirected toward establishing justice and public safety, we'd certainly need no increase in taxes.

However, I disagree that governmental violations of rights are somehow worse than private violations of rights. To most Americans, *who* victimizes them is far less important than the *fact* of their victimization. They thus find libertarian indifference to the current carnage on our streets bizarre and disproportionate, when contrasted with libertarian obsession with the hypothetical possibility of future dictatorship.

Libertarians must decide whether their defining purpose is a narrow "anti-statism," or if it's a broader defense of individual rights against *any* enemy, public or private. Should they continue to ignore or minimize the valid concerns of ordinary Americans about *private* violations of rights (crimes), their cause will rightly remain socially marginal and culturally impotent.

—ROBERT JAMES BIDINOTTO

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THE FREEMAN
IDEAS ON LIBERTY

Justice or Legal Extortion?

by Sarah J. McCarthy

Shame on the managers of the Las Vegas Hilton for not recognizing that the elite corps of Navy aviators known as the Tailhook Association needed a babysitter. For that failure, the American legal system has sent yet another in its endless series of messages to private industry. "You are the fall guy," says the message, "and we're here to shake you down."

The guys in the gauntlet may have flown away free as Phantoms, but the Las Vegas Hilton has been found guilty of "inadequate security." In civil court where the standards of responsibility are much looser than in criminal court, Lieutenant Paula Coughlin is expected to be the first of many winners. She has received an undisclosed settlement from the Tailhook Association and was awarded $1.7 million in actual damages and $5 million in punitive damages from the Las Vegas Hilton, money that will ultimately be paid by the stockholders, employees, and customers of the Hilton.

Whether it be the $2.9 million initially awarded to the woman who spilled a cup of McDonald's coffee on herself as she drove along in her grandson's sports car balancing the coffee on her legs, or the judge who later reduced McDonald's fine to a mere $640,000, it's clear that the U.S. civil justice system has become little more than a spectacular sweepstakes game with an anti-business bias.

A longtime Pittsburgh bridge-painting company, E. Smalis, recently received the highest penalty ever levied against a single construction company, a $5 million fine for allegedly exposing their workers to lead. Another Pittsburgh bridge-painting company, Manganas Company, has been fined $1.3 million by OSHA. "I tried to work with OSHA," explained Mr. Manganas. "I try to comply with their laws, but they won't tell me what to do. They just want to fine me. I've been painting bridges around Pittsburgh since 1946, and I've never had a death on a job. Now I'm afraid they're going to put me out of business. I can't bid on any new jobs while waiting for my court case."

Mr. Manganas believes that OSHA agents dressed in camouflage were hiding in the woods above his jobs to investigate him. Far-fetched? Maybe, but in a climate where business has been increasingly treated as Public Enemy Number One by government agencies, maybe not. "I tell our companies, 'watch out for OSHA,'" says Peter Eide of the U.S. Chamber of Commerce. "They have the power to make life miserable, and they are."

In the restaurant business, we get nervous when Health Department inspectors pay us one of their surprise visits during a busy lunch. Their flashlights scope under every nook and cranny and their thermometers poke into our soup. Our hot foods must be always kept at least at 140 degrees. They write us up if any food is sitting out on the counter, if anything is uncovered, or if anything is in the wrong shelf position, such as raw chicken which must always be on the bottom. Every prepared food item must have the date it was prepared on the con-

Ms. McCarthy, a Pittsburgh restaurateur, is published in Barron's, Forbes, *and* The Quotable Woman.

tainer. Any cracked tiles or faulty refrigerators will need to be replaced. They make sure our spaghetti sauce is given an ice bath for a faster cool down before being refrigerated.

If a restaurant is functioning at 90 percent, they revisit, monitor, and instruct until a higher level of compliance is reached, holding classes for young chefs and refresher courses to update the knowledge of owners and experienced chefs. There are thousands of rules governing food preparation, and the Health Department's focus is on education and training. Draconian fines and shutdowns are used only as a last resort for uncooperative restaurants. All of us recognize that businesses must conduct themselves scrupulously, but some regulatory agencies are demanding impossible standards and recklessly trying to break businesses. Department of Labor Secretary Robert Reich personally went and closed down the Dayton Tire Company after an accident there. His actions overruled by a judge, Reich was seen by many of the workers there as threatening their jobs through his grandstanding and overreaction.

Government vs. Business

Stereotypes and biases unacceptable towards any other groups are tolerated and encouraged when directed at businesses. The chairman of the EEOC observed at his inaugural press conference last year that businessmen are frightened when they get a call from the IRS or EPA. "By the end of my term," he said, "I hope people worry when they get a call from the EEOC." The same government that endlessly wrings its hands about job creation does its utmost to destroy jobs, especially in the small business sector. "What you have is a government out of control," states Susan Eckerly of the Heritage Foundation.

Businesses are being hit with large fines not only for mistakes they have actually made, but for things others have done on their premises, or for the misuse of their products by others. Wendy's International has decided that it's too risky to serve hot chocolate in America. Will restaurants that serve slushes be liable for frostbite? What if someone pokes his eye out with a plastic straw?

It's time to recognize that our legal system is simply not performing the duties with which it is charged. It is neither protecting Americans from violent crime, nor resolving civil disputes in a fair and unbiased manner. A rapist or murderer is presumed innocent in court, while a small-business owner is not. Courts bend over backwards to assure that correct arrest procedures are used to protect the civil rights of murder suspects, but a businessman is met with a legal system biased in favor of redistributive economics.

If something unsavory like sexual harassment happens at a business, the owner will not be excused from outrageous fines even if she was totally unaware of the event. She will be judged by the "should have known" standard. If anything happens in a business, then the owners "should have known" about it according to the law, even if they have branch offices in different cities. A society that designates spilled coffee and workplace flirtations as financial catastrophes is a society whose citizens live in fear. America's businesses exist in a climate not unlike that experienced by citizens of totalitarian regimes who wait for the knock at the door.

On the criminal side, too, the glitches have become truly bizarre. In a recent *Harper's*, editor Lewis Lapham states, "Maybe we live in a society where a sufficient force of publicity and $5 million in legal fees buy the privilege of cutting off a woman's head."

The American people are beginning to suspect that these horrors are not glitches at all, but just business-as-usual in the legal system.

Pennsylvania's recent gubernatorial race hinged on the furor surrounding the early release of a murderer by the lieutenant governor when he served on the Pennsylvania Parole Board. The parolee has been since arrested in New York where he's charged with murdering one woman and raping another. The lieutenant governor was shocked and indignant that anyone might want to hold him accountable for the crimes resulting from his unfortunate decision, but one can be certain that if such mishaps had occurred in the private sector, the punitive damages incurred would have been stratospheric.

Unequal Standards of Justice

If there were an equal standard of justice for the private and public sectors, parole board officials who release murderers would be held financially responsible for inadequate public security. Crime victims' families would be able to take their houses. Their pensions and lifetime earnings would be confiscated to send a message to any other official who might be negligent or soft on crime. Lawyers, too, would be able to be sued for the damages resulting from the escalation of hostilities and hostile environment that often ensues after they interject themselves like bulls in china shops into workplace or marital disputes. Harsh penalties, indeed, but such is the quality of justice meted out every day to America's businesses, large and small. If lawmakers and lawyers were subject to the same standards and onerous penalties that they inflict on businesses, perhaps they would be less likely to impose such fines.

A legal system that is soft on crime and tough on business will produce fewer jobs and more crime. *The Wall Street Journal* targets a Philadelphia judge as one of the worst. Reports the *Journal*, "some 67 percent of all defendants released because of her prison cap simply fail to appear in court. And in the past 18 months alone, 9,732 arrestees out on the streets on pre-trial release because of her prison cap were arrested on second charges, including 79 murders, 90 rapes, 701 burglaries, 959 robberies, 1,113 assaults, 2,215 drug offenses, and 2,748 thefts."

Such mayhem is more dangerous to society than McDonald's coffee, but it's McDonald's who gets hit with jackpot damages because they "should have known" that their coffee was dangerous. The prosecuting attorney said McDonald's had "known about these injuries for 15 years." The streets of America have been a hostile environment for at least that long, but who in the criminal justice system can citizens sue for inadequate security?

If judges and parole board officials were held to the same unfair and unreasonable "should have known" standard that is used to judge companies, they would be expected to have known that 60 percent of violent offenders on early release are re-arrested within three years for a felony or serious misdemeanor. Does anyone believe that any restaurant operates with a 60 percent coffee scald ratio?

In most areas of public policy, our lawmakers have exempted themselves from the rules and penalties that they apply to the rest of us. Until the 1995 Congress changed the law, Congress exempted itself from the minimum wage law, overtime pay rules, age discrimination laws, The Occupational Safety and Health Act (OSHA), disability laws, The Family and Medical Leave Act, and all civil rights legislation, including the sexual harassment laws. Members of Congress have exempted themselves, too, from the punitive damage fines that are levied with such gusto on the private sector. Even under the new legislation that makes Senators and Representatives on Capitol Hill subject to the same laws that they apply to the rest of us, there's still no real equality between how the private and public sectors are treated. All the new costs for employee overtime or family leave will be shifted to the taxpayers. No Senator will pay a penny from his personal funds, unlike employers in the private sector. Further, under the new legislation that allegedly makes politicians as accountable as the private sector, if any Senator or Representative is found guilty of sexual harassment or discrimination, all fines are shifted to the taxpayers.

Would lawmakers think it fair that they be personally liable for the dangerous and hostile environment they have permitted to exist on the streets of America's cities? Mr. Manganas is proud that no deaths have occurred on his watch. If only our judges and parole board members could say the same. □

THE FREEMAN
IDEAS ON LIBERTY

Are We Burying Ourselves in Garbage?

by Richard Shedenhelm

One of the foremost difficulties facing American cities is where to put the refuse generated every day. It is widely thought that the United States is literally burying itself in garbage—producing mountains of waste and running out of places to put it.

The alleged crisis has prompted a renewed interest in incineration, source reduction, composting, and recycling. Recycling has been the most popular, and the most costly. Outside of saving natural resources, saving our landfills is the most frequently cited reason for recycling.

If the crisis mentality that shrouds the issue of landfills is found to be largely a matter of political misinformation and factual error, then we will have uncovered a major misdirection of local, state, and federal policy. An objective examination of refuse generation and management is in order.

Are Americans Producing Mountains of Trash?

A popular idea in public discourse today is that the United States produces an overwhelming amount of trash—so much that our landfills will not be able to handle the quantity. The most eloquent symbol of this viewpoint was the "garbage barge," which in the late 1980s left Long Island and could not find a port or country willing to accept its 3.168 tons of refuse.[1]

The actual data (such as they are) on the amount of municipal solid waste produced present us with more questions than answers. "Municipal solid waste" is defined as "solid waste generated at residences, commercial establishments (e.g., offices, retail shops, restaurants), and institutions (e.g., hospitals and schools)."[2] The first question concerns the matter that is being quantified. For instance, an EPA report published in 1990 states that during the years 1960 through 1988 American commercial and residential refuse amounted to 156 million tons, i.e., 3.47 pounds per person per day. This statistic for refuse did not include the 13 percent of discards that were recycled.[3] Many studies of solid waste generation rates are unclear about their definition of "waste," e.g., whether automobile bodies, ash from industrial boilers, industrial waste, construction, and demolition debris were included in their analysis.[4] (According to William Rathje, an archaeologist who has spent over two decades investigating actual landfill contents, construction and demolition debris represents about 12 percent by volume of a typical landfill.)[5]

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Part of the difficulty results from the methodology employed. One popular method of estimating the quantity of solid waste is the "materials-flow" approach. As indicated in *Facing America's Trash*, this technique estimates solid waste generation without any actual measurement at the points of generation (households, offices, stores) or disposal (landfills, incinerators, recycling facilities). Instead, this method makes assumptions about such things as the lifetimes of products, recycling rates, and the effects of imports and exports.[6] One difficulty of this approach, as Rathje and Murphy observe, is that certain counterfactual assumptions tend to be made about product durability. For instance, one study that used the materials-flow approach simply assumed that major household appliances have a useful life of 20 years, after which time they are thrown away. In fact, appliances such as washing machines and refrigerators last much longer in low-income households and as a source of parts no longer carried by dealers.[7]

A second question regarding the data of solid waste generation is one of temporal perspective. The earlier-cited figure of daily per capita solid waste generation (3.47 pounds per day) covered the period after 1960. Not taken into account is the greater waste per capita generated in previous ages. According to Rathje and Murphy, there were over three million horses living in cities at the turn of the century. Each one produced at least twenty pounds of manure daily. Hundreds of thousands of these horses died each year and had to be disposed of. In addition, over twelve hundred pounds per year of coal ash (for cooking and heating) from each American had to be gotten rid of.[8]

Historian Martin Melos found that between 1900 and 1920 Manhattan residents generated an annual average of 160 pounds of garbage, 1,230 pounds of ashes, and 97 pounds of rubbish.[9] The total comes to 1,487 pounds, per capita, 17 percent higher than the above-cited 1,267 pounds allegedly produced by each American annually between the years 1960 through 1988.

According to figures from the American Public Works Association and the Environmental Protection Agency, as late as 1939 cities like Newark, New Jersey, and Austin, Texas, reported annual per capita discards of garbage, ash, and rubbish 20 percent greater than the refuse of the average American in 1988.[10] True, affluence may cause more discards (since in one sense affluence *means* there are more things per capita to eventually discard). But along with a higher standard of living come phenomena such as "light-weighting," where the producers of a commodity (e.g., plastic cola bottles and aluminum cans) find a way to produce the same service with less material. As Judd Alexander observes, fast-food restaurants also help decrease waste: a typical McDonald's discards less than two ounces of garbage for each customer served.[11]

Affluence may also induce *less* waste of food. Rathje and Murphy found that due to packaging, U.S. households produce a third less garbage than households in Mexico City (even after correcting for family size). The main reason for this difference is that a greater percentage of food in Mexico City is bought "fresh" (i.e., unpackaged), resulting in a larger volume of spoilage and more refuse.[12]

The news about waste generation is not all bad. As Clark Wiseman points out, between 1960 and 1970 municipal solid waste grew at an annual rate of 3.2 percent. Between 1970 and 1986, the annual growth rate declined to 1.7 percent (with the amount entering landfills growing by only 1.0 percent). This rate is far less than the growth rate of the consumption of goods and services.[13]

A few cities have actually kept track of the solid waste disposed over certain periods of time. According to Harvey Alter of the U.S. Chamber of Commerce, Los Angeles had an unchanged per capita generation of solid waste disposal (by weight) between 1967 and 1976. He also concludes that for the nation as a whole, municipal solid waste generation was almost constant on a per capita basis.[14]

Are Landfills Not Being Built Fast Enough?

The data for landfill openings and closings are similarly ambiguous. To begin with, a modern landfill is not a "dump"—a distinction with more than semantic characteristics. A dump was basically an open pit, but the modern landfill has a system to collect and process leachate and manage the methane gas generated by organic decomposition. It has a clay and plastic lining, and is covered over daily with about six inches of dirt.[15]

The modern landfill is a complex system with a lifetime much shorter that its predecessors. The majority of sanitary landfills are designed for approximately ten years of operation.[16] Hence, in any five-year period, half of these close. We are not necessarily in any "landfill shortage" just because in 1989 we could say that "by 1995, . . . half of our nation's landfills will be closed."[17] Like the five-day stock of Cheerios on the store shelf, an *inventory* of landfills is all that is economically necessary, not ready-and-waiting landfills for the next one hundred years.

The question could arise, however, whether landfills are being built fast enough to replace the ones that close down. To begin to address this issue, we should note that the "landfill problem" exists only in certain parts of the United States, and not in the country as a whole. For instance, Wiseman estimated that at the current rate of solid waste generation, the nation's solid waste for the next 500 years could be buried in a single landfill 100 yards deep, 20 miles to a side.[18] In almost every state, there is no physical or environmental constraint on the building of sanitary landfills. In New York state, a study found 200 square miles of land capable of environmentally safe landfills.[19] Less than 10 percent of that area is needed to serve the entire state for the next century.[20] If there is an impediment to siting new landfills the cause cannot be physical but instead political. Specifically, the NIMBY (not-in-my-back-yard) problem has kept many jurisdictions from siting new landfills. In addition, some states with lower landfilling costs have tried to ban the importation of other states' refuse.[21]

Despite the "crises" in landfilling for certain areas of the United States (most notably the Northeast and Florida), there is reason for hope. In the long run, environmentally safe, private landfill space may open up to meet areas facing high tipping fees (the per-ton charges at landfills for garbage trucks to leave their load of refuse). For example, Alexander recounts how the tipping fees in the Northeast began to skyrocket in the late 1980s because of a rash of landfill closures by state officials. By the summer of 1992, the tipping fees began to plummet due to the competition of private landfill companies. These companies had responded to the sharp increase in tipping fees by buying the land and permits needed for new landfills.[22]

Conclusion

The crisis mentality has distorted judgment of waste disposal. The notion that modern America is especially wasteful is demonstrably wrong, both in terms of the last decades as well as the last 100 years. The idea that our landfills are literally "running out" is even less credible. If in the next century major portions of the United States really need to export their refuse to other states, a "gold mine" for refuse burial does exist: South Dakota. This state is geologically, economically, and politically almost ideal for massive municipal solid waste management: much of the western portion of the state consists of cretaceous shales, much of the land is unsuitable for anything except grazing, and the area is in general sparsely populated (hence unlikely to suffer a lot of NIMBY resistance).[23] Should such an alternative become necessary, the most efficient form of transportation would probably be by rail—which is already one of the cheapest forms of waste transport.[24]

So, in the matter of a few years, any "shortage" of landfills (as reflected in higher tipping fees) can bring about the opening of new landfill space. Landfill space is an economic resource, and if we consistently regard it as such we can view the present situation as analogous to the oil crisis of the 1970s.[25] □

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2. United States Congress, Office of Technology Assessment, *Facing America's Trash: What Next for Municipal Solid Waste* (Washington, D.C.: United States Government Printing Office, 1989), p. 4.
3. Judd H. Alexander, *In Defense of Garbage* (Westport, Conn.: Praeger, 1993), p. 13.
4. *Facing America's Trash*, p. 4, 74.
5. *Rubbish!*, p. 100.
6. *Facing America's Trash*, p. 75.
7. *Rubbish!*, pp. 49, 188–191.
8. *Rubbish!*, p. 50.
9. *In Defense of Garbage*, p. 5.
10. *In Defense of Garbage*, p. 7. One should also take into account the qualitative difference of the waste. The burning of soft coal in the 1930s made a much more objectionable form of waste.
11. *In Defense of Garbage*, p. 54.
12. *Rubbish!*, p. 217.
13. Clarke Wiseman, "Government and Recycling: Are We Promoting Waste?," *Cato Journal* (Fall 1992), *12*, p. 446.
14. Lynn Scarlett, *A Consumer's Guide to Environmental Myths and Realities* (Dallas: National Center for Policy Analysis, 1991), p. 8.
15. Kenneth Chilton, "Solid-Waste Policy Should Be Directed by Fundamental Principles. Not Ill-Founded Feelings," *Resources Conservation and Recycling* (January 1993), 8, p. 2. *Facing America's Trash*, p. 281.
16. "Government and Recycling," p. 446.
17. National Solid Wastes Management Association, *Special Report: Landfill Capacity in the Year 2000* (Washington, D.C.: National Solid Wastes Management Association, 1989), p. 1.
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19. *Environmental Myths and Realities*, p. 3.
20. *In Defense of Garbage*, p. 155.
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22. *In Defense of Garbage*, pp. 155–156.
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24. American Public Works Association, *Rail Transport of Solid Wastes* (Chicago: American Public Works Association, 1971).
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THE FREEMAN
IDEAS ON LIBERTY

Eco-Fascism

by Russell Madden

The violations of private property rights that have flowed from the environmental movement and its adherence to the erroneous theory of "intrinsic value" have already caused intense hardships for many people. Individuals have been prevented from developing their land as they best see fit because of claims by environmentalists that such usage would threaten an endangered species, a coastline, a wetland, or the general "character" of some landscape. The contention is that efforts to enjoy the benefits of these properties would destroy the value which that land or animal or plant supposedly possesses by its mere existence regardless of its relationship to specific human beings.

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Unfortunately, as the old saying goes, "You ain't seen nothin' yet."

Generally, owners are allowed to retain title to the property under question but are prohibited from altering it in any way which does not follow some (usually ambiguous and frequently self-contradictory) governmental law or regulation. While they suddenly find themselves denied any say in what to do with that land, these hapless owners are still permitted the privilege of paying taxes on the property in question. This type of titular ownership devoid of control fits the definition of that economic/political system known as fascism.

Given their successes in gaining governmental control over many disparate pieces of private property situated near so-called "ecologically sensitive" areas, the advocates of environmental fascism have gained confidence and grown bolder. They are now advocating a move that takes the environmental movement from a practice of petty theft to grand larceny on a breathtaking scale. The more radical practitioners of the theory of intrinsic value are no longer satisfied with the passage of laws that prevent the removal of a tree, the building of a fence or house, or the dumping of a few loads of dirt without permission. Their new Holy Grail is to create millions of acres of wilderness zones that will not merely regulate human usage, but will prevent anyone from venturing into such areas for even esthetic enjoyment. It is the intrinsic theory of value taken to its ultimate conclusion: the total elimination of human beings.

The Wildlands Project

The North American Wilderness Recovery (Wildlands) Project suggested by the Earth First! movement and its founder, Dave Foreman, proposes a violation of property rights which is so outrageous that many people might be tempted to dismiss it out of hand.[1] It would be easy to assume from its ludicrous provisions that the Wildlands Project would stand no realistic chance of passage; that defenders of private property could easily ignore it and devote their efforts to other concerns.

Yet fifty years ago, who would have supposed it credible that a snail, an owl, or a tree on one's own land would become excuses for the ecological fascism that has already spread its tentacles not only into American society, but throughout the entire world? The micro-management of land usage we have witnessed in the past thirty years now aspires to "macro-management" of the entire continent.

In these wilderness preserves, all evidence of humanity would be erased. All dwellings, the roads that link them together, the power lines that feed them, and any and all other man-made constructs would be removed and destroyed. Plants and animals—not people—would become the definers of value and usage. The needs, interests, or desires of human beings would be ruthlessly excised from any "ecological" decisions by the central planners of this ecological fascism. People would become subordinate to lower life forms in a crazy flip-flop of values and priorities. The needs of other species—not the protection of human rights—would become the new basis and rationale for politics if those who accept the credo of Earth First! have their way.

This movement becomes less a wild-eyed pie-in-the-sky and more of a scary potential reality when you realize that otherwise reputable scientists support the general premise if not the specific details of such widespread preservation attempts. John Robinson, a biologist with the Wildlife Conservation Society, believes preservation should be done on a "landscape level." Another biologist from Oregon, Reed Noss, suggests that conservation must be practiced on a scale large enough to include not only endangered animals or plants, but also supporting flora and fauna and entire ecosystems in which natural selection and adaptation can occur.

New Endangered Species: Man

The logical conclusion of such premises is the removal of human beings from the entire earth, the largest ecosystem that exists. Then and only then would "Gaia" be restored to health.

While the eco-fascists have not yet announced such a far-reaching target, according to Michael Soule, creator of the Wilderness Project, they are unconcerned with "the limitations of time and space." They are committed if necessary to a centuries-long endeavor to restore much of North America to its pristine condition before the advent of humans altered these landscapes. Noss would like to see "*at least half* of the land area of the coterminous states" (emphasis added) included in this "hands off" zone. Additionally, these zones would be bordered by buffers in which only limited human activity would be allowed. Eventually, land occupied by people would exist only as isolated pockets within the greater wilderness areas.

Spokesmen for such groups as the Society for Conservation Biology, The Wilderness Society, Defenders of Wildlife, and even members of the U.S. Fish and Wildlife Service offer support for the general idea of the Wilderness Project. Peter Brussard from the University of Nevada at Reno believes that the Project "certainly is justifiable scientifically." Luckily, not all biologists accept that position; Deborah Jensen, a biologist with The Nature Conservancy, does not believe that the goal of conserving biodiversity requires such an approach as the Wilderness Project.

Even if those touting the Wilderness Project do not believe it possible to create such a massive preserve in one fell swoop, they may yet achieve their final goal piecemeal. Efforts are currently underway to set aside 139,000 square miles in the Great Plains for a buffalo sanctuary; the Paseo Pantera project seeks to connect wilderness areas in Central America; British Columbia is linking a new 4,000-square-mile park with Alaska and the Yukon Territory to create a 33,000-square-mile preserve; Congress is considering setting aside 11,000 square miles in California; the Nevada Biodiversity Project seeks to set aside hundreds of square miles of mountains; and Noss recently received $150,000 from the Pew Charitable Funds to further planning for wildlands set-asides.

In response to this proposal, some people were rightfully outraged.[2] One woman from Nevada said that, "Proponents of the project are incredibly insensitive to the values, freedoms, and property rights of the many millions of people who live in and love" these lands. She characterized these ecologists as "an arrogant urban elite with a compulsion to live out *their* fantasy at *our* expense" (italics in original)—which is a remarkably accurate description of statists of any stripe.

Another man from Arizona stated that this idea "illustrates all the absurd flaws in the ecocentric mind—. . . that balanced ecosystems don't include humans, [and] that government coercion can override human nature." Absurd, yes . . . but no more so than might describe the mind-sets of Marx or Lenin. Unfortunately, the "absurd flaws" of their political system did not prevent them from imposing it across a significant fraction of the globe over a seventy year time span. The idea of the Wilderness Project is still relatively new and controversial, yet its supporters may become powerful beyond any rational expectations.

Some of those advocates believe it is important to "halt the spread of nature's most dangerous predator and competitor"; that lands should be cared for by people "who wish to restore themselves to a natural (i.e., tribal) state"; that "27 representatives" and "over 50 scientists also support the Northern Rockies Ecosystem Protection Act."

Even if the Wildlands Project itself is not implemented, its very radicalism makes other, more subtle eco-fascist strategies seem reasonable. This kind of strategy has been used repeatedly in the environmental movement: push an outlandish policy then propose something even crazier so the first proposal appears rational in comparison. Given the plethora of environmental laws strangling our country and shredding our property rights, this approach has been an effective one.

As has been pointed out by other writers, collectivists and statists who have been unable to achieve the degree of control they desire over our society through economic arguments have shifted their plan of attack to a "moral" appeal based on the false premises of "intrinsic value," "animal rights," and the supposed imminent destruction of the very environment upon which we depend for survival.

A new coat of paint, however, does nothing to alter the essence of who these eco-fascists are and what they believe. As a song from the Sixties said, the new boss is the same as the old boss. The struggle against collectivism is far from over: it has merely shifted to a new playing field. And as do most collectivists, the eco-fascists say they want to do this to us "for our own good." □

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2. *Science News*, "Letters," 11–20–93, pp. 323, 334.

THE FREEMAN
IDEAS ON LIBERTY

Herbert Spencer: Liberty and Unlimited Human Progress

by Jim Powell

Fabled steel entrepreneur Andrew Carnegie hungered to know the secret of human progress. During the early 1880s, he found out after he joined a Manhattan discussion group. There he heard about British philosopher Herbert Spencer, who had written volumes on the subject. Liberty, Spencer explained, is the key as free markets—without government intervention—provide powerful incentives for people to continuously improve life.

Apparently, Carnegie was overwhelmed to realize that his daily work served a much larger purpose, promoting a beneficent social order. He adopted as his motto: "All is well since all grows better."

The more Carnegie read by Spencer, the more he wanted to meet the philosopher. "Few men have wished to know another man more strongly than I to know Herbert Spencer," Carnegie recalled. Through a mutual acquaintance, the British classical liberal John Morley, he got a letter of introduction and arranged to travel with Spencer on a steamship from Liverpool to New York.

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Carnegie discovered that Spencer—whom he had imagined as a "great calm philosopher brooding, Buddha-like, over all things"—was a human being. Spencer, then in his sixties, was of moderate height and reasonably thin. Although his hairline had receded, his hair remained brown, and it was fluffed out at the sides. He complained about his difficulty sleeping. He suffered from nervous ailments. He was quick to criticize the work of others, sensitive to criticism himself but honest enough to acknowledge his errors. He seemed unhappy living alone, as he lamented: "One who devotes himself to grave literature must be content to remain celibate; unless, indeed, he obtains a wife having adequate means for both. . . . Even then, family cares and troubles are likely to prove fatal to his undertakings."

In June 1891, Carnegie surprised Spencer by delivering a token of his appreciation. Spencer wrote Carnegie: "I was alike astonished and perplexed on entering my room yesterday evening to see placed against the wall a magnificent grand piano. . . . I have all along sympathized in your view respecting the uses of wealth, but it never occurred to me that I should benefit by the carrying of your view into practice."

Carnegie was among the millions inspired by Spencer then and now. He revived the revolutionary battle cry for natural rights that had been trashed by British philosopher Jeremy Bentham and his followers, the Utilitarians. Spencer showed why the theory of evolution, which naturalist Charles Darwin documented, meant that human progress occurs spontaneously as long as people are free, and governments stay out of the way. He stood as the most passionate defender of liberty when socialism and militarism gathered momentum throughout Europe.

Spencer was a prolific writer who produced books and articles on biology, education, ethics, psychology, sociology, and government policy, among other subjects. He had a gifted pen—coining, for example, the phrase "survival of the fittest." From the 1860s till his death on December 8, 1903, authorized editions of Spencer's books reportedly sold 368,755 copies in the United States alone—a remarkable number for a serious author. Supreme Court Justice Oliver Wendell Holmes doubted that "any writer of English except Darwin has done so much to affect our whole way of thinking about the universe."

A Fiercely Independent Mind

Spencer was born in Derby, England, on April 27, 1820. His father George Spencer struggled for years to develop a career. He repeatedly tried manufacturing lace, then fashionable, but failed. He earned a little money teaching school. Friends suggested that he work at a tannery or become a clergyman. Spencer's mother, Harriet Holmes, didn't have it any easier: while she gave birth to five boys and four girls, only Herbert survived beyond age two.

He gained a fiercely independent mind from his Quaker parents. "Individuality was pronounced in all members of the family," he recalled, "and pronounced individuality is necessarily more or less at variance with authority. A self-dependent and self-asserting nature resists all such government as is not expressive of equitable restraint."

His formal education was limited—three years in one elementary school, then for an unknown (probably brief) time he attended his uncle William's school and was intermittently tutored by his uncle Thomas, a clergyman. By age 11, he seemed to be on his own, reportedly attending a science lecture. When his father was teaching physics and chemistry, the lad helped prepare experiments. He taught himself about plants and animals. He became good at sketching things. He learned much by listening when friends of his parents visited to talk about politics, religion, science, right and wrong. His father belonged to the Derby Philosophical Society which had a modest library of science books and periodicals, and he browsed through those.

He was 15 when his first article—about boats—was published in a little magazine. "I found *my article* looking very pretty," he noted at the time. "I began shouting and capering about the room. . . . And now that I have started I intend to go on writing things."

Meanwhile, Spencer needed steady pay. A railroad-building boom was underway, and in November 1837, he got a job producing engineering drawings for the London and Birmingham Railway. Ever resourceful, he also invented several railroad-related measuring devices and wrote seven articles for *Civil Engineer's and Architect's Journal.* After four years, he had saved some money and decided to take time off to pursue a writing career. He attended meetings of free trade, anti-slavery, and anti-state-church groups. He wrote a dozen articles about political philosophy for *The Nonconformist,* a radical journal. These were subsequently reprinted as a pamphlet, *On the Proper Sphere of Government.*

Spencer was still a long way from being able to earn a livelihood writing, so he returned to railroad work as a draftsman for three years. He continued to read all kinds of books and keep himself informed about public affairs. In November 1848, he was offered an editorial position at the *Economist,* the free trade journal, where he worked for five years. One of the editors was Thomas Hodgskin, a philosophical anarchist who might have influenced him.

Social Statics

Spencer used spare time to write his first book, *Social Statics,* and it was published in 1851. He presented an inspiring moral and practical case for individual rights which he called "equal freedom." Everyone should be free to do what he wishes, Spencer insisted, as long as he doesn't infringe on somebody else's equal freedom. Accordingly, he advocated abolishing all trade restrictions, taxpayer church subsidies, overseas colonies, medical licensing, legal tender laws, central banks, government schooling, government welfare, government postal monopolies, and so-called "public works."

Spencer showed how self-interest leads

people not only to achieve prosperity—as Adam Smith had explained—but to improve life in countless ways. For example, Spencer had this to say about sanitation: "Although everyone knows that the rate of mortality has been gradually decreasing and that the value of life is higher in England than elsewhere—although everyone knows that the cleanliness of our towns is greater now than ever before and that our spontaneously grown sanitary arrangements are far better than those existing on the Continent, where the stinks of Cologne, the uncovered drains of Paris, the water tubs of Berlin, and the miserable footways of the German towns show what state management effects—although everyone knows these things, yet it is perversely assumed that by state management only can the remaining impediments to public health be removed."

The most famous chapter was 19—"The Right to Ignore the State." Even during the heyday of classical liberalism, it was bold for Spencer to declare that "If every man has freedom to do all that he wills, provided he infringes not the equal freedom of any other man, then he is free to drop connection with the state—to relinquish protection and to refuse paying toward its support. It is self-evident that in so behaving he in no way trenches upon the liberty of others, for his position is a passive one, and while passive he cannot become an aggressor."

Social Statics established Spencer as a rising star, and by July 1853, he had resigned from the *Economist,* determined to make it as an independent author. He sold articles to the *Westminster Review, Edinburgh Review, Fortnightly Review, British Quarterly,* and other influential publications. He applied his ideas to science as well as ethics and government policy.

Financially, Spencer was hard-pressed and for a while pursued a cushy government job which would allow him time to write, but fortunately he never became a bureaucrat. A proud man, he declined John Stuart Mill's generous offer to cover his expenses. He resolved to earn his living in the marketplace. By 1860, Spencer conceived the idea of integrating ethics, biology, psychology, and sociology into a multi-volume work on philosophy—and making the venture pay by soliciting subscribers who would pay a half-crown for each installment, several times a year. He asked his famous friends to offer testimonials, and some 450 people became subscribers. Among his early subscribers were respected American intellectuals like newspaperman Horace Greeley, historian George Bancroft, clergyman Henry Ward Beecher, botanist Asa Gray, political scientist Francis Lieber, and abolitionist Charles Sumner. Spencer began working on *First Principles,* a book about the development of life.

Alas, Spencer experienced subscriber attrition like everyone else in the publishing business. When he no longer got enough income from the project, he announced he would discontinue it. But in 1865, Dr. Edward Youmans, a lecturer and founder of *Popular Science* magazine who had become a big fan of Spencer's, helped raise about $7,000 from American friends. This was enough for Spencer to continue.

Again and again, Spencer emphasized how extraordinary human progress develops naturally when people are free. Consider this passage from *Principles of Sociology*:

> The turning of the land into a food-producing surface cleared, fenced, drained, and covered with farming appliances, has been achieved by men working for individual profit not by legislative direction . . . villages, towns, cities, have insensibly grown up under the desires of men to satisfy their wants . . . by spontaneous cooperation of citizens have been formed canals, railways, telegraphs, and other means of communication and distribution. . . . Knowledge developing into science, which has become so vast in mass that no one can grasp a tithe of it and which now guides productive activities at large, has resulted from the workings of individuals prompted not by the ruling agency but by their own inclinations. . . . And supplementing these come the innu-

> merable companies, associations, unions societies, clubs, subserving enterprise, philanthropy, culture, art, amusement; as well as the multitudinous institutions annually receiving millions by endowments and subscriptions; all of them arising from the unforced cooperations of citizens. And yet so hypnotized are nearly all by fixedly contemplating the doings of ministers and parliaments, that they have no eyes for this marvelous organization which has been growing for thousands of years without governmental help—nay, indeed, in spite of governmental hindrances.

Spencer anticipated the work of Nobel Laureate F.A. Hayek who reminded the world why spontaneous market action, not central planning, is responsible for humanity's most stunning achievements.

Spencer had his greatest impact in America where people were eagerly building a new civilization. By 1864, *Atlantic Monthly* reported: "Mr. Herbert Spencer is already a power in the world . . . represents the scientific spirit of the age." His principles, the magazine concluded, "will become the recognized basis of an improved society." Yale sociologist William Graham Sumner emerged as the greatest American champion of Spencer's ideas.

Despite Spencer's heroics, public opinion increasingly favored government intervention during the late nineteenth century. Perhaps this was because government had been cut back so much that it no longer seemed like a public menace. More people imagined government could do good. Spencer responded by writing four powerful articles which affirmed the bedrock principles of laissez faire and attacked government intervention, published in the *Contemporary Review,* 1884. They unleashed what he called "a hornet's nest about my ears in the shape of criticisms from the liberal journals." In July 1884, the articles were gathered together for a book, *The Man Versus The State.*

It was a magnificent performance as Spencer hammered his adversaries—socialists especially—with dramatic facts to show why laws almost always backfire. He told how government-enforced interest-rate ceilings, supposedly enacted to help people, made it more difficult to borrow money. He recalled how price controls triggered the disappearance of food from markets, and many people starved. He documented how well-meaning London officials demolished homes for 21,000 people, built new homes for only 12,000 and left 9,000 homeless—anticipating identical attacks which would be leveled against U.S. government "urban renewal" programs during the late twentieth century. American journalist Henry Hazlitt called this "one of the most powerful and influential arguments for limited government, laissez faire, and individualism ever written."

Spencer was apparently depressed by accusations that he was superficial and heartless, and in 1892 he approved a revised edition of *Social Statics* without the original chapter 19, "The Right to Ignore the State." This compromise hardly satisfied critics. Justice Oliver Wendell Holmes, defending New York's regulation (of working hours) in 1905, two years after the philosopher's death, thought it necessary to denounce him by name: "The Fourteenth Amendment does not enact Mr. Herbert Spencer's *Social Statics.*"

Yet the twentieth century, bloodiest in history, has shown Spencer to be a phenomenal prophet. More loudly and clearly than anyone during his lifetime, he warned that socialism must lead to slavery. He condemned militarism long before a European arms race exploded into the First World War. He anticipated the evils of welfare state policies that undermine incentives for poor people to achieve independence. He predicted the colossal failure of government schools. He affirmed that private individuals are responsible for human progress. He would be thrilled by the world-wide resurgence of market economies today, vindicating his conviction that wherever governments interfere least, you will see decency and improvement in the lives of ordinary people. □

THE FREEMAN
IDEAS ON LIBERTY

The U.S. Banking Debacle of the 1980s: A Lesson in Government Mismanagement

by George G. Kaufman

I. Introduction

In the 1980s, the United States experienced its most serious banking crisis since the 1930s and the second most serious crisis in its 200-plus year history. The crisis affected commercial banks, savings banks, and savings and loan associations (S&Ls). Between 1980 and 1991, when fundamental corrective laws were enacted, some 1,500 commercial and savings banks (insured by the Federal Deposit Insurance Corporation) and 1,200 savings and loan associations (insured by the former Federal Savings and Loan Insurance Corporation) failed and were resolved by the regulatory agencies. These resolutions represented about 10 percent of all banks at the beginning of the period and 25 percent of all S&Ls. In addition, an even larger number of institutions were in precarious financial condition at some time during this period. The costs of the failures were high, not only to the shareholders of the failed institutions, but also to the surviving institutions, which were required to pay premiums to the deposit insurance agencies, and to U.S. taxpayers, who were forced to make good on the losses after the resources of the S&L insurance fund had been exhausted. For banks, the loss to the FDIC and thus to other solvent banks was about $40 billion. For S&Ls, the loss was near $200 billion, some $150 billion of which was beyond the resources of the FSLIC and was therefore charged to U.S. taxpayers.

The losses accrued primarily to the federal insurance agencies and taxpayers rather than to depositors and other creditors because the insurance effectively guaranteed the par value of deposits up to $100,000 per account *de jure* and, except at some small banks, almost any amount of deposits and even borrowings *de facto*, regardless of the value of the bank's assets. The FDIC and the former FSLIC were funded by premiums imposed on banks and S&Ls, respectively, and both had implicit access to the U.S. Treasury that legislators were unwilling either to challenge or to make explicit until near the end of the debacle.

The crisis ended in the early 1990s, when

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interest rates declined, the yield curve turned steeply upward sloping, a series of rolling geographic recessions in various regions of the country came to an end, the aggregate economy slowly expanded, the real estate market bottomed out, and newly adopted legislation increased the cost of poor performance and failure to both the institutions and the regulators. By 1994, both the banking and thrift industries were in their best financial condition since the early 1960s and were realizing record profits. The number of failed and problem institutions declined sharply.

II. Background

Banking has always been a volatile industry in the United States, but until the 1930s not an unusual one.[1] The annual failure rate for commercial banks from 1870 to 1913, before the establishment of the Federal Reserve System, averaged 0.78 percent compared to 1.01 percent for nonbanks. The annual volatility of the failure rate was greater for banks, however. The relatively low failure rate existed despite a banking structure that favored failures by restricting banks to one or at best only a few offices, thus preventing them from reducing risk through geographical and product diversification. As a result, the country had thousands of independent banks; the number peaked at 30,000 in the early 1920s. The bank failures increased sharply in the 1920s to near 600 per year, but most of the failures were very small banks. Some 90 percent of the banks had loans and investments of less than $1 million, which adjusted for inflation would be equivalent to only about $10 million currently, and would rank them among the very smallest banks. Their failure had no visible effect on national economic activity. They were primarily located in small agricultural towns in the midwest. When a recession hit these towns from the rapid fall in farm prices after the post-World War I runup, the local automobile dealer failed, the local drugstore failed, and the local bank failed.

But things changed dramatically in the 1930s at the onset of the Great Depression. Between 1929 and 1933, the number of banks declined from 26,000 to 14,000, mostly by failure. Indeed, the very first act of newly elected President Franklin D. Roosevelt was to declare a "bank holiday" and close all banks in the country for at least one week in order to prevent depositors from cashing any more of their deposits into currency. The banks were permitted to reopen if the government found them solvent. Thereafter, banking became a relatively stable industry through the late 1970s. The number of bank failures averaged only near 10 per year and the number of S&L failures was not significantly greater. Then the picture changed again.

Before analyzing the 1980s, it should be noted that both the 1930s and 1980s debacles occurred after the creation of government institutions intended to correct failings in the system that were believed to have been at the root of the problem, and in order to reduce the likelihood of large numbers of simultaneous failures in the future. The Federal Reserve was established in 1913 in the aftermath of sharp jumps in the number of bank failures in 1894 and 1907 in order to increase flexibility in the system. The Fed was to facilitate the flow of bank reserves from capital surplus to capital deficient areas, to provide micro-liquidity through the discount window to individual solvent banks experiencing temporary liquidity problems, and to provide macro-liquidity to the banking system by offsetting outflows of currency and gold. For whatever reasons, not 20 years after it was established, the Fed failed to achieve these objectives sufficiently to prevent the banking crisis of the 1930s, which was far larger, longer, and costlier than any banking crisis before the establishment of the Fed. Indeed, the Fed appears to have introduced greater rigidities at the time of the Great Depression, e.g., prohibiting the issuance of clearing house certificates and making temporary bank suspensions more difficult, than existed before its establishment.[2]

In large part as a result of the Fed's failure to prevent a recurrence of large-scale bank failures, the FDIC was established in 1934. While the Fed's decisions to provide liquidity to the banking system in order to offset depositor runs into currency were discretionary, the FDIC operated by rules that effectively eliminated the need for bank runs by unconditionally guaranteeing the par value of insured deposits regardless of the bank's financial condition. This objective was quickly realized and, combined with a more cautious set of bankers and more restrictive regulations imposed by the Banking Act of 1933, the number of bank failures dropped equally quickly and remained low for the next 50 years. However, as was true of the Federal Reserve's structure, flaws eventually appeared in the FDIC that in time led to increases in bank failures that matched the conditions in the 1930s before the introduction of deposit insurance.

III. The S&L Debacle[3]

Savings and loan institutions are traditional residential mortgage lenders. Before the introduction of deposit insurance in 1934, S&Ls made primarily intermediate three-to-five-year renewable mortgage loans. These loans were effectively variable rate mortgages with sizeable down payments. They were financed by time deposits (legally labeled share capital), which were not necessarily redeemable on demand. As a result, neither the S&Ls' interest rate nor liquidity exposures were very great.

But things changed dramatically after 1934. Public policy encouraged S&Ls to make progressively longer-term (first 20, then 25, and finally 30-year) fixed-rate mortgages with progressively smaller down payments. At the same time, the new deposit insurance program effectively increased the liquidity and shortened the maturity of their deposits. These changes increased the institutions' exposure to interest rate and liquidity risk. Indeed, the large degree of maturity (duration) mismatch by the mid-1970s made the industry a disaster waiting to happen.

When interest rates increased sharply in the late 1970s as a result of inflation, the disaster occurred. Between 1976 and 1980, interest rates on three-month Treasury bills jumped from 4 percent to 16 percent and those on long-term Treasury securities from 6 percent to 13 percent. By 1982, an estimated 85 percent of all S&Ls were losing money and two-thirds were economically or market value insolvent so that, *ceteris paribus*, they would be unable to pay their depositors in full and on time. The negative economic net worth of the industry and the corresponding loss to the FSLIC was generally estimated to be about \$100 billion,[4] although some estimates placed it as high as \$150 billion. This figure represents the difference between the par value of deposit accounts (the large majority of which were less than the maximum insured \$100,000 per account) at insolvent institutions and the market value of the S&Ls' assets. But the FSLIC resolved only a very small number of the insolvencies for a number of reasons, including:[5]

- It was overwhelmed by the large number of insolvencies, and its staff was far too small and unprepared to deal with the crisis,
- It had insufficient reserves to cover the deficits at insolvent institutions and pay off depositors at par, whether the institutions were sold, merged or liquidated,
- Formal recognition of the large losses would be a black mark on the agency's record,
- Formal recognition of the large losses and number of insolvencies might spread fear among the public and ignite a run on all institutions that would spill over to commercial banks and even beyond to the macro-economy. Further,
- Many of the losses were "only" unrecognized paper losses; and, because interest rates are cyclical and there was a high probability that they would decline again in the not very distant future, it was hoped that waiting would restore the associations to economic solvency.

Therefore, regulators publicly denied the magnitude of the problem, argued that the problem was a liquidity rather than a solvency problem, introduced creative accounting measures to make the industry's net worth appear higher even than the already overstated book value levels (i.e., they covered up the evidence), delayed imposing sanctions on insolvent and near-insolvent institutions, and encouraged institutions to reduce their interest rate exposure by using newly permitted variable-rate mortgages and shorter-term loans to reduce their maturity mismatch. And the regulators and the industry lucked out. Interest rates declined sharply from 1982 through 1986. This reversal in rates caused the industry's net worth to rise and by 1985 its estimated negative net worth was only about $25 billion and was expected to improve further, *ceteris paribus*.

But *ceteris* did not remain *paribus* for many institutions. A substantial number incurred increases in credit risk that offset the decline in interest rate risk and either prevented their net worth from increasing greatly or actually caused it to decline further. The assumption of credit risk was either unintentional, arising from severe local and regional economic recessions, or intentional, arising from calculated gambles to regain solvency.

The first and most severe regional recessions started in the mid-1980s in Texas and the neighboring energy-producing states in the Southwest following the collapse of world oil prices. This area had experienced a strong economic surge based on sharply rising oil prices and expectations of continued price increases. Employment, income, and real estate values all increased sharply and stimulated both a rapid immigration of people in search of employment and a building boom, particularly in commercial real estate. Much of this boom was financed by local S&Ls. When oil prices not only failed to increase further after 1981, but declined sharply from $30 a barrel in 1985 to near $10 in 1986, the bubble burst.[6] As incomes and real estate values dropped, borrowers defaulted on loans, and collateral values fell too fast for many lending S&Ls to protect the value of all their loans. As a result, many S&Ls became insolvent.

At the same time, a number of institutions, particularly those that had only recently converted from mutual ownership (which was the prevailing form of ownership) to stock ownership in order to raise additional capital more easily, became tempted to "gamble for resurrection." Because these institutions had little if any market value capital of their own to lose, this was a logical strategy. If the high-risk bets paid off, the institution won and possibly regained solvency. If the institution lost, the FSLIC bore the loss. That is, heads the institution won, tails the FSLIC lost! Some S&Ls placed progressively larger bets on the table by offering above market interest rates on deposits so that their deposit size grew rapidly. Such gambling was often accompanied by fraud, either *ex-ante* deliberate or *ex-ante* inadvertent through excessive carelessness in extending and monitoring loans. Particularly at the more rapidly growing associations, loan documentation was frequently incomplete or even nonexistent, record keeping casual at best, and loan collection was sporadic and done with little enthusiasm. Some of the new owners were land developers, who are gamblers almost by nature. They used greatly overinflated values of their personal properties as the base for their institution's capital, and the resources of the institution as their personal "piggy banks" to finance their ventures. Losses were often not recognized on the institutions' books on a complete or timely basis, so that the institutions gave false appearances of solvency.

The National Commission appointed in 1992 to identify and examine the origins and causes of the S&L debacle concluded that: "It is difficult to overstate the importance of accounting abuses in aggravating and obscuring the developing debacle. It would have been difficult for the process to continue for so long in the absence of an information structure that obscured the extent of the mounting losses."[7] The FSLIC economic deficit (computed as the difference between the par value of insured deposits at economically insolvent S&Ls and the market value of their assets), which had declined from some $100 billion in 1982 to near $25 billion in 1985, climbed back up to above $100 billion in 1989, almost entirely due to losses from credit risk exposure.

Commercial banks were not as badly hit by the interest rate increase in the late 1970s because the maturities on the two sides of their balance sheets were not as mismatched. But, like the S&Ls, they experienced large credit losses in the mid and late 1980s that resulted in the largest number of bank failures since the 1930s and the second largest number in U.S. history. These losses threatened to bankrupt the FDIC.

IV. Structured Early Intervention and Resolution and Deposit Insurance Reform

The S&L and bank problems were in large part caused by deposit insurance. The structure of deposit insurance adopted in 1933 had both good and bad aspects. The good aspect effectively prevented a systemwide run from deposits into currency by guaranteeing the par value of most deposits. Thus, it prevented the type of reserve drain experienced in the United States in the early 1930s.

The bad aspects were, first, that this guarantee reduced, if it did not eliminate, the incentive for many depositors to monitor the financial performances of their banks and thus encouraged both a moral hazard problem for banks and a principal-agent problem for regulators. Bank managers/owners, knowing that few if any depositors were looking over their shoulders and that their insurance premiums were not scaled to their risk exposure, deliberately or inadvertently assumed greater risks either by increasing the credit and interest rate risk exposures in their portfolios and/or by decreasing their capital-asset ratios more than they would have in the absence of insurance. Bank regulators, knowing that most depositors had little if any incentive to flee financially troubled banks, were then able to delay imposing sanctions on troubled institutions and even resolving insolvent institutions, thereby keeping them in operation. To the extent that these institutions increased their losses, the regulators' principals—healthy, premium-paying institutions and taxpayers—were not well served.[8]

In an attempt to solve the problem, Congress at year-end 1991 enacted the FDIC Improvement Act (FDICIA), which focusses on structured early intervention and resolution (SEIR). SEIR reforms deposit insurance by attempting to impose on insured depository institutions the same conditions that the private market imposes on firms not covered by federal insurance whose financial condition is deteriorating, including conditions that the banks themselves impose on their borrowers. Moreover, it attempts to resolve troubled institutions before their own capital turns negative. Thus, losses would accrue only to shareholders, not to depositors, and deposit insurance would effectively be redundant.

SEIR's objective is also to reduce the discretion of regulators by imposing more specific rules, thus reducing the power of regulators. As such, it resembles the partial replacement of Federal Reserve discretion by FDIC insurance rules following the Fed's failure to prevent the banking crisis and economic depression of the early 1930s.[9] To protect their power, the regulators successfully fought to weaken many of the provisions reducing their discretionary authority during the legislative processing leading to the enactment of FDICIA and continued to weaken the potential effectiveness of the Act further by drafting weak regulations to implement it.[10]

V. The Lesson

An analysis of the experience of the U.S. banking debacle of the 1980s suggests that to minimize the moral hazard problem federally insured depository institutions should be subjected to the same conditions imposed by the private market on noninsured firms and that to minimize the regulators' principal-agent problem the insurer and other bank regulatory agencies should be required to operate in a transparent manner, be prohibited from providing forbearance, and be held fully accountable for their actions and inactions.

The major source of both the instability in the U.S. banking system in the 1980s that resulted in the exceptionally large number of bank and S&L failures and the associated large losses was not the private sector but the public or government sector. The government first created many of the underlying causes of the problem by forcing S&Ls to assume excessive interest rate risk exposure and preventing both S&Ls and banks from minimizing their credit risk exposure through optimal product and geographic diversification and then delayed in applying solutions to the problem by granting forbearance to economically insolvent or near-insolvent institutions. That is, the banking debacle was primarily an example of government failure rather than market failure. □

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1. A brief history and additional references appear in George J. Benston, Robert A. Eisenbeis, Paul M. Horvitz, Edward J. Kane and George G. Kaufman, *Perspectives of Safe and Sound Banking*, Cambridge, Mass.: MIT Press, 1986, Chapter 2.
2. Milton Friedman and Anna J. Schwartz, *A Monetary History of the United States 1867-1960*, Princeton, N.J.: Princeton University Press, 1963, Chapter 7.
3. Although savings banks have more in common with S&Ls than commercial banks, because they were insured by the FDIC rather than the FSLIC, data on them is included with that for commercial banks.
4. See Bert Ely, "Savings and Loan Crisis" in David R. Henderson, ed., *Fortune Encyclopedia of Economics*, New York: Warner Books, 1993, p. 72.
5. Edward J. Kane, *The Gathering Crises in Federal Deposit Insurance*, Cambridge, Mass.: MIT Press, 1985; *The S&L Insurance Mess: How Did It Happen?* Washington, D.C.: Urban Institute Press, 1989, James R. Barth, *The Great Savings and Loan Debacle*, Washington, D.C.: American Enterprise Institute, 1991; George G. Kaufman, "The Savings and Loan Rescue of 1989: Causes and Perspective" in George G. Kaufman, ed., *Restructuring the American Financial System*, Boston: Kluwer Academic, 1990; George J. Benston and George G. Kaufman, "Understanding the Savings and Loan Debacle," *The Public Interest*, Spring, 1990, pp. 79–95; National Commission on Financial Institution Reform, *Recovery and Enforcement, Origins and Causes of the S&L Debacle: A Blueprint for Reform—Report to the President and Congress of the United States*, Washington, D.C., July 1993; Martin Lowy, *High Rollers: Inside the Savings and Loan Debacle*, New York, Praeger, 1991; and Martin Mayer, *The Greatest Ever Bank Robbery: The Collapse of the Savings and Loan Industry*, New York: Charles Scribner, 1990.
6. Paul M. Horvitz, "The Collapse of the Texas Thrift Industry" in George G. Kaufman, ed., *Restructuring the American Financial System*, Kluwer, 1990, pp. 95–116.
7. National Commission, p. 9.
8. Edward J. Kane, "Changing Incentives Facing Financial-Services Regulators," *Journal of Financial Services Research*, September 1989, pp. 265–274 and Edward J. Kane, "How Market Forces Influence the Structure of Financial Regulation" in William S. Haraf and Rose Marie Kushmeider, eds., *Restructuring Banking and Financial Services in America*, Washington, D.C.: American Enterprise Institute, 1988, pp. 343–382.
9. The battle between rules and discretion in banking regulation resembles the more publicized and longer-run battle between rules and discretion in the conduct of monetary policy carried on in the U. S. at least since the 1930s.
10. George J. Benston and George G. Kaufman, "Improving the FDIC Improvement Act: What Was Done and What Still Needs to be Done to Fix the Deposit Insurance Problem" in George G. Kaufman, ed., *Reforming Financial Institutions and Markets in the United States*, Boston: Kluwer Academic, 1994, pp. 99–120; and Kenneth E. Scott and Barry R. Weingast, "Banking Reform: Economic Propellants, Political Impediments" in George G. Kaufman, ed., *Reforming Financial Institutions and Markets in the United States*, 1994, pp. 19–36.

Friedman vs. The Austrians, Part II: Was There an Inflationary Boom in the 1920s?

"I have no reason to suppose there was any over-investment boom . . . during the 1920s." —Milton Friedman

In my continuing exchange of letters with Professor Milton Friedman, the free-market economist challenged followers of the Austrian school to provide evidence of an overinvestment boom in the 1920s. He reiterated what he and Anna Schwartz concluded in *A Monetary History of the United States:* the 1920s was the "high tide" of Federal Reserve policy, inflation was virtually non-existent, and economic growth was reasonably rapid. Monetarists even deny that the stock market was overvalued in 1929! In short, "everything going on in the 1920s was fine."[1] The problem, according to Friedman, was not the 1920s, but the 1930s, when the Federal Reserve permitted the "Great Contraction" of the money supply and drove the economy into the worst depression in U.S. history.

In contrast to Friedman and the Monetarists, the Austrians argue that the Federal Reserve artificially cheapened credit during most of the 1920s and orchestrated an unsustainable inflationary boom. The stock market crash of 1929 and subsequent economic cataclysm were therefore inevitable.

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An interesting historical sidelight is the fact that Irving Fisher, the principal Monetarist of the 1920s, completely failed to anticipate the crash, while Austrian economists Ludwig von Mises and Friedrich Hayek predicted the economic crisis, although they did not pinpoint an exact date. Ever since then, Monetarists have argued that the 1929–33 debacle was unforecastable and have made every effort to show that there were few if any signs of trouble during the 1920s. The Austrians, in contrast, have attempted to confirm Mises-Hayek's view that the government created an inflationary boom that could not last, especially under an international gold standard.[2]

Was there an overinvestment boom in the 1920s? The answer depends on which statistics you examine. The "macro" data favors the Monetarists' thesis, while the "micro" data supports the Austrians' view.

In support of the Monetarists, the broad-based price indices show little if any inflation. Average wholesale and consumer prices hardly budged between 1921 and 1929. Most commodity prices actually fell. Friedman and Schwartz conclude, "Far from being an inflationary decade, the twenties were the reverse."[3]

However, other data support the Austrian view that the decade was aptly named the Roaring Twenties. The 1920s may not have been characterized by a "price" inflation, but there was, in the words of John Maynard Keynes, a "profit" inflation. After the 1920–21 depression, national output (GNP) grew rapidly at a 5.2 percent pace, substantially exceeding the national norm (3.0 percent). The Index of Manufacturing Production grew much more rapidly and virtually doubled between 1921 and 1929. So did capital investment and corporate profits.

Like the 1980s, there was also an "asset" inflation in the U.S. A nationwide real estate boom occurred in the mid-1920s, including a speculative bubble in Florida that collapsed in 1927. Manhattan, the world's financial center, also experienced a boom.

The asset bubble was most pronounced on Wall Street, both in stocks and bonds. The Dow Jones Industrial Average began its monstrous bull market in late 1921 at a cyclical low of 66, mounting a drive that carried it to a high of 300 by mid-1929, more than tripling in value. The Standard & Poor's Index of Common Stocks was just as dramatic—Industrials, up 321 percent, Railroads, up 129 percent, and Utilities, up an incredible 318 percent.

Astonishingly, the Monetarists go so far as to deny any stock market orgy. Anna Schwartz suggests, "Had high employment and economic growth continued, prices in the stock market could have been maintained."[4] It's as if they want to exonerate Irving Fisher's infamous blunder of declaring a week before the 1929 crash, "stock prices have reached what looks like a permanently high plateau." (Fisher's huge leveraged position in Remington Rand stock was wiped out by the crash.)

Schwartz's thesis is based on what appears to be reasonable price-earnings ratios for most stocks in 1929 (15.6 versus a norm of 13.6). However, P/E ratios can be a notoriously misleading indicator of speculative activity. While they do tend to rise during a bull market, they severely underestimate the degree of speculation because *both* prices and earnings tend to rise during a boom. However, when annual national output averages 5.2 percent during the 1920s, and the S&P Index of Common Stocks increases an average 18.6 percent a year, something has to give. In fact, during 1927–29, the economy grew only 6.3 percent, while common stocks gained an incredible 82.2 percent! As the old Wall Street saw goes, "Trees don't grow to the sky." A crash was inevitable.

The Austrians argue that the Federal Reserve's "cheap-credit" policy was to blame for the structural imbalances of the Twenties, while the Monetarists dispute any significant inflationary intent. The money stock (M2) grew 46 percent between 1921–29, less than 5 percent per annum, which Monetarists do not consider excessive.[5] Austrians, on the other hand, point to the deliberate efforts by the Fed to lower interest rates, especially in 1924 and 1927, thus generating an unjustifiable boom in assets and manufacturing. More importantly, the credit expansion in the United States far exceeded the increase in gold reserves, which would eventually spell disaster under the gold exchange standard.

In sum, was there an inflationary imbalance during the 1920s, sufficient to cause an economic crisis? The evidence is mixed, but on net balance, the Austrians have a case. In the minds of the Monetarists, the "easy credit" stimulus may not have been large, but given the fragile nature of the financial system under the international gold standard, small changes by the newly established central bank triggered a global earthquake of monstrous proportions.

In my next column, I will address a growing debate among economists: Did the gold standard make the 1929–33 crisis worse? □

1. Milton Friedman and Anna J. Schwartz, *A Monetary History of the United States, 1867-1960* (Princeton, N.J.: Princeton University Press, 1963), pp. 240–98.

2. See my article, "Who Predicted the 1929 Crash?" in Jeffrey M. Herbener, ed., *The Meaning of Ludwig von Mises* (Norwell, Mass.: Kluwer Publishers, 1993), pp. 247–83. Interestingly, John Maynard Keynes also failed to predict 1929–32, and lost three-fourths of his net worth.

3. *Monetary History*, p. 298.

4. Anna J. Schwartz, "Understanding 1929-1933," in *Money in Historical Perspective* (Chicago: University of Chicago Press, 1987), p. 130.

5. Friedman criticizes Murray Rothbard's inclusion of cash-value from life insurance policies as "pure chicanery" in an effort to inflate monetary figures. By doing so, Rothbard increases the money supply, 1921–29, by 61.7 percent instead of Friedman's more traditional 46 percent figure. See Murray Rothbard, *America's Great Depression*, 4th ed. (New York: Richardson & Snyder, 1983 [1964]), p. 88 passim. I tend to side with Friedman on this issue.

BOOKS

Perpetuating Poverty: The World Bank, the IMF, and the Developing World

Edited by Doug Bandow and Ian Vásquez

Cato Institute • 1994 • 362 pages • $15.95 paperback

Reviewed by Ken Ewert

There is a biblical proverb that says: "the tender mercies of the wicked are cruel." I have often thought of this verse in relation to the misery that political policies such as rent control or minimum wages have caused people—especially the poorest of people. The "tender mercies" of governments—attempts to use the law as an instrument of compassion—often turn out to be cruel to the intended beneficiaries, the poor. With friends like most modern governments, the poor do not need any enemies.

Perpetuating Poverty demonstrates this to be true on an international scale. Fifty years and hundreds of billions of dollars of aid from Western governments—tunneled through the IMF, the World Bank, and a number of other multilateral aid agencies—have had an impact on world poverty: it has helped keep the Third World poor just that—poor.

Development economists have long held that the Third World is poor primarily because of its lack of capital. According to the conventional wisdom poor nations cannot, on their own, afford to save enough to break out of a subsistence-type economy. Their only hope is massive infusions of capital from the taxpayers of the West. They need Western wealth in order to "develop." Furthermore, according to the popular Marxist notion of Western guilt for the exploitation of the poor nations, the Third World has a right to Western wealth.

It now seems beyond question that the massive wealth transfers to Third World governments have not, in general, helped the poor. As the editors note in the introduction, "the multilaterals can point to few, if any, cases in which their efforts have led to improved living standards and sustained economic prosperity." Forty years of international aid transfers have left Latin America with a foreign debt of $430 billion, sub-Sahara Africa with per capita incomes lower today than they were in the 1970s, and India with an annual per capita income of around $300.

Why has aid failed? Primarily because most developmental institutions lend to governments, and not to individuals. The recipient governments are often—through their destructive economic policies—the very cause of the economic problems that the aid seeks to rectify. International aid is, in effect, a subsidy to bad economic policies and a bloated public sector. It succeeds, not in alleviating poverty, but in extending and prolonging bureaucratic control over the poor of the Third World. Governments who would have been forced to change or collapse have instead been kept afloat by loans from the World Bank or the IMF and allowed to continue their destructive policies. This is something like an international welfare program, not for the poor of the Third World, but for their governments. Much aid has been wasted in poorly planned, ill-administered projects of little benefit—such as crop-storage depots built where peasants never go, or funds allotted to buy a profitable private bus line in India and turn it into a money-losing public enterprise. Billions of dollars, collected from middle-class taxpayers of the West, have "aided" Third World elites to possess grand estates, private zoos, classic car collections, and Swiss bank accounts.

But this book does not merely look at the "bad cases"—it is a devastating critique of foreign aid in principle. Shyam Kamath, in his chapter on foreign aid and India's Leviathan State, shows how foreign aid has allowed India to create and sustain one of the "world's largest and most inefficient public sectors." Robert Salinas León demonstrates how World Bank loans allowed Mexico to expand its state-owned industries from 300 in 1970 to some 1,200 by 1982, and how IMF loans during the early 1980s helped postpone the privatization of major state corporations. James Bovard details how the World Bank helped finance the cruel "relocation" policies of Julius Nyerere's government in Tanzania, and the Mengistu government in Ethiopia. He also brings to light the Bank's complicity in the brutal collectivization policies of Vietnam in the late 1970s. Doug Bandow demonstrates how the IMF relieves the political pressure on Third World governments for a much needed reform of their economic policies. Surely the "tender mercies" of this type of aid have been bitterly cruel to the poor of the Third World. Surely Western taxpayers would be outraged if they knew that their money was going not to help the poor but to finance international socialism.

If the Third World is poor because it lacks capital, it lacks capital because it lacks economic freedom. It is no coincidence that the aid-recipient countries are characterized by state-sponsored monopolies, high taxation, onerous regulation, high inflation, extensive price controls, ambitious social programs, persistent budget deficits, and a general lack of private property rights. These things are not caused by poverty, they are the cause of poverty.

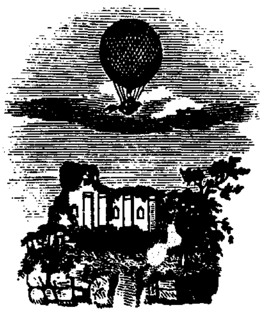
What the Third World so desperately needs is economic freedom and limited civil government. With these preconditions in place, the capital necessary for economic progress will be attracted. Prompted by Mexico's extensive free market reforms of the past few years, over $40 billion of foreign capital has flowed in since 1988. Likewise, the small country of Chile (population 13.5 million) has attracted $8.5 billion in foreign investment since its free market reforms in the mid-1970s. Countries that respect private property and economic freedom attract investment capital; countries that do not suffer "capital flight."

Foreign aid is inherently statist. Even when institutions such as the World Bank or the IMF do lecture countries on the need for freer markets—as they have sometimes done in recent years—they simultaneously give the foreign governments the very means to resist that which they advise. It is analogous to lecturing a drug addict on the need for reform while giving him money to buy more drugs. As Paul Craig Roberts notes in his chapter, the leftists are partially correct: the West *does* bear some responsibility for the conditions of the Third World—not because of its capitalistic exploitation—but because of the statist consequences of its aid.

Perpetuating Poverty shows that what the Third World needs is not more dollars but the moral and political reform that underlie a free economy. The poor nations also need increased-trade with the West. As the last section of the book details, it is a striking hypocrisy that while Western governments continue to give billions of dollars in multilateral aid, they refuse to open their markets to Third World and former East-Bloc producers. In his chapter, J. Michael Finger calculates that developed countries' import restrictions "reduce developing countries' national income by about twice as much as developing countries receive in aid." This is a shame, for, as James Bovard writes, "charity is no substitute for opportunity."

The authors of this book, as Peter Bauer notes in his comment, are the best in their field. Their case against multilateral aid is well-documented, well-reasoned, and powerful. Their charges deserve an answer from those who continue to justify multilateral institutions. □

Mr. Ewert is a businessman and the editor of a Christian public policy publication called U-Turn.



Scarcity or Abundance? A Debate on the Environment

by Norman Myers and Julian Simon

W. W. Norton & Company • 1994 • 259 pages • $21.00

Reviewed by Jonathan H. Adler

On October 14, 1992, students at Columbia University gathered in the Kellogg Conference Center to witness a clash of worldviews. Cornucopian economist Julian Simon and apocalyptic ecologist Norman Myers were staging a debate on the future of human civilization and the natural environment. At issue was whether present rates of economic development, population growth, and environmental disruption pose a significant threat to humanity. The exchange that ensued, along with pre-debate statements and rebuttals, is included in *Scarcity or Abundance?*, a useful encapsulation of current environmental debates.

The approaches of Simon and Myers could not be more different. Simon, author of *Population Matters* and *The Ultimate Resource*, is a data-driven economist. His preferred mode of analysis is to ask "What do the numbers show?" By analyzing long-term trends, Simon believes it is possible to show significant improvement in virtually every material aspect of human welfare. To wit, he shows that people are living longer, healthier lives than ever before, while in many important respects environmental indicators show significant improvement over the past several decades. "Almost every economic and social change or trend points in a positive direction," he declares, adding "there is no persuasive reason to believe that these trends will not continue indefinitely." So confident is Simon that this will continue, he is willing to bet on it. Pick the trend, the time period, and the size of the wager, and Simon will take you on.

If Simon sees trends that can continue, Myers sees the end of progress. "We are at a watershed stage in human history," he counsels. Myers fears an "unparalleled threat" created by the forces of "environmental decline in conjunction with rapid population growth." He is undaunted by holes in the data that purportedly make his case. The state of the world may seem rosy, but Myers sees a world "poised" on the brink of catastrophe. Human activity has finally reached a magnitude capable of initiating complete ecological collapse—an environmental "breakpoint." Urgent action is absolutely essential to ensure human survival. "No human community in the future will ever have our chance to save the planetary ecosystem," he warns, "because if we don't master the problems, they'll have nothing left to do but pick up the pieces we pass on to them."

This contrast in worldviews is certainly stark. One could even wonder if Simon and Myers could be speaking about the same world. Indeed, it is not clear that Myers and Simon recognize each others' critiques. *Scarcity or Abundance?* provides an excellent overview of the two contrasting positions, and is thus a valuable source of environmental information. Its disappointment is the limitation imposed by the debate format that prevents elucidation of the Myers and Simon positions. At times, arguments that could have clarified the two sides are left implicit in the text. This is not a serious failing, but at times it can leave those unfamiliar with environmental issues at a loss as to which side to believe.

That experts could find two separate sets of data to justify antithetical assessments of the earth's present condition would be amazing. Perhaps too amazing. Upon closer reflection one sees that the clash is not always between the data. As the debate over global warming centers around whether one places his faith in empirical evidence or speculative computer models, so too the Simon-Myers clash is about whether one trusts analysis or instinct. Time and again Myers responds to Simon's assertions of fact with speculative predictions of future want, often premised on the assumption that humanity has exhausted the possibility for technological advance. Some may find "it could happen" scenarios compelling, but after a while they lose their punch.

A good microcosm of the Simon/Myers clash is their exchange over population. Myers, like many contemporary environmentalists, sees the escalation of human numbers as the overarching environmental threat. The world now houses over 5.5 billion people, a number that increases by nearly 100 million each and every year. Thus far, increases in food production and accumulated wealth may have exceeded the multiplication of people, but, cautions Myers, this has come at a tremendous cost. Today, "there is much evidence that human numbers with their consumption of resources, plus the technologies deployed to supply that consumption, are often exceeding carrying capacity"—the ability of the planet to sustain human existence. As evidence, Myers points to a slowing in global farm output (brought about, in part, by changes in subsidy programs and other government policies), and predicts that agricultural productivity will irreversibly decline as the number of human beings on the planet continues to soar.

Simon, as one would expect, sees the population issue quite differently. He does not accept that "overpopulation" is a real problem, and he feels the data back him up. "There is no basis in the statistics for the belief that faster demographic growth causes slower economic growth," he asserts. The Myers position is based on the Malthusian premise that population will increase exponentially, while increases in food supply climb at a slower rate. If Malthus was right, then the end result can only be disaster. "But if the resources with which people work are not fixed over the period being analyzed, then the Malthusian logic of diminishing returns does not apply," Simon counters. Indeed, humans, unlike other earthly creatures, are not dependent upon an immutable resource base. People are capable of combining "intellectual capital" with physical substances to enrich their lot.

An increase in the number of people represents an increase in the human capacity to solve problems, not just an increase in human wants—and throughout human history, the force of the former has overcome the drain of the latter.

The Cornucopian-Apocalyptic debate may be alive and well in academic circles, but it is nearly dead in the realm of public policy. The general position espoused by Myers has found its way into environmental and economic policies throughout the modern world, with negative results. "Erroneous belief about population growth has cost dearly," notes Simon. "In poor countries, it has directed attention away from the factor that we now know is central in a country's economic development, its economic and political system." A free society allows for the creative exploration of varied solutions to vexing concerns. Centralized decision-making is more apt to lead to failure. Yet the threat of overpopulation and the need for ecologically sustainable development has become the pretense for a new generation of coercive government controls.

The lesson of Simon's overwhelming array of global statistics is that the world's problems can be surmounted. Human ingenuity has always been the greatest source of hope for the future. According to Simon, "When you develop new technology, build new goods, and expand the scope of our creative activities, you are on the side of the angels—you are promoting human improvement, and the quality of life." It is a lesson the governments of the world need to learn if they are truly concerned with the well-being of their people, and it is a lesson Myers could stand to learn as well. With the publication of this book, there is at least hope for some of the former, if one must give up on any hope for the latter. □

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The Individualist Anarchists: An Anthology of Liberty (1881–1908)
edited by Frank H. Brooks
Transaction Books • 1994 • 310 pages • $39.95

Reviewed by Gregory P. Pavlik

Anarchism is often associated with the extremes of either capitalist apologetics or communism, particularly by those without even passing familiarity with the subject. Yet, the individualist anarchists defied simplistic categorization from the start. The vast majority of the individualist anarchists did consider themselves to occupy a pole of the socialist movement. At the same time, they variously identified with the egoism of Max Stirner, the individualism of Nietzsche, the anarcho-communism represented by the famous Russian theorist Bakunin, and even the conservatism of Herbert Spencer.

The Individualist Anarchists is a wonderful introduction to this diversity of thought and will be of interest to advocates of limited government as well as students of intellectual history. It consists of representative selections from the principal organ of nineteenth-century individualist anarchism, *Liberty*, which was edited by the best known of the individualist anarchists, Benjamin Tucker. The collection is also an excellent companion to James J. Martin's definitive historical study of early individualist anarchism, *Men Against the State*.

The book is divided into four major sections, each structured to provide a comprehensive exposition of the trends in thought and positions staked out in the pages of *Liberty*. The first section, which occupies a full third of the text, deals with issues of political ideology. The theory of individualist anarchism is based on the principle of "equal liberty," which is described by Tucker as "the greatest amount of individual liberty compatible with equality of liberty." The authors grounded their defense of property rights in a conception of property tied to labor, a position derived from Locke. There is also a substantial amount of space dedicated to the praises of the free market.

Yet this is hardly the anarcho-capitalism that it seems to be. The writers of this genre were largely preoccupied with the "labor question," and as such an interest might suggest, they saw themselves primarily as socialists. They subscribed to the labor theory of value, and often presented fiery polemics against the bourgeois class.

The second section of the book examines the economics of the individualist anarchists, which dwells on the general theme of labor concerns. However, the individualist anarchists thought that the liberation of the proletariat would be best achieved by the abolition of the "four monopolies": the money monopoly, the land monopoly, the tariff, and the patent or copyright. In practice, this would have meant the elimination of ownership of land by those not occupying and using the soil, and the abolition of intellectual property. Such "evils" as rent and interest would be eliminated, thus bringing the worker into his own. This deviates from the contemporary conception of a free order, in which land functions as property subject to the dictates of the market. Obviously, interest serves an important market function as well.

It is important to emphasize the salient characteristics of libertarian socialism that set it apart from state socialism. To his credit, the editor dedicates a substantial portion of the section on political theory to this issue. For Tucker, the two types of socialism differ in the battle between liberty and authority. State socialism is "the doctrine that all affairs of men should be managed by government," *vis-à-vis* state monopoly. The anarchist position holds to "the doctrine that all the affairs of men should be managed by individuals and voluntary association." Other distinctions were made as well. The writer A. H. Simpson held that "Anarchism is egoism; Communism is altruism." Within the sphere of socialist or labor concerns, the anarchists, as advocates of freedom and self-interest, considered themselves always to be aligned in an antipodal relationship to the state socialists.

The individualist anarchists also carried their conception of freedom into the social sphere. Again, there was consensus, this time in the direction of what is euphemistically known as "free love." In at least one case, a more moderate position of cohabitation with commitment is commended. Many of the writers espoused what might loosely be described as feminist views, although positions on women's suffrage were not taken, as is consistent with a general opposition to the existence of the state. These authors were also generally hostile to religion. Social questions, however, were discussed minimally in the pages of *Liberty*.

Some space, also, was dedicated to the question of strategy (section four), although this too garnered less attention than questions political and economic. It is clear that the individualist anarchists favored nonviolence and persuasion as a route to their desired ends. Consequently, they feared "guilt by association" in the wake of the violence at Haymarket Square, Chicago, in 1886 when a police contingent was bombed while attempting to close down a meeting of anarchists. Tucker, for one, attempted to carefully delineate the differences between the violent, "communistic" variety of anarchism and his own concerns with liberty. Whatever the acumen of the individualist anarchists' strategic recommendations, the movement faded, and settled into an ill-deserved obscurity.

Much more complex than a simple precursor to libertarianism or an extension of liberalism, individualist anarchism was a genuine outburst of American radicalism. This volume is recommended to dispel the miasma of disinformation surrounding the movement dealt with in its pages, and as a worthy purchase for any reader with an interest in political theory, American or otherwise. □

Mr. Pavlik is assistant editor and director of The Freeman *Op-Ed program.*

Demosclerosis: The Silent Killer of American Government

by Jonathan Rauch

Times Books • 1994 • 261 pages • $22.00

Reviewed by William H. Peterson

Calcification, a kind of spreading dry rot accompanied by a bloating of the body politic, spreads across the American landscape. It's a disease that saps the strength of the people who, ironically, are the ones who demand more and more from a government that gives them, in the end, less and less. The furor over national health insurance is a case in point. The disease reflects the plight of both Politician and Citizen who, like the proverbial maiden of easy virtue, just can't say "No." Ah, democracy!

National Journal contributing editor Jonathan Rauch coins a clever word "demosclerosis" to describe the process. The process is spread by the mushrooming of special-interest organizations who gather virtually every affected and disaffected voter into groups and counter-groups (witness, e.g., the pro-choice vs. the pro-life groups) who pressure Congress and state legislatures to do their bidding. Or else.

It is not a pretty picture nor does it render a pleasant fragrance. As observed by Chancellor Otto von Bismarck of nineteenth-century Germany, the birthplace of the modern Welfare State, anybody repelled by the sight and smell of sausage-making ought not to watch law-making—a process far removed from its nice image projected in high school textbooks on civics.

Mr. Rauch notes that the trick of political success is to fashion special-interest access and accommodation, to gather votes and financial support, to weld blocs and interests—James Madison called them "factions"—together into a winning majority. Hence no program can be cut, no tax break wiped out, no privilege lifted, without provoking the anger of one organized interest or another. The political art is to calm anger and get everybody under the government tent—a tent that eventually gets blown away. Meanwhile, the budget grows and the dollar sinks, the state swells and the individual shrinks.

Mr. Rauch points out that seven out of ten Americans belong to at least one association, and one in four belongs to four or more. He describes one modest-sized Washington building directory as boasting the following tenants (and there's a lot more beyond the letter C):

Advertising Council
Affiliated Hotels and Resorts
Agudath Israel of America
American Arbitration Association
American Federation of Clinical Research
Americans for Economic Renewal
Center for the Advancement of Health
Congress of Russian Americans
Consortium for the Study of Intelligence

Thus the emergence of America's "parasite economy," its vast lobbying industry centered in Washington, its horde of lawyers with their Gucci loafers and leather attaché cases attending hearings and buttonholing Congressmen and bureaucrats who find the attention too sweet to resist. So why resist?

Mr. Rauch credits much of his understanding of how government really works to public choice economist Mancur Olson of the University of Maryland and his 1965 book, *The Logic of Collective Action*. Professor Olson, like Tocqueville before him, sees the mischief of interest-group democracy, sees groups push projects with concentrated benefits and diffused costs—costs foisted on a "rationally ignorant" populace. Free-riding ethanol producers, for example, get Congress to give them a tax break and require Clean Air Act inclusion of ethanol in gasoline so as to "improve the atmosphere." Sure.

For all of the author's sharp analysis of Washington's worldly ways, however, he betrays a kind of fatalistic quality about what to do about rampaging King Kong. He is dubious, to cite an instance, about the term-limit movement which would quash legislative careerists who seek committee advancement by seniority—adding to "sclerosis." He bemoans the knifing of President Clinton's initiative of "national service" for young people. When Cato chairman and Reagan economist William Niskanen twits Congress, Mr. Rauch responds: "I find much to admire in Congress: it works hard, it means well, it is close to the people, it has done much good." He quotes, approvingly, soothing words from liberals like Jessica Mathews, Jimmy Carter, and John F. Kennedy.

Mr. Rauch wisely says Americans should look in the mirror for key agents of their dilemma. But in the end he calls for not exorcising but "managing"—without really explaining how—the very Superstate that enfeebles and calcifies Americans and their government.

America's challenge, it seems to me, is to sharply scale down the state, return to old-fashioned morality, restore the limited-government model of the Constitutional Framers. The challenge is to get economy back into government, and get government out of the economy. The real democracy, the true empowerment, as Mises pointed out, is in the marketplace. □

Dr. Peterson, Heritage Foundation adjunct scholar, is the Lundy Professor of Business Philosophy Emeritus at Campbell University in North Carolina.

What Went Right in the 1980s

by Richard B. McKenzie

Pacific Research Institute for Public Policy, San Francisco • 1994 • 397 pages • $21.95

Reviewed by Raymond J. Keating

If one were to turn to the mainstream media or the current administration in Washington, D.C., as historical guides to the 1980s, one would come to see the decade as a period of great economic decline for the United States. With the decade cast in such a dim light, one also might expect a book entitled *What Went Right in the 1980s* to be a rather slim volume.

In contrast, Richard McKenzie illuminates the so-called "decade of greed." McKenzie provides a detailed look at the fiscal and economic developments of 1980s, chapter by chapter supplanting the political hyperbole so closely associated with the decade with sound economic analysis. Thanks to his efforts, the reader gains a clearer and more sober view of the 1980s. As the author asserts, "The 1980s were not the best of times; the decade could have been better. But, neither were they the worst of times. On balance, the decade was a pretty good one."

McKenzie provides much evidence to back up his declaration. The most substantial is that "growth in U.S. output during the 1980s was the equivalent of adding the entire economy of Germany (East and West) or two-thirds of the Japanese economy to the U.S. economy." Based on this fact alone, one would be justified in declaring that the economy of the 1980s was more than just pretty good.

The author addresses a host of issues that have been hotly debated, including the trade deficit. Critics argue that a growing trade deficit reflects a waning ability to compete on the world economic stage. McKenzie deftly counters such misguided notions with two key points:

> First, one reason for the rise in the U.S. trade deficit in the 1980s is the faster pace of economic growth in the United States compared to that of most other countries around the world. With a more rapid rate of growth, producers need more resources, many of which must be drawn from abroad in the form of imports. . . . Second, the balance on the capital account necessarily mirrors the balance on the trade account (with adjustments for other elements in the overall balance of payments). This means that exports are not the only U.S. products that foreigners want. As was evident in the growing balance of the capital account surplus in the 1980s, foreigners also wanted capital goods that could be put to work in this country.

McKenzie concludes: "In other words, the trade deficits could have (and did to an extent) reflected the fact that American exporters of goods were simply out-competed, not by foreign producers but by domestic producers of investment opportunities in the United States."

Another favorite criticism of the decade was a worrisome increase in private debt. However, individuals levying such concerns fail to view both sides of the equation. As McKenzie notes: "Debt, which is merely a claim on assets, is no burden at all when it is used to acquire assets that are at least equal in value to the collateral assets." He goes on to observe that, in fact, private assets rose more rapidly in real terms during the 1980s than did private debt, hence "yielding an increase in total private net worth."

McKenzie even manages to find a bright side to mounting government debt during the 1980s. Interestingly, he notes that "deficits may be 'bad' in themselves, but that does not mean that they were the worst thing to do under the political and economic circumstances of the 1980s." Though some may disagree with McKenzie's assessment of government debt, I believe his arguments hold merit, and at the very least, provide the basis for spirited debate.

McKenzie attacks other misconceptions regarding the 1980s. For example, during the so-called "decade of greed," the annual rate of growth in total real charitable giving was almost 55 percent higher than in the previous two-and-one-half decades. As for some individuals benefiting during the 1980s at the expense of others, McKenzie's income and expenditure analyses reveal that "the rich, poor, and middle classes got richer in real dollars and that their gains showed up in the amount of goods and services they bought."

What Went Right in the 1980s acts as a substantive counterweight to the mounting attacks on the economic record of the 1980s. McKenzie proves to be a good writer and innovative economic thinker. In his concluding chapter, he takes a peek at the 1990s, and offers this simple, yet sage advice: President Clinton "should look to the tax theory of his mentor, John Kennedy, who proposed to lower tax rates for the same reason Ronald Reagan did: High tax rates represent a drag on the economy." □

Mr. Keating is the director of New York Citizens for a Sound Economy and partner with Northeast Economics and Consulting.

Separating School and State

by Sheldon Richman

The Future of Freedom Foundation • 1994 • 128 pages • $22.95 cloth; $14.95 paperback

Reviewed by George C. Leef

Sheldon Richman bases his case against government education on its philosophical incompatibility with a free society and its inherent inability to produce results as good as a free market in education would produce. His strategy may well win more converts to freedom's side and win them more quickly than the strategy that begins with an effort to prove that public schools are declining. When a Gerald Bracey rushes to the defense of public education with a statement such as "American schools have never achieved more than they currently achieve," the rebuttal should be that it doesn't matter whether that is true or not. We should argue, as Richman does, that public education has and always will underperform because it severs the link between satisfied customer and revenue for the provider. For anyone who is going to be debating this issue, Richman's book is a gold mine full of attacks and counterattacks that will leave statist opponents spluttering.

One of Richman's most penetrating points is that the traditional idea of schools as developers of young human beings is flawed. Members of the education establishment see their role as shaping children, which almost invariably entails molding them into obedient servants of the state. Richman challenges that idea. "[S]chools do not—and should not—develop human beings. It has long been popular to think of education that way. That, I believe, is wrong. Human beings develop themselves—if they develop at all. To grow, children need assistance; specifically, they need information and good examples from adults. But they do not need adults or institutions to develop them into human beings. This is not just semantics. The common conception of education casts children in a fundamentally passive role. They are empty vessels that only adults with special skills—teachers—can fill."

How, then, should we view education? Richman answers, "Education should be seen as a way of encouraging the child's natural curiosity. That change in focus automatically makes the child the active party in the enterprise. Children come into the world thirsting for knowledge about their surroundings. The educational process needs only to abstain from killing that curiosity. Each child is unique. The last thing he or she needs is a procrustean school. The things that interest politicians and educational professionals, such as national standards, are so many distractions."

That, of course, is precisely why we must separate school and state. People cannot find the optimal ways of educating children if they are constrained by laws, taxes, and regulations. Free economies are always coming up with new products that serve people's wants while centrally planned ones inhibit progress and leave people with a lifetime of "take-it-or-leave-its." (Can anyone name one product that makes life more pleasant that originated under Communism?) A free market in education would maximize each parent's ability to find the kinds of educational services that are best suited to his children.

Richman gives readers an enlightening overview of the history of American education. He points out that American society was highly literate in the late eighteenth and early nineteenth centuries, prior to the advent of tax-financed schools and compulsory education laws. It took the enemies of freedom several decades to get their foot in the door, but by the 1840s, the first public school systems had been established in the United States, modeled after the authoritarian Prussian system. There was no widespread public dissatisfaction with our educational free market, but a small number of influential "reformers" wanted to try their hand at shaping the youth of the nation. Youngsters would be taught, first and foremost, what to think, to be obedient citizens, to pay taxes and fight wars when commanded to. If children happened to learn how to think, that was beside the point.

Richman devotes a chapter to the arguments of opponents of public education. This chapter, one of the most useful in the whole book, is chock full of quotable material from great thinkers who foresaw the dangers of statist education. The famous English scientist Joseph Priestley was an opponent, as were the German philosopher William von Humboldt and English philosophers Herbert Spencer and Auberon Herbert. Richman also gives American critics their due. This chapter allows the reader to see how little the debate has changed over a period of nearly two centuries. Most of the objections to public education which are voiced today were made long ago; most modern arguments in its defense were refuted long ago.

Richman convincingly argues that nothing short of the complete depoliticization of education will rescue it from its current degraded state. He contends that the proposals, supported by many free marketeers, for vouchers, contracting out, charter schools, and other marginal reforms will do little if any good as long as the state is still the major player in the field of education. We need to stop wasting our efforts on trying to untie the Gordian Knot of public education. There is but one solution to the crisis: the tie between school and state must be cleanly cut. □

Mr. Leef is Legislative Aide to State Senator David Honigman of Michigan and an Adjunct Scholar with the Mackinac Center for Public Policy in Midland, Michigan.

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PERSPECTIVE

Destructive Achievement

Twenty-five years ago I met a nineteen-year-old man who liked to brag that he had "torn up" seven cars. Apparently that was the only noteworthy thing that he had ever done. Today he would be forty-four years old, assuming he is still alive. Recently I wondered what had happened to him and what he is now doing.

Is he still tearing down the achievements of others? If so, how does he justify it? How does he "get away" with it?

Might he be a member of the political establishment that limits the amount of land that farmers may cultivate? Might he be blocking the work of loggers, or of coal miners, or any of uncounted other productive individuals?

At least the young man was honest about what he did. He said that he "tore up cars." His specialty was overwhelming transmissions but anything that would disable a car satisfied him. He knew that what he did was destructive, was counterproductive, and he made no bones about it.

Unfortunately, the advocates of various causes and the elected officials and bureaucrats who assist the advocates claim to be guided by nobler motives. But their counterproductive actions are often far more harmful to the economy, and particularly to others, than was the warped young man who tore up cars as a way of satisfying his need to achieve.

Unless the car wrecker caused an accident that involved someone else—and, fortunately, he had not at the time I met him—the damage which he caused affected primarily his own property and economic well-being.

Those who seek to limit the productive actions of others may appear to be less deserving of our condemnation but, in reality, they actually do far more total damage than did the car wrecker.

This is not to excuse the young man. It is simply to point out that seemingly respectable people who claim that they are acting with good motives, even sacrificing for the benefit of others, are often either hypocritical or else are fooling themselves when they act in ways that destroy far more than did the young man who "tore up cars."

—ROGER CLITES

Professor Clites teaches at Tusculum College in Tennessee.

The Role of the West

Americans do not share a common ancestry and a common blood. They and their forebears come from every corner of the earth. What they have in common and what brings them together is a system of laws and beliefs that shaped the establishment of the country, a system developed within the context of Western Civilization. It should be obvious, then, that all Americans need to learn about that civilization if we are to understand our country's origins, and share in its heritage, purposes, and character. . . .

The assault on the character of Western Civilization badly distorts history. Its flaws are real enough, but they are common to almost all the civilizations known on any continent at any time in human history. What is remarkable about the Western heritage and what makes it essential is the important ways in which it has departed from the common experience. More than any other it has asserted the claims of the individual against those of the state, limiting its power and creating a realm of privacy into which it cannot penetrate. . . .

It has produced the theory and practice of the separation of church from state, thereby protecting each from the other and creating a free and safe place for the individual conscience. At its core is a tolerance and respect for diversity unknown in most cultures. One of its most telling characteristics is its encouragement of criticism of itself and its ways. Only in the West can one imagine a movement to neglect the culture's own heritage in favor of some others.

—DONALD KAGAN

(Excerpts from an address to Yale University freshman class, September 1, 1990)

The Blessings of Earthquakes?

A January *New York Times* article cited experts who claimed that the Kobe earthquake could give a boost to a Japanese economy struggling to recover from a long recession. Henry Hazlitt has passed on, but I imagine he would have said, "There you go again using the 'broken-window fallacy.'"

"The broken-window fallacy, under a hundred disguises, is the most persistent in the history of economics," Hazlitt observed in *Economics in One Lesson*. The fallacy is "solemnly reaffirmed" daily by editorial writers and "professors of economics in our best universities" who see "almost endless benefits in enormous acts of destruction" with its consequent stimulation of production.

Of course, what makes the fallacy so initially tempting is that the "experts" are at least right in the first conclusion that there will be more business for the construction industry. But this new activity arises at the opportunity cost of lost business elsewhere, which will not occur because money is redirected toward reconstruction. As Hazlitt put it, the experts "see only what is immediately visible to the eye" while neglecting the invisible costs to the rest of the economy.

Hazlitt was right. Resist the temptation of the broken-window fallacy! If the fallacy is accepted, we should then be prepared to accept bombing campaigns as part of the next fiscal stimulus package!

—THOMAS L. MARTIN

Dr. Martin is an Associate Professor of Economics at the University of Central Florida in Orlando.

This item is an adaptation of his letter to the editor, the New York Times, *published January 25, 1995.*

For more on Henry Hazlitt's enduring influence, see page 276.

THE FREEMAN
IDEAS ON LIBERTY

Henry Hazlitt: Journalist of the Century

by Llewellyn H. Rockwell, Jr.

Henry Stuart Hazlitt wrote brilliantly and presciently for more than eight decades on culture, government, economics, and political affairs. He warned against deconstructionism, against Freudianism, and against the attack on reason. He censured the income tax, central banking, the New Deal, Keynesianism, socialism, *war* socialism, price controls, unionism, the welfare state, and deficits.

Like one of the great Romans he admired, he had more than knowledge and talent. He had a vigorous will, strong moral conviction, and supreme courage. He was never discouraged, and never slackened in the fight.

His lifetime bibliography—recently compiled by Jeff Tucker*—includes a novel, a trialogue on literary criticism, two large treatises on economics and moral philosophy, several edited volumes, some sixteen other books, and countless chapters, articles, commentaries, reviews—more than 6,000 entries in all—and even so, this figure cannot include everything, because so many of his earliest works were unsigned and uncollected. Hazlitt himself once estimated that he had written 10 million words, and that his collected works would run to 150 volumes.

Yet he lost every prominent job he ever held—literary editor at *The Nation*, top editorialist at the *New York Times*, weekly columnist at *Newsweek*—because he refused to bend or compromise.

Family circumstances prevented him from getting a complete formal education, so he read all the classics of ancient and modern literature on his own initiative, while working in jobs that offered very low pay.

Harry Hazlitt was born on this day, one hundred years ago, in Philadelphia. His father died when Henry was a baby, and when he was six, his mother enrolled him in Girard College, a home for "fatherless white boys" set up by a local philanthropist. His mother remarried and they moved to Brooklyn when Henry was nine, where he attended public schools. His earliest ambition was to become a psychologist "like William James," but his family's financial situation forced him to give up that idea. After a year and a half at City College, he had to look for a way to earn money.

Late in life, he told the story of his job search to an interviewer, not passing up the opportunity to explain something about labor economics:

Mr. Rockwell is president of the Ludwig von Mises Institute in Auburn, Alabama. This speech was delivered at a Mises Institute Conference commemorating Henry Hazlitt, held on November 28, 1994, in New York City.

**Henry Hazlitt: A Giant of Liberty* (Auburn, Ala.: Ludwig von Mises Institute, 1994), 158 pages.

> I had no skills whatever. So I would get a job, and I would last two or three days and be fired. It never surprised me or upset me, because I read the *Times* early in the morning, went through the ads, and I'd practically have a job that day. This shows what happens when you have a free market. There was no such thing as a minimum wage. . . . There was no such thing as relief, except maybe . . . a soup handout. . . . [T]here was no systematic welfare. You had a free market. And so I usually found myself at a job the next day, and I'd get fired about three or four days after that. . . . I didn't have the skills. But each time I kept learning something, and finally I was getting about $3 or $4 a week.

This was at the same time that he was systematically reading the ancient and modern classics. "At some point I decided that I wanted to be a newspaperman," he explained, "because it was the only way I could see to get into writing." At the age of 20, when he finally got a job at the *Wall Street Journal* as a stenographer, he had already finished his first book, *Thinking as a Science*, which was published in 1915.

His first book, like everything he ever wrote, made a strong argument and made it well. "I don't think it's worthwhile," he told an interviewer late in life, "if you haven't made up your mind, to write a piece saying, 'Well, on one hand, but on the other hand.'"

The "Essential Qualities"

Whatever Hazlitt wrote, it was always in clear and virile English. He adhered to the rule he set out for himself: "aim first at the essential qualities—coherence, clarity, precision, simplicity, and brevity. Euphony and rhythm are of course also desirable, but they are like the final rubbing on a fine piece of furniture—finishing touches justified only if the piece has been soundly made."

In 1916, he left the *Wall Street Journal* to write editorials for the *New York Evening Post*, then wrote the monthly newsletter of the Mechanics and Metals National Bank, and later worked for the *New York Evening Mail*. While at the *Mail* in 1922, his second book appeared. *The Way to Will Power* was a defense of individual initiative against the deterministic claims of Freudian psychoanalysis.

Hazlitt's reputation as a writer and thinker had grown, thanks also to his reviews and essays on authors as diverse as Garet Garrett, Spinoza, Santayana, Mencken, and Bertrand Russell. A 1927 essay entitled "Bertrand Russell's Universe" attracted the attention of the British author, who, at the time, was widely considered (probably incorrectly) to be the most brilliant man alive.

Russell so admired the young journalist's talent that he and his publisher asked Hazlitt to write the philosopher's official biography. Hazlitt spent much of 1928 and 1929 interviewing Russell in New York. One day, however, Russell announced: "You know, I *have* had a very interesting life. I think I'd like to do my own autobiography."

At *The Nation*

In the meantime, the editors of *The Nation* had noticed Hazlitt's work and hired him as literary editor. "*The Nation* was pretty much a leftist magazine then, as it has always remained," he explained to an interviewer. "One of the reasons they took me on was that they wanted me not only to write and handle the book reviews but to be able to write editorials on economic subjects." And his work there was extraordinary. He wrote on contemporary literature as a springboard to his own rich observations on philosophy, culture, history, economics, and politics.

He condemned modern education for forgetting the classics and laughed at Marxian attempts to read polylogism into the great works of the ancients. No matter how shoddy the rest of the magazine, Hazlitt's prose shone through: always provocative, always tightly written, and always worth reading. While there, he penned an early refutation of literary deconstructionism, *The Anatomy of Criticism*. It is still a fascinating work on standards in literature.

But he never lost his interest in economics. And from time to time, the editors allowed him space in the economic and political section of the magazine. One of his first articles in the area appeared in 1931. It was called "Rubber Money and Iron Debts," a phrase which pretty much sums up the era. He carried with him a passion for sound money the rest of his life.

If you want to read a magnificent attack on the New Deal abandonment of the gold standard, look at "Shall We Devaluate the Dollar? Parts 1 and 2," which appeared in March 1932 in *The Nation*. Or take a look at his classic attack on socialist George Soule, which appeared two months later. Even better, take a look at his defense of hoarding at the height of anti-hoarding hysteria in March 1933.

Hazlitt was not trained as an economist, although few scholars were as familiar with the relevant literature. He was inspired initially by the writings of Philip Wicksteed, a disciple of early Marginalist William Stanley Jevons, and later by the works of Herbert Spencer.

Over the course of his life, Hazlitt became more and more opposed to government intervention in the economy, and time and again he refused to give in to pressure from publishers and editors to change his views.

The first time he was squeezed out of a prestigious job was in mid-1933, when he squared off with Louis Fischer on the cause of the Depression. Fischer took the position that events confirmed the Marxian theory of economic crisis under capitalism. Hazlitt, though unfamiliar with the totality of the Austrian theory of the business cycle, argued that the Depression was caused by loose credit and subsequent interventions in the labor market.

It was a rigorous and free-wheeling debate. But the other editors must have realized how important it was to the future of government policy and the fate of progressivism itself. So at the end of Hazlitt's last piece, they wrote the following: "The discussion in the foregoing articles of the causes of the present economic debacle and possible ways out will be commented upon editorially in a forthcoming issue." Needless to say, *The Nation's* editors sided with the socialists. Hazlitt, suddenly condemned as a reactionary, was out. His adherence to principle had led to his ouster.

In the early thirties, the literary set also turned against H.L. Mencken, founding editor of the *American Mercury*, because of his opposition to the New Deal. When Mencken decided to turn the journal over to a new editor, he named Hazlitt, calling him the "only competent critic of the arts that I have heard of who was at the same time a competent economist, of practical as well as theoretical training." And, Mencken added, "he is one of the few economists in human history who could really write." True to his indefatigable spirit, Hazlitt's first article, "The Fallacies of the N.R.A.," was an implicit attack on the entire American Left, including *The Nation*.

The *Times* Years

Hazlitt was only the editor for a short while, before he decided to go back into newspaper work. In those days, even the *New York Times* was not as left wing as it is today, and the paper hired Hazlitt to write editorials and review essays, which he did from 1934 to 1946.

Appearing almost daily, his editorials covered an extraordinarily wide range: the dangers of economic controls, the evils of abandoning the gold standard, the stupidity of Blue Eagle planning, the idiocy of protectionism, the evils of wartime price controls, the fraud of Social Security (he was its original prophet of doom), the glories of G.K. Chesterton, the fallacies of Keynesian economics, the futility of foreign aid, the importance of a free market in securities, the hazards of an inflationary monetary policy, the ill-effects of unionization, and much more.

During this time, he met the emigré economist Ludwig von Mises, whose work Hazlitt had admired. Hazlitt and Mises became fast friends, and Mises thrilled to Hazlitt's editorial blasts against government planning, and often consulted Hazlitt on editorial matters and contemporary politics. It is said that Hazlitt even prepared, at Mises' request, a version of *Human Action* as a journalist would have written it. Mises thanked him, but rejected most of the changes.

While at the *Times*, Hazlitt did whatever he could to hold back the tide of statism. He maintained for 12 years a rapid-fire daily assault against the central state. Whether warning against devaluation or economic embargoes against Japan, which helped lead to Pearl Harbor, he emerges as a true prophet.

Scholars who look back at this period through the eyes of the *New York Times* editorial page might expect to find 100 percent support for Franklin D. Roosevelt. But they are shocked. For Hazlitt—against almost all elite opinion—was at work against FDR. When the American Left discovered this, they arranged for his departure.

But while there, he did a fantastic amount of good. We know FDR received daily reports on *New York Times* opinion. So did his so-called "brain trust." How much did Hazlitt hold them back? How much worse would the New Deal have been? The same could be asked after the war. Whatever steps were taken away from price controls and unionization could be due in part to his influence.

In 1938, before he had met Mises, Hazlitt wrote a review of Mises' *Socialism*, calling it the most devastating analysis of the system ever written. He became so enthralled with the economic calculation debate that later in the same year he negatively reviewed various responses to Mises, including Polish socialist Oskar Lange's. It could be said that it was Hazlitt who fully introduced Mises to American audiences. Later he followed up with reviews of *Human Action*, *Bureaucracy*, and many others. And six years after he first reviewed *Socialism*, he reviewed Hayek's *Road to Serfdom*, and gently criticized Hayek's concessions to the social democracy that Hazlitt had spent his life fighting.

His studies on the calculation debate became a novel nearly 15 years later, titled *The Great Idea*, and later, *Time Will Run Back*. And talk about prescience! It concerned how to transform a socialist system into a free market—at a time when most people thought socialism was the unstoppable wave of the future.

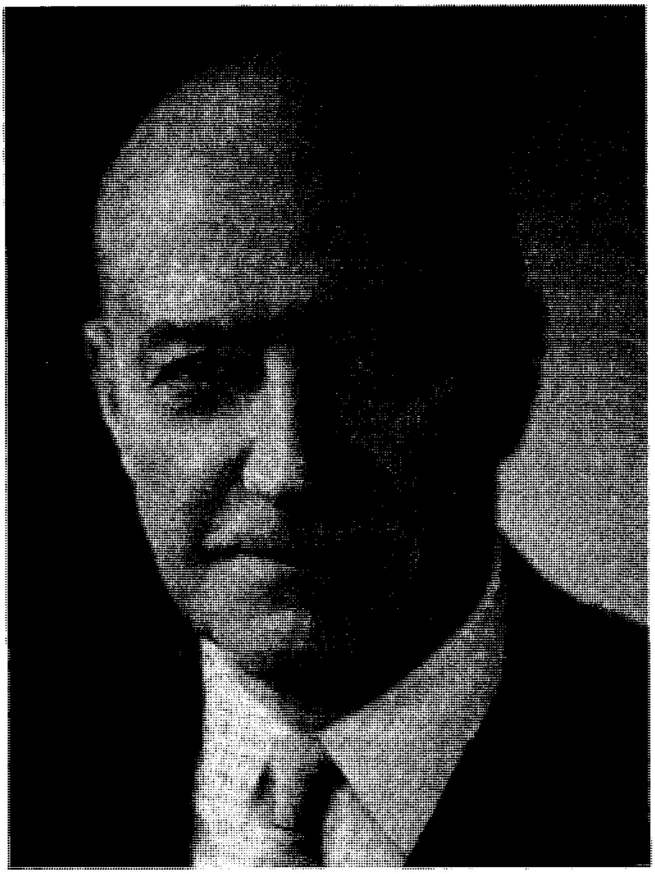
Hazlitt enjoyed his years at the *Times*, yet as with his previous positions, he eventually came under pressure from the publisher to compromise himself. Hazlitt had taken on Keynes' plans to reconstruct the monetary system after the war, and predicted worldwide inflation in the decades ahead. The *Times*, however, was moving to the Left, and so wanted to endorse the Bretton Woods agreement, including the World Bank and International Monetary Fund.

"Now, Henry," *Times* publisher Arthur Sulzberger said to him, "when 43 governments sign an agreement, I don't see how *The Times* can any longer combat this."

"All right," Hazlitt said, "but in that case I can't write anything further about Bretton Woods. It is an inflationist scheme that will end badly and I can't support it." Hazlitt was not fired immediately, although at one point, management threatened to put a disclaimer under his editorials. Soon after, he was squeezed out, but landed a job with *Newsweek*, and became one of the most influential financial writers in the country. His weekly "BusinessTides" column was enduringly popular. Surveys of the readership invariably showed that many subscribers took the magazine solely to read this column. I was among them.

While at *Newsweek*, his *Economics in One Lesson* appeared. As one of the most influential books on economics ever written, it has sold nearly one million copies and is available in at least ten languages. Hazlitt argued that government intervention focuses on the consequences that are seen, and ignores those that are not. These include wealth not created and even destroyed by regulation, inflation, and taxation. In 1947, he wrote *Will Dollars Save the World?*, a book attacking the Marshall Plan, which he saw as an international welfare scheme. The subsequent history of U.S. foreign aid shows just how right he was.

In 1950, Hazlitt took on additional responsibilities to become editor, along with John Chamberlain, of the fortnightly magazine



Henry Hazlitt (1894–1993)

The Freeman. He continued writing for *The Freeman* after its acquisition by the Foundation for Economic Education in the mid-fifties. Some of his best articles published there were later collected into FEE's *The Wisdom of Henry Hazlitt.*

In 1959, Hazlitt came out with *The Failure of the "New Economics,"* an extraordinary line-by-line refutation of John Maynard Keynes' *General Theory*. And though it was panned by the American academic journals at the time, it enlivened a growing movement favoring free markets over state planning. It continues to be an essential resource. A year later, Hazlitt collected a series of scholarly attacks on Keynes as *The Critics of Keynesian Economics*, also still very useful.

In the mid-sixties, Hazlitt turned his attention to the ethical basis of capitalism. Thus his book *The Foundations of Morality*, which he called his proudest achievement.

Now recall that during this time, he was still writing a weekly column for *Newsweek*, and speaking all over the country, meaning he was already busier than most academics. But after 20 years, another parting occurred in 1966. As Kenneth Auchincloss, managing editor, wrote years later, "At the time he was writing, there were readers—and perhaps even some *Newsweek* editors—who must have considered him old-fashioned, out of touch with the times. But Henry would never have considered trimming his opinions to the patterns of the day."

After he left *Newsweek*, he wrote a popular weekly column for the *Los Angeles Times*, which was syndicated around the country. Then he embarked on some new books.

He wrote *Man vs. the Welfare State*, which demonstrated that welfare promotes what it pretends to discourage. This was 20 years before Charles Murray's *Losing*

Ground. Then he wrote *The Conquest of Poverty* showing us how to get out of the welfare mess. In it he refuted such schemes as Milton Friedman's negative income tax, and urged immediate abolition of welfare.

His last complete book was published in 1984, when Hazlitt was 90 years old. It was a collection—the only one then in print—of the best writings of the Stoic philosophers Seneca, Epictetus, and Marcus Aurelius.

An unfinished manuscript of what would have been his last book sits in his collection at Syracuse University. It is a skeptical look at animal rights. His last published scholarly article appeared in the first issue of the *Review of Austrian Economics*, the journal co-published by the Ludwig von Mises Institute.

The Future of Liberty

Thirty years ago tonight, a group of friends gathered in this city on the occasion of Hazlitt's 70th birthday. It was only weeks after Lyndon Baines Johnson had been elected, and these freedom lovers were saddened at the state of the world, but at the same time ready to fight. Ludwig von Mises paid tribute to his "distinguished friend." "In this age at the great struggle in favor of freedom and the social system in which men can live as free men, you are our leader. You have indefatigably fought against the step by step advance of the powers anxious to destroy everything that human civilization has created over a long period of centuries. . . . You are the economic conscience of our country and of our nation." "Every friend of freedom may today, in this post-election month, be rather pessimistic about the future. But let us not forget that there is rising a new generation of defenders of freedom." "If we succeed," Mises said to Hazlitt, "it will be to a great extent your merit, the fruit of the work that you have done in the first 70 years of your life."

Hazlitt then reflected on his life, and in so doing painted a dark picture of the state of human liberty. Yet "none of us is yet on the torture rack; we are not yet in jail; we're getting various harassments and annoyances, but what we mainly risk is merely our popularity, the danger that we will be called nasty names."

"We have a duty to speak even more clearly and courageously, to work hard, and to keep fighting this battle while the strength is still in us. . . . Even those of us who have reached and passed our 70th birthdays cannot afford to rest on our oars and spend the rest of our lives dozing in the Florida sun. The times call for courage. The times call for hard work. But if the demands are high, it is because the stakes are even higher. They are nothing less than the future of human liberty, which means the future of civilization."

The great voice of Henry Hazlitt, "the economic conscience of our country and our nation," is now stilled. But this journalist of the century will not be forgotten. In a time dominated by prevaricators and planners, in a nation still threatened by statism, Hazlitt's written legacy, will continue to inspire writers and scholars.

We need more economists like Henry Hazlitt, who are willing to write in defense of free enterprise, and do so in plain English and to adhere to principle, whether analyzing history, theory, or present policy, regardless of the personal cost.

If we win, as Mises said, we can in part thank Henry Hazlitt. Yet Hazlitt has never gotten his due. And we know why: because he was right—right about the New Deal, right about Keynes, right about the attack on reason, right about the welfare state, right about inflation, and right about the morality of capitalism. Our age cannot tolerate that. The intellectual establishment has too much invested in the present failure to admit who the real prophets of this century are.

Henry Hazlitt, although he made a profound difference in our age, seemed sometimes to be from another time. He had the breadth and *gravitas* of a Cicero, the moral force of a Tacitus, and like his beloved Stoics, lived a life of honor and principle. The ancient republic of Rome would have cherished him. So should we. And if we restore the American republic, his bust should someday stand in our Senate, among those of our greatest men. □

THE FREEMAN
IDEAS ON LIBERTY

H. G. Wells in Russia

by Martin Gardner

Today's college students, preoccupied with everything except a liberal education, have only the dimmest awareness of how many famous writers, artists, and thinkers around the world were once under the magic spell of Communism. They have no conception of how many bright, attractive young people in American universities during the 1930s called each other "comrade," exulting in the delusion that they were part of a vast, inevitable Revolution destined to overthrow an evil capitalism.

The Soviet Empire has now crumbled, Communist parties are dissolving, the old tricolor Russian flag has replaced the hammer and sickle, statues of Lenin have been toppled, and Marxist ideology is dead except in the atrophied brains of a few elderly die-hards around the globe. As history takes this unexpected turn, it is good to remember that from the beginning—not just among conservatives but among democratic socialists—there were many who saw clearly that Marxism was a weird mystique set forth by an egotistical crank.

In 1920, three years after the Bolsheviks seized power, two of England's most influential writers, Bertrand Russell and H. G. Wells, made trips to Moscow to converse with Lenin. Each recorded his negative impressions in a book. Russell's *Practice and Theory of Bolshevism* is the more perceptive of the two books, but it is still in print and widely known. Here I shall focus on the book by Wells, *Russia in the Shadows*, because it has been almost totally forgotten. It deserves to be read today for three reasons: its vivid account of Russian chaos following the first world war, its portrait of Lenin, and its insights into Wells' early opinions of Marx and the future of Russia.

Wells made three visits to Russia. The first, accompanied by Maurice Baring, was in 1914, just before the outbreak of war, to see his old friend Maxim Gorky. Gorky's secretary and mistress was then the Countess Benckendorff, formerly Moura Zakrevskaya. She had been planted on Gorky as a government spy. But Moura had told Gorky this. Admiring her straightforwardness, Gorky did not seem to mind.

In 1920, when Wells returned to Russia, Gorky (a personal friend of Lenin) arranged for Moura to be Wells' guide and interpreter. Although there is no hint of it in Wells' book, he fell passionately in love with her. The full story of this beautiful and witty woman has yet to be told, although Anthony West, Wells' illegitimate son by Rebecca West, devotes many pages to her in his biography of Wells. "My father could not reason himself out of his intoxication with her, and however little future his passion might seem to have, he went home with it burning in him."

Wells' account of his 1920 trip first ran as a series of articles in London's *Sunday Express*, instantly boosting that paper's cir-

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culation by 80,000. Hodden and Stoughton brought the series out as a book in 1920, the same year that Russell's book appeared.

Wells went first to St. Petersburg (later renamed Petrograd, then Leningrad, now back to St. Petersburg) to renew his friendship with Gorky. Since 1914 Moura had been imprisoned several times by the Bolsheviks, and was now forbidden to leave Petersburg to return to her children in nearby Estonia.

Petersburg, Russia's second largest city, was in a state of almost total ruin. The old Czarist order had collapsed because of what Wells called its "inherent rottenness." The Bolsheviks had snatched power from the democratic but indecisive Mensheviks. There had been much killing to establish order and there was a crude rationing system for food and goods. Everywhere was evidence of a "vast irreparable breakdown." Shops were closed, clothes were shabby, roads were terrible, houses had been torn down for firewood. A black market flourished, though occasionally a profiteer was caught and shot. Men were unshaven only because they had no razor blades. Hospitals had broken down. Medicines were unavailable. Everybody looked sick and sad. People stood for hours in long queues to get bread. Wherever Wells looked, and he was allowed to roam freely, he saw nothing but decay and desolation.

Over and over again Wells insists that this decay was not the product of Bolshevism but the cause. "It was not Communism which built up these great, impossible cities, but capitalism. It was not Communism that plunged this huge, creaking, bankrupt empire into six years of exhausting war. It was European imperialism. Nor is it Communism that has pestered this suffering and perhaps dying Russia with a series of subsidized raids, invasions and insurrections, and inflicted upon it an atrocious blockade. The vindictive French creditor, the journalistic British oaf are far more responsible for these deathbed miseries than any Communist."

The Communist Party, Wells stressed, was at the moment the only possible government for Russia. Small in number, the Bolsheviks had been able to take over during the confusion that followed six years of war because they were the only party with a clear vision. Its leaders, Wells believed, were fanatical but honest. He acknowledged their brutalities, but suspected that a Red Terror, inspired by hate, was the only way order could have been restored.

Russell, whose visit to Russia preceded Wells', found Gorky dying along with Russian culture. Wells chides Russell for this. Russell had simply caught Gorky with a bad cold, then his imagination led him into a "dark and purple passage." Although Gorky was a great admirer of Lenin, Wells found him bitter toward the Communist Party, and strong in his respect for Western science and literature. Now thanks to Bolshevik efforts to prevent counterrevolutionary forces, Russian art, literature, and science had almost disappeared. Eminent scientists were without funds or access to Western journals. "The crude Marxist philosophy," Wells wrote, "which divides all men into bourgeoisie and proletariat, which sees all social life as a stupidly simple 'class war,' had no knowledge of the conditions necessary for the collective mental life."

Amazingly, only in plays and operas did pockets of the old culture persist. "When one faced the stage, it was as if nothing had changed." Another hopeful sign was the government subsidy for a vast encyclopedia, though how would it be distributed? Wells granted that the Bolsheviks were basically honest, but they were also naive and simpleminded. Astonished to find themselves in power, they were without plans or ideas. "Marx the Prophet and his Sacred Book" provided no leads. Although Marx had given a good factual account of the evils of unfettered capitalism, he offered no blueprints for what would replace it. All he did was intimate vaguely about the new paradise that would eventually result after a temporary socialist phase had withered away. Communism, wrote Wells, was like a magician who had lost his rabbit and could produce nothing from his hat.

An Active Hostility Toward Marx

In a chapter titled "The Quintessence of Bolshevism" Wells slashed away at Marxist ideology in two memorable paragraphs:

> It will be best if I write about Marx without any hypocritical deference. I have always regarded him as a Bore of the extremest sort. His vast unfinished work, *Das Kapital*, a cadence of wearisome volumes about such phantom unrealities as the *bourgeoisie* and *proletariat*, a book for ever maundering away into tedious secondary discussions, impresses me as a monument of pretentious pedantry. But before I went to Russia on this last occasion I had no active hostility to Marx. I avoided his works and when I encountered Marxists I disposed of them by asking them to tell me exactly what people constituted the proletariat. None of them knew. No Marxist knows. In Gorky's flat I listened with attention while Bokaiev discussed with Shalyapin the fine question of whether in Russia there was a proletariat at all, distinguishable from the peasants. As Bokaiev has been head of the Extraordinary Commission of the Dictatorship of the Proletariat in Petersburg, it was interesting to note the fine difficulties of the argument. The "proletarian" in the Marxist jargon is like the "producer" in the jargon of some political economists, who is supposed to be a creature absolutely distinct and different from the "consumer." So the proletarian is a figure put into flat opposition to something called capital. I find in large type outside the current number of the *Plebs*, "The working class and the employing class have nothing in common." Apply this to a works foreman who is being taken in a train by an engine-driver to see how the house he is having built for him by a building society is getting on. To which of these immiscible does he belong, employer or employed? The stuff is sheer nonsense.
>
> In Russia I must confess my passive objection to Marx has changed to a very active hostility. Wherever we went we encountered busts, portraits, and statues of Marx. About two-thirds of the face of Marx is beard, a vast solemn wooly uneventful beard that must have made all normal exercise impossible. It is not the sort of beard that happens to a man, it is a beard cultivated, cherished, and thrust patriarchally upon the world. It is exactly like *Das Kapital* in its inane abundance, and the human part of the face looks over it owlishly as if it looked to see how the growth impressed mankind. I found the omnipresent images of that beard more and more irritating. A gnawing desire grew upon me to see Karl Marx shaved. Some day, if I am spared, I will take up shears and a razor against *Das Kapital*; I will write *The Shaving of Karl Marx*.

Marxism, Wells wrote, was a cult that appealed to energetic young men and women who were aware of capitalism's excesses and who longed for a new order. They would have become Marxists if Marx had never lived. Wells recalls his own youth. Denied an education, he had worked long hours in a detestable shop which he would have gladly burned down if he had not assumed it was overinsured. Marxism spread like fire around the world not because Marx was wise but because capitalism was "stupid, selfish, wasteful, and anarchistic."

Marx saw a "great conspiracy against human happiness concocted by a mysterious body of wicked men called capitalists." Wells saw these tycoons as "no more than a scrambling disorder of mean-spirited and short-sighted men." Marxism, with its conspiracy mania and revolutionary ardor offered an illusory hope for a quick fix. Unfortunately, the Bolsheviks had no experience in running a giant nation. Wells found their incompetence amazing, their ignorance profound. Repeatedly he was asked, "When is the social revolution going to happen in England?"

Every intelligent Bolshevik, wrote Wells, is bothered by the fact that the revolution happened first in Russia. According to Marx, it was to occur in advanced capitalist countries—first in England, then France, and Germany, and finally in America. Instead, it happened in Russia where there was no specialized working class at all. Russian factories were worked by peasants who came and went from villages. There was no proletariat, in Marx's sense, to unite with the workers of the world. Slowly dawning on the minds of Bolsheviks was the "chill suspicion" that what happened in Russia was not a Marxist revolution at all, but only the capture of a derelict ship.

Wells tried to convince Russian leaders that in England there were at least 200 different classes, and the only class-conscious proletarians he knew were a small band of Scotch workers under the leadership of a gentleman named MacManus. Wells was amused by the repeated scoldings that came by wireless to British labor leaders because they refused to behave like Marx said they would. They ought to be Red. They were just yellow.

In Wells' eyes "never was there so amateurish a government." Their preposterous ideology was doing irreparable damage to science and art. The teaching of chemistry was actually forbidden unless it was Marxist chemistry. Art and literature were suppressed if not politically correct.

Wells visited a school selected by the government. When children were asked what Western writers they liked best, Wells' name dominated! "Such comparatively trivial figures as Milton, Dickens, Shakespeare ran about intermittently between the feet of that literary colossus." Wells was furious. The next day he visited a school of his own choice and found it far superior. There were no Wells books in its library. None of the children had ever heard of him.

At a meeting of Petersburg leaders he heard himself repeatedly praised. They urged him to write fairly about Russia; not to emulate Russell who had accepted their hospitality then gone home to write harsh criticism. To avoid mistranslations, Wells wrote down his speech and had it carefully translated before he gave it. He was not a Marxist, he told his listeners. He was a "collectivist." He wished Russia well, but assured them that in England any movement toward socialism would be peaceful, the product of education, not class hatred. The speech was reported fairly in *Pravda*. The meeting ended with everyone singing the *Internationale*. Wells realized that in no way was the meeting democratic. It simply rubberstamped what it had been told. It was like "a big bagful of miscellaneous wheels" compared to an "old-fashioned and inaccurate but still going clock."

Wells Meets Lenin

The sixth chapter of Wells' book, titled "The Dreamer in the Kremlin," describes Wells' chat with Lenin. He found Moscow in less disrepair than Petersburg. Its churches were open. Ten thousand crosses glittered in the sunlight, and kissing icons was still a flourishing industry. A sign outside one church said, "Religion is the opiate of the people." It had little effect, Wells observed, because most of the people in the street could not read.

After a long irritating wait, Wells was ushered through a labyrinth of passageways and guards to Lenin's sanctum. Wells was surprised at how small Lenin was. He had expected to find a doctrinaire Marxist, but found him nothing of the sort. He had a pleasant, quick-changing, brownish face, lively smile, and a habit of screwing up one side of his face because of defective vision in one eye. Speaking excellent English, Lenin asked the inevitable question. Why is there no social revolution in England?

Wells in turn wanted to know what Lenin planned to do with the mammoth country he found on his hands. There were huge plans. The cities would become smaller, all Russia would be electrified, agriculture would be seized by the state and modernized. "Come back," he said, "and see what we have done in ten years." Wells was favorably impressed. In spite of Lenin's cumbersome Marxist baggage, Wells believed that "this amazing little man" might actually succeed in revitalizing Russia.

H. G. Wells lecturing on Soviet Russia.

Wells stressed his faith in evolutionary socialism. Lenin disagreed. Capitalism was incurable. It had to be totally overturned. Their argument ended indecisively, but they parted warmly. Wells and his Russian-speaking biologist son G. P. ("Gip") who had accompanied him on the trip returned to Petersburg, then on to Revel to catch a ship home. Wells left convinced that Western nations should do all they could to provide aid, especially food to prevent a looming famine during the coming winter. If Russia were to collapse again, Bolshevism might be replaced by a new ideology and a dictatorship worse than Lenin's. Such a collapse, Wells feared, could spread westward, and "possibly all modern civilization may tumble in."

Leon Trotsky, in his biography of Lenin, wrote that several years after Wells' visit Lenin had said of Wells, "Ugh! What a narrow petty bourgeois he is! He is a philistine! Ugh! What a philistine!" Anthony West, in his biography of his father says that he thinks Trotsky fabricated Lenin's remark out of whole cloth.

Although *Russia in the Shadows* sold well in England, it was bitterly denounced by Communists for its attacks on Marx, and by conservatives for its tolerance of the Russian experiment and for its admiration of Lenin. Winston Churchill, who correctly perceived Communism as a growing cancer, blasted Wells' book in *The Daily Express* (December 5, 1920), followed by Wells' reply. Churchill and Wells had long been at odds. Wells would later caricature him as Rupert Catskill in his science fantasy *Men Like Gods* (1923). Arch-conservative Henry Arthur Jones was so enraged that he barraged Wells with abusive letters which he later published as a book *My Dear Wells* (1921).

Wells' Defective Vision

Who today can fault Wells for seeing clearly through the shams of Marx, and for his fears that Bolshevik fanaticism would stifle Russian science and culture? But there are three glaring defects in his book.

Wells was curiously unimpressed by the absence of democracy in the new Russia. Not once did he ask Lenin if there were plans for free elections and secret ballots. Wells had never been keen on allowing uneducated people to vote, preferring instead a state governed by an appointed elite of scientists and technicians. Perhaps he bought the Bolshevik notion that a democracy of sorts operated in Russia as decisions made by low-level party cells filtered upward to the Kremlin. There is no excuse for Wells not realizing that without a vigorous democracy, and a press free to criticize, there could be no guarantee that a tyrant would not gain total control, as indeed one did.

Nor did Wells show an awareness that a free-market economy, combined with private property, is a far more efficient way to produce food and goods than a command economy that stifles initiatives and regulates with a clumsy, easily corrupted bureaucracy. As a democratic (of sorts) socialist, Wells shared Marx's indictment of unrestrained capitalism, but he did not understand, as even democratic socialists do today, that a modern economy must be founded on free markets.

Finally, as an atheist himself, Wells was not appalled by Lenin's efforts to eliminate Christianity from Russian culture and establish atheism as a state "religion." Wells should have realized that efforts to stamp out religious faith, especially in a culture as deeply pious as Russia, would only alienate the masses and increase their hostility toward the government. As we now see, the Russian people are hungry as ever for the right to worship God, and flocking back by the millions to their newly opened churches. Some Russian leaders are even daring to end their speeches with "God bless you"!

This is not the place to cover the history of Wells' growing realization that nothing good would ever come from the Russian experiment, and that universal suffrage was essential for the health of any nation. In 1934, during his three-hour conversation with Stalin, Wells tried to persuade Stalin that Roosevelt's New Deal was the beginning in America of a movement toward socialism, and that the world's two great superpowers should seize the chance to work together for a world socialist state. Stalin countered, as had Lenin, with the usual Marxist bromides. American capitalists were simply making a few trivial concessions to stay in power. They would never give up without a workers' revolt that would totally overthrow them.

Wells' last full-length novel, *Babes in the Darkling Wood* (1940), was about the disenchantment of two young Stalinists, a change of heart triggered by Stalin's invasion of Finland. Hard as it is to believe, Wells still clung to his view that Stalin was a sincere, essentially decent fellow who was caught in the coils of a worthless ideology. By 1940 many books had accurately described Stalin's terror—the millions of innocents he had shot or sent to die in the Gulag—but Wells either had not read them or he knew about them and did not believe them. His last great outburst of anger, *Crux Ansata* (1943) was directed not against the crimes of Stalin, but against what he considered the crimes of Roman Catholicism. When Wells died in 1946, soon after the first atom bomb fell on Japan, he had given up hope that humanity could save itself from wars that would plunge it back to barbarism.

Many of Wells' prophecies were eerily accurate. As early as 1914, in his science-fiction novel *The World Set Free*, he described a second world war beginning in the forties in which "atom bombs" were dropped from planes. The one great event he totally failed to see was the abrupt collapse in the U.S.S.R. of its entire Marxist-Engels-Leninist-Stalinist heritage.

As I write, Russia is back in shadows strangely similar to those Wells encountered in 1920. Its economy is in chaos, famine is again a threat, and help from the West is desperately needed. As in 1920 its leaders have only the vaguest plans for restructuring a shattered empire along democratic and free-market lines. It is one of the magnificent and ironic surprises of history that this great culture, after 74 years of brutal Communist dictatorship, is now eager to construct a political and economic system of the very sort that Marx regarded as something so malevolent that it had to be destroyed utterly by workers of the world who had nothing to lose but their chains. □

THE FREEMAN
IDEAS ON LIBERTY

"Zero Inflation": A Flawed Ideal

by George A. Selgin

Lately a consensus has formed among policymakers that a stable price level or "zero inflation" should be the goal of monetary policy. Federal Reserve Chairman Alan Greenspan has recently expressed sympathy for this view, long favored by some other members of the Fed Board of Governors. A few years ago the House Subcommittee on Domestic Monetary Policy introduced a Joint Resolution that would have required the Fed to achieve and maintain zero inflation within five years. Today, Congress is considering amending the 1978 Humphrey-Hawkins Act so as to make achievement of zero inflation the sole object of monetary policy.

Zero inflation is, to be sure, a more realistic goal for monetary policy than such things as "full employment" or economic "fine-tuning." Nevertheless, it is far from being the ideal policy its advocates proclaim it to be.

Price Stability or Stability of Spending?

The zero inflation norm goes back to classical economics and has inspired countless monetary-reform proposals during the last 100 years. One would think that such a longstanding ideal must be solidly grounded in theory. But the truth is otherwise. In fact the zero inflation ideal is largely dogma, founded upon the unrealistic assumption of a stagnant or stationary economy where the productivity of labor and capital never changes.

In such a stationary economy, price stability goes hand-in-hand with stability of total spending, or "aggregate demand," measured in dollar terms. Economists generally favor stability of money spending because it allows the typical producer to just recover his money costs of production, avoiding depression on one hand and overexpansion of industry on the other. Thus stability of "aggregate demand" avoids deviations of real output from its "natural" level. But zero inflation implies stability of spending *only* in a stationary economy. In a growing economy with more to be bought, stability of money spending requires *falling* prices. In an economy where productivity is declining, stability of spending requires that prices generally *rise*. Because they overlook the reality of changing productivity, proponents of zero inflation wrongly conclude that the benefits of stable spending can be had by keeping the price level constant.

Debtor-Creditor Justice

A popular argument for zero inflation is that unanticipated price-level movements lead to unfair transfers of wealth. When

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prices rise unexpectedly, debtors gain at the expense of creditors because loans are repaid in dollars having less purchasing power than when the loans were originally made. When prices fall, creditors profit at the expense of debtors. Zero inflation, it is claimed, would prevent such unjust transfers.

Although the argument is valid for a static economy, a zero inflation policy enforced in the face of changing productivity would itself lead to unjust redistribtions of wealth. Any overall change in productivity implies a change in real income for the economic community taken as a whole. Distributive justice then becomes, not a matter of avoiding "windfall" transfers of wealth, but one of deciding how an increase or decline in *overall* wealth should be shared. Imagine the consequence of an unanticipated, all-around doubling of productivity in the United States. A halving of product prices would, here as when productivity is constant, double the real burden represented by each dollar of debt. But most debtors would be compensated by a doubling of their real earnings. Creditors, in turn, would enjoy a higher real return on their loans. But their gain would merely reflect a *pro rata* share of similar gains being enjoyed by the rest of society. To deprive creditors of their share by stabilizing the price level would be arbitrary at best.

Moreover, a zero inflation policy that would be arbitrary when productivity is improving could lead to disaster were productivity to fall significantly. Zero inflation would then require a forced contraction (via tight money) of spending to offset the normal tendency for the prices of scarcer goods to rise. Debtors would find their real income reduced, but the amount of real income needed to repay each dollar of debt would be unchanged. Few people would call the resulting rash of defaults and bankruptcies "just."

Helping Prices Do Their Job

Another argument for zero inflation is that price-level changes interfere with the price system's ability to allocate resources. Because it takes time and effort to make money-price adjustments, changes in the relative values of different goods should be signaled with as few money-price changes as possible. Otherwise the risk is great that incomplete or incorrect price adjustments will lead to economic waste. Proponents of zero inflation claim it would allow the price system to do its job with a minimum of money-price changes by eliminating any need for *general* price changes to offset changes in the supply of or demand for money.

This argument, too, is only valid for a static economy: When productivity changes, a change in the general price level is not only consistent with, but *essential* to the efficient working of the price system. Such a price-level change merely reflects changes in real costs of production. Suppose for instance that the cost of producing computers falls to half its former value, while the cost of producing other goods remains unchanged. The relative price of computers needs to fall below its former level. If the public continues to spend the same amount of money on computers, buying proportionately more units as the money price falls, the needed relative price adjustment is easily made by halving the money price of computers, leaving other money prices unchanged. Money spending would remain stable with no need for any increase in money supply. A zero inflation policy, in contrast, to keep the average level of prices constant, would require a monetary injection to enhance spending so that the price of computers falls by less than one-half and *all other prices* rise slightly. The zero-inflation policy clearly places a greater burden upon the price system, with greater opportunities for misdirection of resources.

Likewise, the best way to handle a *fall* in output, like an OPEC-inspired cut in oil production, is to allow the fall to be reflected in higher prices. Manipulating the money stock to keep prices from rising would reduce the price-system's ability to convey useful information about the true state of resource scarcity.

Many economists recognize the need to allow money prices to reflect changing output conditions in particular industries. Yet they refuse to extend their logic to situations involving *general* changes in productivity. They imply that doing so involves a fallacy of composition. But where lies the fallacy? They do not say.

If Not Zero Inflation, What?

Instead of aiming for zero inflation, a desirable monetary policy would stabilize total dollar spending, as measured by the money value of GNP or (more appropriately) sales of final goods and services. Money GNP stability is automatically approximated by a regime of free banking with a fixed stock of bank reserves. If a central bank controls the money supply, it could be assigned the goal of stabilizing money GNP. Stable spending would achieve all the really desirable ends sought by proponents of zero inflation, and would do so regardless of the state of productivity. Under stable spending, sustained improvements in productivity would necessitate falling prices; but these would not involve the bad side-effects usually associated with deflation. On the other hand, falling output would cause "inflation" of the price level, but without the pernicious effects of inflations stemming from excessive money injections. Finally, because money supply changes are more closely related to spending changes than to price-level changes in the short run, a spending target would be easier to enforce than a price-level target.

Zero inflation has its merits as a rough-and-ready policy goal. It is certainly better than the inflationary chaos that prevails in most fiat money regimes. But as a policy *ideal* it leaves a lot to be desired, and is plainly inferior to a goal of stable spending. □

Pearl Jam vs. Ticketmaster: A Holy War on Reality

by Charles Bilodeau

The lawsuit initiated last spring by the rock band Pearl Jam against Ticketmaster has once again brought antitrust laws into the limelight. *Time* magazine has called the legal battle "Rock 'n' Roll's Holy War."[1] According to Pearl Jam, Ticketmaster is intending to monopolize the ticket service industry. What is the truth of the matter? To find out, let's look at some of the charges against Ticketmaster in the context of antitrust laws.

In a memorandum filed with the Antitrust Division of the U.S. Department of Justice on May 6, 1994, Pearl Jam asserted that Ticketmaster has a "virtually absolute monopoly on the distribution of tickets to concerts." What constitutes a "virtually absolute" monopoly? Patent law creates monopolies (single seller positions) in inventions and innovations; copyright confers

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monopolies in literary/artistic works. Pearl Jam has a legal monopoly on any songs and performances they create, as they should. Does Ticketmaster have a similar monopoly on tickets? No. Ticketmaster *had* competition, but its rivals could not manage to compete.

According to *Rolling Stone* magazine, Ticketron, the largest competing ticket service sold out to Ticketmaster in 1991, after losing millions of dollars a year from 1988 on.[2] Why would Ticketron *lose* millions of dollars a year, while Ticketmaster turned a profit? Ticketron must have operated less efficiently. In ticketing, as in any contested market, the companies (or company) that survive will be the ones who best cut costs, find new markets, and plan long-term. In other words, the survivors will be the ones who make the best *business* decisions. Understanding this is vital to understand the "anti-competitive" practices that Pearl Jam's suit hopes to stop.

What are these "anti-competitive" practices? The *Rolling Stone* article by Neil Strauss and Tom Dunkel provides some examples: "Ticketmaster, it's claimed, keeps ticket sales organized and revenue high. This is often at the expense of fans, however. The service charges that Ticketmaster adds to tickets range from $3 to $6 and can add more than 30 percent to a ticket's face value." The suggestion here, that Ticketmaster's activities make fans worse off, involves an economic fallacy. The error, known to economists as the "physical fallacy,"[3] is examined below.

The article goes on: "One reason these surcharges are so high is because Ticketmaster pays a small fee to venues or promoters for every ticket sold in order to maintain its exclusive contracts with them. . . . Ticketmaster has even loaned promoters money to meet the guarantees of stadium acts and has given money to venues for promotion and marketing. . . . Several recent lawsuits call Ticketmaster dividends to venues 'kickbacks.'" Ticketmaster, in other words, is securing long-term arrangements. The money Ticketmaster loans or gives to arenas or promoters to meet guarantees is money spent to insure that the show will be performed.

The question to ask yourself (as an arena-rock fan) here is: What would I rather have? Fifty extra cents in your pocket is of little use to you when accompanied by a ticket to a show that has been canceled because the venue couldn't meet its guarantees. Ticketmaster likely started these loans and promotion subsidies *in response* to people who complained after shows were canceled, i.e., to better serve the same people Ticketmaster is now charged with ripping off. These policies *for insuring* that concerts will be performed are construed as "anti-competitive" because a small-scale ticket service might be unable to duplicate them. Yet everyone benefits: the fans, the performers, and the venue. Is this somehow unfair?

The "Physical Fallacy"

The article contains an interesting statement by one of Pearl Jam's guitarists, Stone Gossard: "Our band, which is determined to keep ticket prices low, will always be in conflict with Ticketmaster." To judge the truth-value of that statement, a discussion of the "physical fallacy" is in order.

The basic point is that economic value doesn't just depend on a good's physical features; value can also depend on where or when the good is available. By bringing a good from the producer to the consumer, a middleman can *add value* to that good despite the fact that the middleman has not changed (added anything to) its physical shape. Let's consider what value Ticketmaster might be adding to the tickets they convey.

When a rock band goes on tour, they have to be selective about the types of venues and number of sites they will play. It would be as unsuitable for Pearl Jam, a band with a large national following, to play at local nightclubs as it would be for a local garage band to play at Madison Square Garden. Pearl Jam typically plays big-city arenas (such as the homes of NBA teams). Small-city venues would offer the band less of a chance to recoup expenses. As well, touring can be a grueling thing. There is a limit on the number of shows any group can perform, before touring's effects start to show up on stage. Some cities, then, will have to be avoided.

Imagine a hypothetical Pearl Jam fan who lives in Bakersfield, California. Suppose that Pearl Jam has decided to tour once again, but not to perform in Bakersfield, because the population of Bakersfield is too small, and they are going to play a number of shows at the Forum in Los Angeles 75 miles away. Our hypothetical fan, Suzy, is a teenager who works part time at the Taco Bell near the mall for minimum wage while going to high school. She is a dedicated Pearl Jam follower, and would not think of missing them. If Ticketmaster did not exist, and the only source of tickets to the Pearl Jam concert was the Forum box office, what options would Suzy have? She could wait until the night of a show and drive down to L.A., but if all the shows had sold out beforehand, she would either have to pay a scalper's price or drive home disappointed. Her only other option for securing a ticket is to drive to the box office to get tickets at the first chance possible.

What is involved here? Not only the hassle of having to drive 150 miles *just to get* tickets (and drive again the night of the show), but whatever else Suzy *could* have done with the time it took to get to L.A., get to the Forum, and wait in line (remember that the Forum box office is now the *only* source for tickets) and drive back to Bakersfield. How long would this take? Even at the best times for driving, three hours minimum; with L.A. traffic and the wait in line added in, possibly four. What does this mean for Suzy? Suppose she takes time off from her job to make the ticket run, sacrificing $4.25 an hour. Multiply $4.25 an hour by four and you get $17. Add $5 for gasoline and you get $22. This is the value Ticketmaster adds by making tickets available at Suzy's favorite record store (Tower Records) in Bakersfield. Even if Ticketmaster charges her $6, Suzy has saved $16. And we haven't even considered the wear-and-tear on her old Toyota.

Sure, not *everyone* lives 75 miles from the closest Pearl Jam venue. But almost everyone lives closer to a Ticketmaster location than to such an arena. The ticket company, in fact, sees to that. Ticketmaster places its outlets in malls, music stores, and other right-on-the-way places, precisely so that most people will find its service charges worth paying. A trip to Ticketmaster, service charge included, is less costly than a trip to the arena box office.

Economies of Scale

If you believe that having "competition" from other ticket services would drive *down* the price of Ticketmaster's fees, you are wrong. Why? Economies of scale. Ticketmaster was able to "monopolize" ticket sales because they were the most efficient in utilizing economies of scale. Their larger network of outlets operates at lower cost per ticket sold than smaller firms could manage. (If not, smaller firms could spring up to sell Pearl Jam's tickets.) An antitrust ruling against Ticketmaster would work against the efficiencies that economies of scale allow.

Antitrust laws are at war with economic reality. The only way that Ticketmaster could have allowed the "little guys" to remain in business would have been to *raise* their fees to match the inefficiencies of these "little guys." Such "price fixing" is no favor to consumers, and is also illegal in the screwy world of antitrust. So what were Ticketmaster's options? Keep prices artificially high and be sued under antitrust statutes for "price fixing," or make use of economies of scale and be sued *under those same antitrust laws* for "intending to monopolize." Ticketmaster is only the latest firm caught in the arbitrary, contradictory world of antitrust, for no other reason than that they were and are the best in the business.

A *coercive* monopoly, i.e., a seller whose potential competitors are excluded by government force, can raise prices and limit quantities with impunity. The post office is a good example. But Ticketmaster is *not* backed by the government, and competitors *could* enter the field if they had a better method or organization. The methods of "coercion" described by complainants against Ticketmaster are not coercion at all. Ticketmaster has a *right* not to deal with anyone it does not wish to. What if arenas refuse to book certain bands because they are afraid that Ticketmaster *won't do business with them*? I cannot think of a more telling sign that a business firm has its act together than that people fear the loss of its services. And if the owners/managers are afraid that Ticketmaster will not do business with them, doesn't that mean Ticketmaster is leaving room for the "little guys"?

Consider what will happen if antitrust law is used to break up Ticketmaster. Remember that Ticketmaster's *largest* competitor (the one with the largest economies of scale) was losing millions of dollars a year trying to compete. What does this mean? Millions of dollars a year in *extra* fees will have to be paid to compensate for the inefficiencies of lack of scale. If Ticketmaster's "kickbacks" to promoters (to insure that shows take place) are ruled illegal, the number of show cancellations will rise. What will happen if another recession hits? In 1991, the concert industry was devastated. There were only two rock tours that year (that I can remember). One was Guns 'n' Roses, arguably the most popular rock band in the world at that time, the other was Perry Farrell's Lollapalooza tour. It is no coincidence that Ticketron finally gave up and sold their remaining assets to Ticketmaster in 1991. It is also significant that no potential competitor has (to my knowledge) stepped forward since the suit began, saying that they could do a *better* job than Ticketmaster. An antitrust suit ruling against Ticketmaster will mean lost jobs.

Kelly Curtis says that, "All [Pearl Jam] wants to do is to be able to tour with a cheap ticket price."[4] This is not what Pearl Jam wants to do. Pearl Jam wants to use Ticketmaster's service while dictating to Ticketmaster what fees Ticketmaster can receive, despite the fact that Ticketmaster makes its profit by *decreasing* the cost of tickets relative to individual ticket buyers.

What can Pearl Jam do to keep the tickets cheap? They could take a lesson from the Lollapalooza tour, and lower their own base ticket price. Farrell's tour had *six* bands, an average ticket price of only $25, *and it still made money during a recession*. How? By not playing expensive venues. It was a tour of fairgrounds, where facilities, and correspondingly venue fees were modest. Even if Pearl Jam takes along an opening act, it is unlikely that they would have more than one third the number of musicians of Lollapalooza, so the gate will not have to split as many ways. Ticket scalping—the result of unsatisfied demand at the intended price—can easily be reduced by simply adding more shows, until the market is saturated. Unlike the Forum, where there is no chance of adding another show if the Knicks are playing the Lakers the next day, a fairground can easily add dates as the initial shows sell out.

Pearl Jam *does* have alternatives to making an arena tour and using Ticketmaster's service. They have exercised one of them by not touring. If they truly want to provide a show at a low cost to their fans, they have options there, too. It is in both Ticketmaster's *and* Pearl Jam's best interest to realize exactly what they do for each other. Ticketmaster could not exist without entertainers, and Pearl Jam (and fans and venue managers) are better served by Ticketmaster than by anyone else who has appeared. It remains to be seen, whether Pearl Jam *will* actually learn this before their fans desert them for bands that do tour. □

1. "Rock 'n' Roll's Holy War," *Time*, June 20, 1994, pp. 48–49.
2. Neil Strauss and Tom Dunkel, "Exploding Tickets," *Rolling Stone*, August 11, 1994, pp. 29–30.
3. See J. D. Gwartney and R. L. Stroup, *Economics: Private and Public Choice* (New York: Harcourt Brace Jovanovich, Inc., 1990). The term "physical fallacy" was introduced by Thomas Sowell in his *Knowledge and Decisions* (New York: Basic Books, 1980), pp. 67–72.
4. "Rock 'n' Roll's Holy War," *op. cit.*

The Right Direction for Welfare Reform

One of America's greatest strengths has always been its extensive network of private efforts to solve personal, family, and community problems. When it comes to dealing effectively with such social concerns, government is not by a long shot the only game in town.

Indeed, given the expensive quagmire that government is widely conceded to have created with welfare programs, private efforts are providing a beacon for progress and reform. As management expert Peter Drucker has put it, agencies in the private sector "spend far less for results than governments spend for failure." What America needs, he says, is "a public policy that establishes the nonprofits as the country's first line of attack on its social problems."

Private, nonprofit agencies are spearheading an unprecedented number of local programs to combat hunger, illiteracy, homelessness, welfare dependency, drug use, teen pregnancy, and other social problems. The secret to the success of such programs is accountability, since they are run by local people who are closest to the problems and have a strong incentive to manage resources wisely and get the job done. Michigan is home to two new and innovative programs that deserve special attention.

In October 1991, the State of Michigan ended its General Assistance (GA) program for able-bodied, single adults. What has happened since is a case study of the private sector cleaning up after a government mess. In the mid-Michigan town of Harrison, a group of concerned volunteers wanted to help former GA recipients by easing their transition to productive self-reliance. These volunteer efforts created a unique privately funded assistance center called Hard Times Cafe.

Every Thursday afternoon, former GA recipients and other needy people, ranging in age from 18 to 63, gather at St. Athanasius Church for a hot meal, companionship, and innovative counseling—all designed to instill new incentives for gaining control of their lives. They share their concerns in an atmosphere of trust and respect. They learn thinking, planning, and organization skills, as well as good work habits.

They also earn "Hard Times Dollars," which are redeemable in personal needs items from soap to toothpaste. Recipients earn the goods, donated by churches and businesses, by displaying positive work habits while performing designated community service work. They do carpentry, maintenance, and gardening work; they plant trees; and they help out at a local YMCA camp. With sufficient "dollars" they can even obtain vouchers for rent, house payments, taxes, utilities, transportation, and medical needs, funded through private grants.

The government welfare system requires people to constantly affirm their inability to

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meet their personal and family needs. Hard Times Cafe does just the opposite: it infuses a "can-do" spirit of independence and rewards positive, pro-work attitudes. The project's organizers report remarkable success.

Meanwhile, in Grand Rapids, another locally conceived program is helping people rebuild their lives. Faith, Inc., is a non-profit organization started by Heartside Area Ministries to help the homeless get jobs, training, and counseling.

During the daytime, Faith's director, Verne Barry, seeks out homeless people, welfare recipients, and otherwise discouraged individuals from the area and offers them a chance to help themselves. In the evening, Faith, Inc., uses a portion of a 100,000-square-foot manufacturing warehouse owned by Hope Network (a work facility for the developmentally disabled), which is normally closed after 4 p.m. Faith employees teach these individuals, "whom everyone else has written off," to perform light assembly and packaging jobs—real work needed to fill orders for private contracts awarded to Hope Network. At the end of the week, each employee receives a paycheck, many for the first time in years.

Faith ensures each individual receives counseling from a variety of private organizations in order to improve their work habits and lifestyles—and overcome substance abuse and emotional problems. With very limited resources, Faith has helped several hundred people get off public assistance, either fully or partially, and many have moved on to higher paying, steady jobs.

The key to Faith's success, according to Barry, is that its clients work. He questions government programs which spend millions of dollars annually to teach and train people "how to work" in lieu of the real thing. "At Faith, we don't send them to 'assessment school' for six months to decide what career they would like," he said. "We help them start working immediately. It's essential to enhancing their self-worth."

The experience of Hard Times Cafe and Faith, Inc., adds credence to this comment from Marc Bendick of the Washington, D.C.-based Urban Institute: "Through their small scale, non-bureaucratic nature, local knowledge, and personal relationships, neighborhoods, families, churches, and voluntary associations can respond rapidly, accurately and in a more acceptable manner to local and individual needs in ways that large, formal institutions such as government agencies cannot."

Welfare programs operated by government may well be the most unpopular of all government initiatives—criticized by the social scientists who observe the effects, disdained by the taxpayers who pay the bills, and even unloved by many of the people who collect the benefits. Thirty years and billions of dollars after Lyndon Johnson fired the first shot in the War on Poverty, the enemy has won. The poverty rate has been essentially flat to slightly higher ever since. A new consensus seems to be emerging from among those who work closely with the poor: welfare has made worse the very problems it was intended to cure, and created a few new ones along the way.

Private initiatives like Hard Times Cafe and Faith, Inc., stand in stark contrast to their government counterparts that perpetuate poverty, undermine the work ethic, break up families, and promote illegitimacy. Unlike private efforts that stress character building, one-on-one mentoring, and a spiritual dimension, the impersonal public dole does nothing to resolve the behavioral poverty that keeps millions in demoralizing dependency. In the words of John Fund of the *Wall Street Journal*, "Ask yourself: If you had a financial windfall and wanted to help the poor, would you even *think* about giving time or a check to the government?"

The present welfare system has produced such disastrous consequences that it's hard to imagine how a radical overhaul could do worse. The remedy is privatization—families assuming responsibility for their loved ones, churches meeting the needs of their flock, neighbor helping neighbor, private organizations assisting those who "fall through the cracks."

True welfare reform may actually mean learning to trust ourselves again. That would indeed be revolutionary. □

THE FREEMAN
IDEAS ON LIBERTY

Spending Money Freely

by Lawrence H. White

In the last year, I have begun to buy things *without* using coins, paper money, a credit card, or a checkbook. You may begin to do likewise next year, or you may have begun a few years ago, though neither of us could have done it ten years back. I've actually learned two new ways to pay.

I bought a bag of groceries last week by swiping my "debit" card (the same card I use at an automatic teller machine, or ATM) through a small card-reader—mounted right next to the little check-writing platform for people who still use checks—and keying in my four-digit PIN (personal identification number). I thereby electronically authorized a transfer of funds, from my bank account to the supermarket's, equal to the $25.96 being displayed on the cash register as my total bill. In a matter of seconds—before my groceries were completely bagged, in fact—the cash register spit out my itemized receipt to signal that the payment was good. Last summer I used a service station along the interstate with similar card-readers and receipt-printers mounted by and wired to its gasoline pumps, allowing any debit-cardholder to buy gasoline at any hour without any station employee having to be on duty to process the payment. Before too long, just about every point of sale that takes credit cards will probably also take debit cards.

Yesterday I used a second novel way of paying at a nearby copy shop. The shop's self-service photocopier didn't take coins, paper money, credit cards, or even a debit card. Instead I put a plastic card bearing a magnetic strip on its back into a reader, which displayed in glowing yellow digits how many dollars-worth the card "carried." (On an earlier occasion I had purchased the card from a nearby machine, which had "loaded" the card with the dollar amount of paper money and coins I put into the machine. When the card balance gets low, it can be topped up at the same machine.) I watched the yellow number go down by .07 with each copy produced. In the future a single prepaid card, probably carrying a microchip rather than a magnetic strip, may be usable in a wide variety of transactions. Imagine the convenience if the same card were accepted by photocopy machines, soda machines, pay telephones, and even by the cash registers in ordinary retail shops. Imagine if the card balance could be topped up at an ATM—or even at your home computer—by transferring funds from your bank account. Such "smart cards," as the idea is known, would amount to a bank-issued currency, a modern equivalent of the private banknotes that circulated before governments monopolized the issue of currency.

New Ways to Pay: The Advantage

These new payment methods are spreading. Smart card systems have been introduced in Denmark, Singapore, and Eng-

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land.[1] Here in the United States, retailers are finding card-readers increasingly cheap to install, and growing numbers of customers are discovering the advantages of debit and prepaid cards. In a world where people are increasingly in a hurry, they speed the act of paying—no need to have the right change or to wait for change in return, no need to write out a check, no need to stop at the bank counter or ATM to get more cash. Paying by debit card or smart card will often be more convenient than paying with cash. A debit card is even better than cash or a smart card in at least two respects: using a debit card keeps your money in your bank account, where it is both more secure from theft *and* earns interest, right up to the moment it is spent.

Some observers are skeptical that payments methods will change dramatically any time soon. What happened to the predictions a decade ago that soon everyone would be banking electronically by home computer? Actually, home banking is now finally growing in popularity, for several reasons. Touch-tone phone-banking services, along with ATMs, have acclimated people to electronic banking; home computers and modems (devices to transmit computer information over telephone lines) have gotten cheaper; home banking software has gotten easier to use; and increasing numbers of households are subscribing to on-line services like Prodigy that include electronic home banking and bill-paying among their offerings.[2] Hundreds of thousands of people now make hundreds of millions of dollars worth of monthly payments electronically by typing and mouse-clicking at their home computers. (I'm not yet one of those people, but check back with me in a few years.)

An even more dramatic development in the last few years, with possibly profound implications for the payments system, has been the growth of the Internet, the decentralized worldwide network of interlinked computers across which users send electronic mail ("e-mail"), post messages to "newsgroups" for public discussion, and browse for and download information. The Internet is estimated to have had 30 million users at the start of 1995, and to have been growing at the amazing rate of 10 percent per month.[3] Like many in academia and business, I often spend an hour a day reading and sending e-mail and newsgroup postings. The Internet was originally non-commercial, but with tens of thousands of business firms now connected, plenty of business is already being done by e-mail. Those who "log on" to the "Net" or "go on-line" daily are natural candidates for convenient on-line retail shopping, and commercial Internet sites have begun to appear. On-line catalogs—fast becoming "virtual shopping malls"—have long been a staple of Prodigy, Compuserve, America On Line, and the other proprietary networks.

But how to pay for an item selected from your computer screen? For some transactions, you might want to send a credit card number by e-mail. I have actually renewed a magazine subscription this way, but I had to worry about my number being intercepted by a computer "hacker." The profit motive is now hurrying to the rescue: Microsoft and Visa, the software and credit-card giants, have recently announced a joint project to develop a user-friendly way to encrypt (encode) and decrypt credit-card numbers sent over e-mail to assure security in such transactions.

For other transactions, a way to "pay cash" over the Internet would be a winner. Several firms are now developing systems for "digital cash" or "e-money," most notably DigiCash, founded by cryptography (code-making) expert David Chaum. These systems allow an electronic funds transfer to be launched from a personal computer as easily as from a supermarket's debit-card-reader.

Privacy Concerns

There is, however, a potentially large fly in the ointment of these new payments methods. Unlike a paper-money or prepaid-card transaction, a credit-card or debit-card transaction typically lacks privacy. Using electronic deposit transfer or a credit card (either in person or via computer), like writing a check, generates a trail. Your bank's or card company's computer ends up with a list not only of how much you've spent, but of where you spent it. The same list could be constructed by combining the information held by all the vendors from whom you bought. This list is potentially available to the IRS or to other government agencies who may want to commandeer it. If you don't have a contract with your bank and vendors expressly forbidding it, the list is potentially available to credit bureaus or junk-mail firms who may want to buy the information. The privacy issue understandably concerns many people who are perfectly law-abiding citizens.

Fortunately, computing and cryptographic experts like Chaum are working to develop methods for *anonymous* electronic payments. One set of models for anonymous payments uses the "smart card" method (the funds to be transferred have already been downloaded onto a smart card or personal computer); an alternative set uses electronic deposit transfer either by debit card or by personal computer. For an example of the deposit-transfer type, suppose I wish to pay you $100 anonymously without using physical currency. (I might be standing at your cash register, or I might be home at my computer looking at your invoice on my screen.) By merely typing in my PIN, or clicking on a "pay" button on my computer screen, I send a cryptographically "signed" (or PIN-authorized) and numbered (you have assigned the number) message to my bank that instructs my bank to transfer $100 to an account (whose name is encoded) at your bank. My bank reads the "signature," and knows the message is genuine. My bank can't read the recipient account name, so doesn't know to whom the money's going (only to which bank). Your bank can't read my signature (which my bank may have removed), so doesn't know from whom the money came (only from which bank, and in favor of which account). You read the transaction number to know the payment came from me (though you might not know my name).[4] You then hand me the goods, or ship them to my private post office box.

Are bank customers actually eager to pay cost-covering prices for privacy features of this sort? I don't know. The market will tell us, assuming that government does not interfere. Some federal authorities have suggested that they would object to a completely untraceable version of smart-card or debit-card payment, because it *might* be used to hide transactions they want to tax or prohibit. To be consistent, such authorities should also object to the availability of untraceable $100 bills. Chillingly, some do.

Keeping the Government Off-Line

What role does the government need to play to orchestrate the shift to new payments methods? None whatsoever. Governments of the past, after all, played no role (or no *constructive* role) in the transitions from barter to commodity money, from raw metallic money to coins (though ancient despots later discovered profits in monopolizing the mints and in debasing the coins they produced), from coins to banknotes (though government-sponsored central banks later monopolized their issue and diluted their value as well), from currency to deposit transfer, cash to credit cards, checks to debit cards, or locally to nationally accepted ATM cards.[5] The shift to electronic payment methods is taking place already, without the Federal Reserve having taken any official position or promulgated any rules on digital cash or smart cards. Private ATM networks and credit-card networks already exist to set interconnection standards where new standards are needed.

Debit cards, being just a paperless substitute for checks, don't raise any important regulatory issues. But won't private banknote-like smart cards, being a new privately issued form of money, need regulation once they catch on? Don't they threaten an inflationary avalanche of electronic money? Absent central bank restrictions, what will limit the quantity of smart-card-loaded "dollars" commercial banks can create? The answer to the first two questions is no, because the answer to the third is that a bank's obligation to convert card-balance dollars to scarce reserve dollars (physical currency or account balances at the clearinghouse) on demand naturally limits the number of card-balance dollars a bank will find it prudent to create given the size of its reserves.[6]

There is more at stake for you and me in electronic funds transfer than simply more convenient payment methods. One major potential advantage of electronic funds transfer via personal computer is that it may give ordinary consumers affordable access to offshore banking. With direct deposit of paychecks, and with old-fashioned cash available at ATMs whenever we want it, few of us really need to visit our banks in person anymore. Why not keep your account at a reputable foreign bank (perhaps a branch of a major Swiss bank) in the Bahamas or the Cayman Islands? Such an offshore account is perfectly legal (though a U. S. bank's offshore branch is prohibited from directly doing business with American citizens or firms), but not worth the trouble for most individuals or small businesses today. If an offshore bank were linked to the clearing system and to an onshore ATM network (or if access to physical cash were irrelevant because all cash-like payments could be made by debit card or smart card), more of us could begin enjoying the advantages of offshore banking that big-money players and large firms have enjoyed for years. Offshore banks pay higher interest on deposits because they are free from the taxes on deposit balances that the U.S. government levies in the form of reserve requirements, deposit insurance "premiums," and taxes on bank earnings. Individuals who are concerned about privacy should also find an offshore foreign bank attractive for its lesser propensity to surrender its records to domestic authorities.

Just as a variety of old and new forms of payment are available today, old-fashioned payment methods like cash and check-writing can be expected to persist well into the twenty-first century. There they will coexist with smart cards, debit cards, personal-computer-launched deposit transfer, and perhaps other new electronic methods of payment. If and when Prodigy, Compuserve, and Internet sites begin offering offshore banking services, things should really become interesting. An exodus of retail banking business from the regulated sector to a free banking sector will shrink the fiefdom of federal banking authorities. Let us hope the authorities accept that fate gracefully. □

1. For an account of recent and possible future developments see Steven Levy, "E-Money (That's What I Want)," *Wired* (December 1994), pp. 174ff.
2. David C. Churbuck, "Let Your Fingers do the Banking," *Forbes* (19 August 1991), pp. 122–24.
3. "So Much for the Cashless Society," *The Economist* (26 November 1994), pp. 21–23.
4. In Internet lingo, this method preserves privacy by using the two banks as semi-anonymous "remailers" of different parts of the payment message. Privacy could be increased even further by having a clearinghouse relay the message so that neither bank even knows the identity of the other bank. For an enlightening explanation of how the necessary encryption method works (such that my computer can encode a message that *only* the intended recipient's computer can decode), see Hal Finney, "Protecting Privacy with Electronic Cash," *Extropy* #10 (Winter/Spring 1993), pp. 8–14.
5. For brief accounts of how these practices emerged in the market see George A. Selgin and Lawrence H. White, "The Evolution of a Free Banking System," *Economic Inquiry*, vol. 25, no. 3 (July 1987), pp. 439–57.
6. The theory of the natural limit to banknote volume under "free banking" applies equally to smart-card balances. See George A. Selgin and Lawrence H. White, "How Would the Invisible Hand Handle Money?," *Journal of Economic Literature*, vol. 32, no. 4 (December 1994), pp. 1718–49.

THE FREEMAN
IDEAS ON LIBERTY

Phones and Freedom

by Marty Mattocks

After a recent departmental meeting at work, my boss asked a colleague and me to stay and discuss progress on a common project. After we had dispensed with the business at hand, the discussion moved on to new topics and an open-ended question and answer period. In this relaxed atmosphere I asked my boss to bring me up to date on what was outlined on the blackboard behind him: a recent proposal by an alternative long-distance provider for cutting our telecommunications costs. We are mutually responsible for providing technical support to a relatively large company with its own telephone switch and so I am curious to learn all I can about this dynamic field.

He went over the physical layout of the company's equipment and services, highlighting the advantages and improvements that had been made over the competition's current approach. This was one of the "big three" long-distance companies and a sizable investment of billions of dollars had been made in building transmission towers and installing sophisticated state-of-the-art equipment and software, all for the purpose of acquiring new customers in order to make a profit. At this point, my colleague made an interesting statement—one of those remarks that grabs your attention but you don't know why until you think about it later. He said, "I don't know how these companies can justify all this duplication of equipment," or something along that line. The wheels inside my head began turning as the conversation drifted off to other topics.

Yes, how can companies like these justify the expenditure of billions of dollars to duplicate something that is already there? I was intrigued by the sentiment I had just heard—genuinely and honestly expressed—one of those attitudes that are the real root causes behind much of what goes on in our world.

I am not being judgmental. We all have first impressions that often are out of our mouths before being processed by our brains. But as I gave my colleague's honest query more thought I began to see in a microcosm much of the wisdom and many of the benefits of the free market philosophy, along with the disadvantages of its alternative. Let me explain.

The Benefits of Competition

In our community—within one block—there are two supermarkets, each with its own bakery and deli and aisles upon aisles of foods in every shape and form. Within the same block are three banks, each offering competitive rates on certificates of deposit, home equity loans, and checking accounts. These enterprises compete against one another for customers and must do so at the right price and by providing the best value for that price. They all have expenses which include the cost of their property, equipment, labor, and advertising. The more efficient a firm's system of providing goods and services at the lowest possible cost, the

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greater its profit and chance of survival. The joint pressures of price competition, cost containment, and creativity in providing new goods and services to attract and keep customers all result in lower prices and more readily available goods and services for the entire community.

If we were to complain that all this expense was unnecessary—or, more fashionably, that the duplication was environmentally wasteful—we would be shooting ourselves in the foot. If we were to grant only one supermarket owner, or one banker, the exclusive privilege of providing these goods and services (or worse yet have a government grocery store or a government bank), he would no doubt get rich (charging monopoly prices) and lazy (less incentive for more efficient operations). Prices would be higher and there would be less attention to consumer convenience as we all went to do business at the same place (services would not be as readily available).

Boris Yeltsin, the maverick Muscovite who championed political freedom in Russia in the late eighties, comments in his book *Against the Grain*, about his first trip to an American supermarket. "When I saw those shelves crammed with hundreds, thousands of cans, cartons and goods of every possible sort, for the first time I felt quite frankly sick with despair for the Soviet people. That such a potentially superrich country as ours has been brought to a state of such poverty! It is terrible to think of it."[1] He had experienced firsthand the alternative to "not being able to justify all that duplication," the alternative to the one supermarket/one bank per community concept that had been implemented in his native Russia. He came to this conclusion: "If one accepts the private ownership of property then this means the collapse of the main buttress that supports the state's monopoly of property ownership . . . we soon realize that we are practically the only country left on earth which is trying to enter the twenty-first century with an obsolete nineteenth-century ideology; that we are the last inhabitants of a country defeated by socialism."[2] It should have come as no surprise to find out that when the Iron Curtain fell, it was discovered that much of the U.S.S.R.'s telecommunications infrastructure had not been upgraded for many decades.

Market Forces at Work

Gas stations, convenience stores, hardware stores, and fast-food restaurants are other businesses where we see these same market forces at work. Despite the advantage of being able to eat Mexican, pizza, burgers, chicken, or fish, each a different night of the week, it is natural to wonder, "Where is the saturation point?" Perhaps the answer is in a simple equation: where supply is greater than demand, or where a good return can no longer be received from the capital investment necessary to compete profitably. Or even simpler yet: where there are too few paying customers. The more entrepreneurial among us defy the saturation point daily, thinking of ways to create new demand for their products and services. They offer their wares at better prices, provide them more conveniently, make them better quality or with new added value that no one had thought of before.

Though not as readily visible, there exists a market for long-distance services, whose participants are influenced by the same forces as the grocery store owner and the banker. Since the divestiture of AT&T's Bell System in 1984, Sprint and MCI's increasing participation in the national telephony market has had effects similar to those we have discussed in local retail markets. Long-distance rates have dropped an average of 40 to 45 percent,[3] and every day we hear of new, gee-whiz services available over our plain old telephone service line.

In fact, industry analysts point out that "during the last decade, the lessons and benefits of long-distance telephone competition have begun to echo in the local telecommunications marketplace. Business users have begun to appreciate and demand more choices for vendor diversity, for network reliability, and cost savings. Other states including Washington and Maryland have joined New York in authorizing local telephone service competition."[4] Like MCI and Sprint ten years ago, two new competitors in providing local dial-tone service are Metropolitan Fiber Systems (MFS) and Teleport Communications Group (TCG). MFS currently has networks in 18 cities and an additional 13 under construction. TCG has service available in the New York metropolitan area with seven other states targeted for expansion.[5]

These established players are now looking over their shoulders at some major new and potential entrants. Cable companies, cellular/wireless alliances, and long-distance companies interested in saving on access charges they must pay to local Bell operating companies are beginning to enter the playing field. Time Warner (whose entry into the Rochester, New York, market has been called the most significant step so far in promoting local competition[6]), Cox Cable, Viacom, and TCI are cable companies that could offer phone services.[7] AT&T is in the process of acquiring McCaw Communications, the largest cellular service provider in the United States. MCI has invested more than a billion dollars in Nextel, a special mobile radio company that uses a technology to compete with cellular. Sprint has formed an alliance to bid for personal communications services licenses, and merged with Centel to provide cellular services.[8] MCI's Metro subsidiary is building a metropolitan area network in Atlanta to compete for local phone service there, part of its plan to spend two billion dollars this year constructing fiber-optic networks in the 20 largest U.S. cities.[9] And low earth-orbiting satellites may also become part of the telecommunicating landscape in the future.

"The End User as King"

With all these companies stumbling over themselves to provide the least expensive, most efficient, most ingenious system of providing local phone service, whom do you think will benefit? In an article entitled, "The End User as King," industry pioneer Craig McCaw is quoted as having said, "Our customers don't care whether we use TDMA, CDMA (communications technologies/protocols) or spaghetti. They only care that we provide them with the services they need, when they want them, and at a price they can afford."[10] Two other consultants and telecommunications industry analysts stated it in similar terms, "The more competitors there are in a market, the more competitive the market will be, which will bring down prices and increase service quality";[11] and, "Business users are likely to benefit from improved quality and reduced prices."[12] Dr. Joseph S. Kraemer, Managing Director of EDS's Communications Industries Consulting practice, notes that "in response to competitive threats, local exchange carriers (LEC's) are rapidly implementing new services, cutting costs, improving productivity and accelerating the deployment of new technology, all of which benefits the LEC's customers."[13]

Cries can nonetheless be heard for government intervention, regulation, and a return to the good old days. Kraemer has identified a number of regulatory attitudes and actions that "could either delay or stop local exchange competition." He adds: "Without a credible competitive threat, the incentive to continue to improve productivity and accelerate technology deployment will be eliminated."[14] Turning the table around, the regional Bell operating companies have rightfully asked to be freed from the restrictions preventing them from competing in the cable and long-distance markets.

In all the talk about an "information superhighway" and the "national information infrastructure" the key question is: Will it be public or private? Here again we see a replay of a monopoly's or government's sluggishness versus the speed of the free market. Vice President Gore has been an outspoken proponent of government intervention and in 1991 proposed spending two billion dollars of taxpayers' money for research and upgrades in hopes of channeling private investment activity. Informed critics said this top-down approach would create a very elegant network "but it may be obsolete by the time it's deployed."[15] In a typical week's telecommunications news, the private sector announces plans and demonstrates prototypes, while the White House says it will take slightly longer than previously expected just to name the members of a task force.[16] A perceptive letter to the editor in one trade magazine stated, "I am not the least bit interested in having the federal government take the lead with regard to the information highway. The agony and confusion in corporate information systems during the last decade in dealing with mainframes, PCs, workstations, networks, etc., will be dwarfed by the problems accompanying federal leadership."[17]

A host of companies are vying for customers in the potentially lucrative market currently dominated by online services providers Compuserve, Prodigy, and America Online.[18] PC software giant Microsoft now offers online commerce with its Microsoft Network online service, and giants IBM and (once again) MCI have respectively launched their IBM Global Network and marketplaceMCI offerings with e-mail, electronic software distribution, and multimedia on-line catalogs and ordering systems.[19]

Whether in supermarkets, banking, or telecommunications, a free market unhampered by government intervention is the most fertile environment for human progress and for the best allocation of scarce resources. Temporary setbacks notwithstanding, this truth will win out in the end. We will do better to cooperate with it than to endure the hard lesson learned by nations that ignore the simple yet profound principles of freedom. □

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THE FREEMAN
IDEAS ON LIBERTY

Live Freely, Live Longer

by Max More

The founders of the United States valued "life, liberty, and the pursuit of happiness." Life—healthy and long life—makes possible everything else we value. Without life we cannot enjoy liberty or pursue happiness. It's also true that without liberty—freedom from government and bureaucratic control—we will have shorter lives, and poorer health while we live. If we do away with the government's growing control over research into life extension and its treatments, we'll see faster progress towards the longest, healthiest lives ever enjoyed by humans.

Extending Healthy Life

We humans have long dreamed of preventing aging and its associated diseases. As molecular biology has matured over recent decades, the dream shows growing signs of becoming reality. Methods already exist for extending healthy human life to 120 or 140 years, though currently this involves a tough low-calorie diet. Potential life-extending substances are being studied, and we are beginning to find aging controls in our genes. If we can master these, we may be able to prevent and reverse aging, allowing all of us to remain physically and mentally vital.

Even today, various nutrients, drugs, hormones, and diets may be able to halt or slow aspects of the aging process. Drugs such as Deprenyl and Hydergine reportedly slow the rate of brain aging, helping to maintain youthful sharpness and quickness of thought. The hormone DHEA is thought to assist in keeping body fat at youthful levels and strengthens the vulnerable immune systems of older people. Substances such as melatonin and thymosin may also help in the fight against aging. Reports indicate that elderly volunteers given human growth hormone gained considerable muscle mass and strength, their skin thickened, and their immune systems partially returned to their youthful power.

As we continue to unravel the complexities of our genetic code at an accelerating rate, we may find ways to intervene in programmed cellular death. This cellular death has prevented even the healthiest human beings from living more than 120 years. In principle, nothing stands in the way of our being able to intervene in this biological process. We just need more understanding and better interventive technology.

What of those who will not live long enough to see these dramatic advances? Even they may have a chance. In the practice of "cryonics," as soon as a person has been declared legally dead (while practically all of their cells are yet alive), the body is filled with protective chemicals and gradually cooled to extremely low temperatures. At the temperature of liquid nitrogen (−320°F) all biological activity halts. The person can then wait for years, until cures

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Woeful Bankers

An old Christian saying warns us not to make money our god, for it will plague us like the devil. Based on this maxim, a few economists admonish us not to place politicians in charge of our money, for they will plague us worse than the devil.

Most Americans take heed of the first warning, but few pay attention to the latter. Unaware of the dire consequences of political control over money, they appointed "monetary authorities" and authorized them to issue and regulate their money. The Federal Reserve Act of 1913 established a central bank with seven governors who in time were to become the regulators and overseers of the monetary system. In 1933, the federal government expropriated the people's gold coins and replaced them with Federal Reserve notes. In the same year it organized the Federal Deposit Insurance Corporation (FDIC) which was followed by the Federal Savings and Loan Insurance Corporation (FSLIC). The directors of both government agencies assumed responsibility for and control over the people's bank deposits,

Since then a myriad of special laws has tightened the political grip on the banking industry. There are the laws regulating Truth in Lending, Truth in Savings, Fair Housing, the Community Reinvestment Act, the Real Estate Settlement Procedures Act, the Expedited Funds Availability Act, the Electronic Funds Transfer Act, the Financial Institution Reform, Recovery, and Enforcement Acts, the Equal Credit Opportunity Act, the Flood Disaster Protection Act, the Home Mortgage Disclosure Act, and various environmental acts.

The "war on drugs" gave occasion to the Bank Secrecy Act which forces bankers to reveal all major deposits and withdrawals to the banking authorities and call their attention to suspicious transactions. Failure to comply is called "structuring" and is punishable with fines and imprisonment. In other words, failure to snitch on their depositors is a serious crime. A number of bank tellers and supervisors are lingering in federal penitentiaries paying for their crimes. **There is no bank secrecy in the sense of customer privacy; bank secrecy now means the very opposite: secret reporting to the authorities.**

The authorities scrutinize every aspect of the lending process. Bankers are forced to observe the prescribed procedures in all details. Phone calls from customers about home loans must be logged, the marital status recorded; loan limits and waiting periods must be observed. What used to be a half-page application form has grown to a multi–page form designed to meet government edicts.

Banking regulations are crushing the banking industry. Last year (1994) a small–town banker received 2,945 pages of new regulations, amendments, and proposed regulations. For six long weeks five regulators conducted "compliance examinations," busily comparing books and records with more than ten thousand pages of regulations and searching for violations. The "compliance examinations" followed the major annual "safety–and–soundness" examinations.

The Community Reinvestment Act forces bankers to give special consideration to individuals who belong to minority groups. It compels bankers to grant loans on the basis of race, gender, and national origin rather than credit worthiness. The U.S. Department of Justice always stands ready to lend support to the regulators who may mete out stupendous fines. Their threat alone is enough to make all bankers quite subservient.

Bankers live in constant fear of criminal prosecution for violations of banking regulations. Minor infractions such as overdrafts on an executive's checking account call for draconian penalties. Minor deviations from a regulator's interpretation of a regulation may be penalized severely. Facing their regulators, most bankers stand at attention, stammering "Yes, Sir," or "No, Sir," "I am truly sorry, Sir," "We will follow your instructions immediately, Sir."

Under such conditions it is not difficult to reflect on the future of American banking. In the coming years, the number of banks (now about 11,000) is likely to shrink through mergers, syndications, cartelization, and other combinations. It takes large law and regulation departments to specialize in the intricacies of banking law and engage with the regulators and their prosecutors. Million–dollar fines per day are likely to crush most banks except for the giants such as Citicorp with $213 billion in assets or Bank of America with $180 billion. The regulators themselves undoubtedly will applaud the concentration movement as it simplifies and reinforces their control over the industry.

The trait and type of banking personnel is likely to change. Men of character, integrity, and independent judgment will give way to two types which thrive in all kinds of command systems: the servants and bondsmen who obey all orders and the villains who corrupt all orders. The number of banking scandals is bound to multiply in the coming years.

While banking itself is bound to linger and wane, related industries offering deposit and loan services will grow and fill the void — provided they escape the banking regiment. The "money market" offering treasury bills, commercial paper, certificates of deposit, and other instruments beckons for deposits; mutual funds and brokerage funds offer special checking account advantages. Yet, all this banking ersatz will not take the place of old–fashioned banks; the regulators who sit in judgment of what every sector of the capital market may do will not allow it. Political control over money tends to be comprehensive.

Harassed by regulators and prosecutors, some bank customers may seek refuge abroad. Since the disintegration of the Soviet system emerging markets all over the world are begging for funds, offering many attractions and high returns for capital fleeing from U.S. regulators.

The greatest difference between rich countries and poor countries is not so much the quality and effort of labor nor the abundance of natural resources, but the size and vitality of the capital market in which private banks play a pivotal role. U.S. banking laws and regulations are straining to create the very conditions so characteristic of poor countries.

Hans Sennholz

Hans F. Sennholz

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speaking on

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Op-Ed Update

The Foundation for Economic Education continues to expand in its efforts to spread the message of liberty. Part of our important work is our newspaper editorial program. Special versions of our best *Freeman* articles are appearing in newspapers across the country—and around the globe. You can help us to monitor our work. If you see one of our articles in your paper, drop us a line or give us a call.

have been found both for what killed him and for the aging process itself. The workability of cryonics is controversial, but even in its current state of development it may offer a chance of postponing our old enemy, death.

Try to extend your lifespan through medical technology and you'll quickly discover that the government acts as though it owns your life. If we each individually own our bodies and minds, you would think we would be free to evaluate any longevity-extending treatments, and assume the accompanying risk and responsibility. Yet government agencies, such as the Food and Drug Administration (FDA), and groups with government-granted privileges (such as state-licensed M.D.'s, whose lobbying group is the American Medical Association), claim the authority to make our choices for us. They treat us as children, constantly needing the protection of the nanny State. Not only does this insult us, but government control, compared to free choice in free markets, does badly at encouraging new and effective life extension technologies.

The Government Chokehold

Government involvement in life extension means both funding and regulation. Research funding by the state means funding by taxation. Two major problems arise from tax-funding of life extension research. First, since taxes are compulsory, unlike consumer purchases or venture capital investments, the recipients have little incentive to perform well. If your company is funded by taxes, you need not be so concerned with cost-effectiveness (remember the $500 military screwdriver?). With money coming not from customers but from taxpayers via the political system, you needn't worry about whether your proposed product is cost-effective. Second, since state funding is brokered by politicians, it will reflect the strength of interest groups and lobbying skills. These have little connection to the most promising research.

Whenever the state involves itself, decisions become centralized and heavily regulated. Progress in halting aging slows as politicians and interest groups block some kinds of research. Jeremy Rifkin's Foundation on Economic Trends, for example, has used the government to try to prevent various kinds of biotech research. On the free market, any peaceful idea can find funding and proceed if it shows sufficient promise, but in a politically controlled regime new ideas have to fight entrenched interests and their political allies sitting on numerous committees and regulatory agencies.

Much regulation in the life extension arena comes from the FDA. Other civilized countries get by just fine without any equivalent to this agency, and enjoy access to thousands of beneficial drugs and treatments years before Americans. For ten years following 1962 (when the FDA gained new powers), not one of the hypertension drugs available in Europe was approved in the United States. The delay before introducing beta blockers may have resulted in 10,000 unnecessary deaths annually. To develop, test, and gain approval of a new drug, companies must spend hundreds of millions of dollars and wait eight to ten years. Since 1962, the cost of developing new drugs has increased 50 times faster than inflation and approval time has quadrupled.[1] This isn't likely to change: Regulators tend to be over-tough because if they approve a drug that later causes problems, the blame falls on them. They receive no balancing benefit from rapid approval.[2]

The FDA started out small with limited powers, but has grown enormously. Currently it's attempting to make vitamins and protein components (amino acids) into prescription items. A few years ago, when one Japanese manufacturer produced contaminated supplies of the amino acid tryptophan, the FDA seized the chance to ban all sales of tryptophan. This supposedly temporary action has never been reversed. As a result, many thousands of people with sleeping and mood problems have gone back to using far more dangerous tranquilizers, some dying of accidental overdoses or suffering side effects.

The FDA uses SWAT-style raids on vitamin suppliers who dare to offer "unapproved" information about products they sell. The FDA has been working towards establishing a monopoly on information about drugs and nutrients. If you make claims (no matter how well scientifically supported) that the FDA hasn't sanctioned, you may find yourself held at gunpoint while your office is stripped. FDA agents even threatened to shut down a newsletter printer for the Life Extension Foundation, an organization frequently critical of the agency.

Some problems caused by the FDA and other agencies come from an unwillingness to recognize life extension as a legitimate aim of medicine. According to the prevailing medical view, enforced by the privileged medical establishment in league with the FDA, medicine should cure disease but not improve our health or capabilities beyond what's normal. Treatments which may allow us to live longer, or better than normal, are not even candidates for approval. A possibly life-saving practice as unusual as cryonics has even more difficulties with the state. Cryonics has been banned outright in British Columbia, while California agencies did all in their power to make it impossible for cryonics organizations to operate. (The government bureaucrats finally lost in the courts.) Terminal patients may not legally be cryonically suspended voluntarily before clinical death, even though this may greatly improve their chances of eventual restoration to life.

Freer Markets, Longer Lives

The more involved government becomes in life extension research and development, the slower such research proceeds and the more it costs. If we allow the free market to operate, subject only to reasonable liability rules rather than bureaucratic regulations and political maneuvers, innovation will accelerate. When people are free they can experiment in many directions simultaneously. Companies can more quickly offer the results of their research to customers. The incentive to bring products quickly to market will be balanced by caution due to liability for inadequate testing.

Rather than all treatments having to conform to state-approved levels of safety, individuals will be free to decide for themselves how much to risk for the expected benefits. We own our lives and are responsible for them. Decisions about our health and longevity belong to us, not to politicians and bureaucrats who don't know us. The more Americans are shielded from making their own decisions like infants, the more irresponsible and helpless they will become. Granted more freedom, we will also gain more responsibility. Some of the products tried by even well-informed people in a free market may be ineffective or harmful. But progress requires trial and error, and a system that restricts experimentation restricts the growth of knowledge.

Each of us is faced with the difficult challenges of aging and death. Let's not let the state reinforce the death-dealing tendencies of nature by restraining human intelligence from tackling the problem of degenerative aging. □

1. See Milton Friedman, *Free To Choose* (Orlando, Fla.: Harcourt, Brace, Jovanovich, 1990), p. 206.
2. Sam Peltzman, "Regulation of Phamaceutical Innovation" (Washington, D.C.,: American Enterprise Institute, 1974).

THE FREEMAN
IDEAS ON LIBERTY

Two Insights for Business Ethics

by Douglas B. Rasmussen

Business ethics does not stand by itself. It depends in large measure on the insights of political philosophy and ethics. Of course, it is not possible to do everything at once, and works in business ethics cannot be expected to deal with more general questions about the ultimate normative dimensions of capitalism, much less with the fundamental nature of morality and moral reasoning. Nonetheless, it is important to note two fundamental political and ethical insights that are crucial to appreciating the ethical significance of capitalism.

To begin with it should be understood that "capitalism" is not a mere descriptive term. It has a normative dimension. For example, "Murder Incorporated" is not regarded as a business firm in a capitalistic system. It is something criminal. One does not have the right to offer murder as a service that can be bought. This "service" is not allowed to operate. Similarly, the term "profit" does not mean merely a return on an exchange that is over costs; it also involves a certain type of exchange, namely a free or voluntary exchange. The gunman's offer, "Your money or your life," is, for example, not considered a free or voluntary exchange—even though one would prefer remaining alive to losing one's money. The problem with such an "exchange" is, of course, that the gunman does not have the right to demand from you either your life or your money in exchange for the other. Thus, there is an ethical perspective that is presupposed in our very understanding of capitalism and our notion of free or voluntary exchange.

The Role of Rights

In order to understand the ethical perspective from which the terms "capitalism" and "profit" derive their particular meaning, the concept of "rights" should be considered. "Rights" are a moral concept, but they are different from other moral concepts. They have a unique function. Their function is not to directly secure the moral well-being of individuals. Rather, their function is to protect the self-directedness of individual human beings and thereby secure the liberty under which individual human moral well-being can occur.[1]

Rights provide guidance in the creation, interpretation, and evaluation of political/legal systems. They protect individuals from being used by others for purposes to which they have not consented. Rights are used to determine fundamentally what ought to be a law. They provide the normative basis to law, but they do not, like the virtues, provide individuals with any guidance regarding what choices to make in the conduct of their daily lives.

The idea that "no one's purposes or goals take moral precedence over the purposes and goals of any other person in a way that would justify the complete or partial subordination of any individual to any other individual or to any group of individuals"[2]—more simply put, that there are no natural moral slaves or sovereigns—is expressed

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in the claim that individuals have rights. Smith's having a right in this sense legally obligates others to abstain from initiating physical compulsion, coercion, or interference against Smith.

It should be emphasized that the protection against being used for purposes to which one has not consented is understood to proscribe the nonconsensual use of the product of one's labor. As Robert Nozick has said:

> Seizing the results of someone's labor is equivalent to seizing hours from him and directing him to carry on various activities. If people force you to do certain work, or unrewarded work, for a certain period of time, they decide what you are to do and what purpose your work is to serve, apart from your decisions. This process whereby they take this decision from you makes them *part-owner* of you; it gives them a property-right in you. Just as having such partial control and power of decision, by right, over an animal or an inanimate object would be to have a property right in it.[3]

Government's proper function is to implement and enforce laws that protect the lives, time, and resources of persons from being used without their consent.

Capitalism is a socioeconomic system based on the recognition of individual rights. It is thus only against the political/legal backdrop provided by individual rights that a moral evaluation of the activities of creating wealth and exchanging goods and services within a capitalist system can be properly made.

Morality and Moral Reasoning

We need to consider the nature of morality and moral reasoning. When it comes to making an accurate moral assessment of capitalist activities, it is crucial that a certain understanding of the moral good of human beings be considered. Otherwise the moral significance of capitalism, as distinct from the political/legal significance, will not be appreciated.

Contrary to what is sometimes thought, it is not necessary to assume that the fundamental principle of human conduct and relations within capitalism is sheer greed or hedonism. Further, it is not necessary to assume that in order for capitalist activities to be morally defensible what is good for a person must be simply a matter of taste. It is quite possible to understand the activities of business people within capitalism as being motivated by the pursuit of more than merely wealth or pleasure. People can be understood as pursuing their moral well-being or fulfillment. In other words, the human moral good could be something objective, and yet the diverse activities of persons operating within capitalism be consistent with the attempt to achieve the good.

Human moral well-being need not be viewed as something abstract, impersonal, or uniform in order to be objective. Rather, the human good could be objective and nonetheless be concrete, personal, and variable. Though there are generic virtues that abstractly define the human good, what they amount to in the concrete situation for any individual human being varies. This does not mean that what is good for any person is simply a matter of taste or that there are no right or wrong choices, but it does mean that it would be a mistake to think that what is good for someone in some concrete situation can be determined merely from some armchair.

If human moral well-being is both real *and* pluralistic, this has great importance when it comes to morally assessing capitalist activities. It allows one to see the ethical importance of a socioeconomic system that protects and permits individuals in using their practical insight toward achieving their good in contingent and particular cases. This is especially so if it is true, as it certainly seems to be, that human moral well-being involves the creation, maintenance, and use of wealth in fulfilling ways. The judgments exercised by persons as producers and consumers are then related to the central intellectual virtue of practical reason of which Aristotle speaks in his ethical works.[4]

There is a parallel between an argument

that Mises and Hayek used to show that socialist economies could not efficiently coordinate the production and exchange of goods and services and an Aristotelian argument against rationalistic accounts of the good life. Just as central planners do not have access to the contingent and particular facts that individuals do in exercising the "entrepreneurial insight" that moves free markets toward equilibrium, so too speculative insight into the nature of the human good is not sufficient for a person's well-being to be achieved. Practical insight is needed, and this insight can only be used by that individual, no one else, in confronting at the time of action the contingent and particular facts of his or her life. Such insight cannot function from an abstract perspective in finding the "mean" that is appropriate for the individual. Thus, there is a creative role for the individual to play in *discovering* the individuative content that gives reality to the good life philosophers abstractly describe. It is the practical insight of individual human beings, not only in the creation of wealth but in achieving their unique form of the human good, that a system based on political and economic liberty helps to make possible.

Here then are two insights—one from political philosophy and one from ethics—that make a crucial difference as to how one morally evaluates the activities of persons within a capitalistic socioeconomic system. The idea that individual rights provide the basis for a political/legal context that protects the exercise of practical reason by individuals and the idea that the human good is objective, but individualized, are fundamental. It is important for anyone taking up issues in business ethics not to forget the import of these ideas—as well as others from political philosophy and ethics—for the understanding of capitalism. □

1. See Douglas B. Rasmussen and Douglas J. Den Uyl, *Liberty and Nature: An Aristotelian Defense of Liberal Order* (La Salle, Ill.: Open Court, 1991) for a defense of individual rights.
2. Eric Mack, "The Ethics of Taxation: Rights Versus Public Goods," in Dwight R. Lee, ed., *Taxation and Deficit Economy* (San Francisco: Pacific Research Institute for Public Policy, 1986), pp. 489–490.
3. Robert Nozick, *Anarchy, State and Utopia* (New York: Basic Books, 1974), p. 172.
4. See Douglas B. Rasmussen, "Capitalism and Morality: The Role of Practical Reason," in Robert W. McGee, ed., *Business Ethics & Common Sense* (Westport: Conn.: Quorum Books, 1992), pp. 31–44. Yet, also see Douglas J. Den Uyl, *The Virtue of Prudence* (New York: Peter Lang, 1991) as well as *Liberty and Nature*.

Rights versus "Rights"

by Tibor R. Machan

For the past 200 years or so a debate has ensued in political philosophy, on the issue of what sorts of rights human beings have. This is not the debate about whether we have rights at all, which is different. (Some hold that rights were identified by John Locke and others to bolster certain hidden goals, not because these rights actually exist.) What the rights versus "rights" debate is about is whether human beings have rights other than negative rights *not* to be killed, assaulted, kidnapped, or robbed. Negative rights, not to be intruded upon, are what Locke, the major seventeenth-century individual rights theorist, argued we all possess *by nature*. That is, we require certain social conditions when we

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form communities, because of the kind of being we are. We require the respect of our negative rights.

In response to Locke and his students, critics argued that the rights Locke identified are only some of those we possess. They maintained that we also have what are called "positive" rights: others must not only *refrain* from killing, assaulting, kidnapping, or robbing us but owe us services such as welfare, health care, and education. The point isn't that it is decent and morally proper for others to help us when we are in need. Rather they can be forced to provide us with what they can to help—their work, their earnings, the fruits of their talents—just as others *may be forced to desist* from murdering or assaulting us.

The recent debate in the United States about government-supplied health care illustrates the conflict between these two views of rights. Negative rights theorists argue that individuals ought to strive for living properly, for flourishing *in voluntary association with each other*, while positive rights theorists argue that *individuals naturally belong to each other*, as parts of an organic body. While Locke put on record the former theory, Karl Marx, who thought little of rights, spawned this alternative view of social relations. He declared that "The human essence is the true collectivity of man," meaning we are essentially "species beings," parts of the larger organic body of humanity. Others proceeded to soften this hard-line collectivist position into the milder sounding positive rights theory.

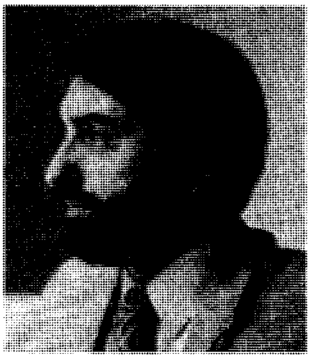
Some misunderstand the nature of positive rights, thinking that they simply arise out of an elaboration of negative rights. When columnist George Will noted a while ago that one official in our government leaned toward authoritarianism by inventing positive rights, ones not listed in the U.S. Constitution, someone criticized him along these lines: "[T]he Constitution has been amended in the past to include the 'right' to vote for African-Americans, women and 18-year-olds, as well as the right to be free from slavery and involuntary servitude."

The amendments the critic mentions are, however, drastically different from those advocated by many big-government theorists. Many of the amendments are simple elaborations, for more specialized cases, of the basic negative rights everyone possesses by nature. The "right to vote" is an application of the right to liberty to the area of political action: government may not prevent an adult citizen from fully participating in the political system. The right to be free from slavery is a simple corollary of the negative right to liberty, as is the right to be free from involuntary servitude. Just how different such amendments are from those proposed by advocates of positive rights can be appreciated when we consider that all positive rights imply involuntary servitude. If one is forced to make provisions for the health care, social security, or related needs of others, one is forced to serve them, plain and simple.

The debate is important but one must be careful not to misunderstand it. Basic negative rights need at times to be spelled out in some detail, made applicable to new areas of human conduct and problem-solving. For example, the right to freedom of speech—which spells out the right to liberty for communication—may need to be developed further in light of the growth of the electronic communications "superhighway." The right to own property had to be developed further to clarify ownership of portions of the electromagnetic (broadcast) spectrum. It can be shown, by careful logical reasoning, that these refinements follow from our basic negative rights.

Positive rights, however, violate our basic negative rights, place us in servitude to others, and therefore can only be fraudulently presented as things derived from our natural rights. We should be on guard when those who wish to solve social problems advocate unjustified power for the government by distorting the rights we all have. We have only negative rights. Positive "rights" are deceptive inventions that capitalize on the soundness of the theory of negative rights for dangerous purposes, leading, indeed, to the subversion of the original function of the concept of basic individual rights. □

by Robert James Bidinotto



In Praise of Pain

In recent months, we have heard daily alarms concerning legislation proposed by the new Congress.

Babies will starve, modern Chicken Littles warn, because teenage mothers will be deprived of "their" food stamps. Little children in schools will go hungry, because the new Scrooges on Capitol Hill will rob them of "their" school lunches. The elderly will lose "their" Medicare and Social Security. Opera enthusiasts will lose tax-subsidized encounters with Wagner and Puccini, and pre-schoolers the daily inspiration of Barney the Dinosaur, all because of plans to close down "their" local public broadcasting stations.

Never mind that none of this unearned largess is truly "theirs." Never mind that no one has a right to that which he has not produced—that no one can lay legitimate claim to goods and services belonging to others—that all of those "entitlements" entail legalized plunder of the taxpayers. In addition, none of the claims by special interests is even true.

Babies won't starve, because welfare programs aren't going to end: they're only going to be dumped by Washington in "block grants" onto state governments. School lunch subsidies are actually scheduled to *rise*, and likewise be sent to governors to administer. Ditto, spending on the elderly: all that will decline is the *rate of increase* in projected spending. As for public broadcasting, the only portion of its budget targeted for trimming is the meager 14 percent supplied by federal taxpayers. Clearly, Barney is in no danger of extinction.

You'd never know this judging by the cries of impending doom echoing across the land. Yet despite the claims of the Compassion Lobby, few redistributionist programs are on any politician's chopping block; even fewer will be gone when the political dust settles. As I anticipated in my January column, most of the modest reforms passed by the House are being bottled up in the Senate.

The block-grant approach symbolizes the weakness of the proposed reforms. Instead of ending programs that plunder Peter to pay Paul, Congress is proposing only that Paul receive the loot from his governor, rather than his congressman. The apparent "principle" here is that robbery is more efficient if done at the local level.

As revolutions go, this one is boringly bloodless. In fact, many self-styled revolutionaries are *trying* to keep it absolutely painless—when a little pain is exactly what recipients of the unearned need to experience right now.

Yes, you read that correctly.

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Criminal Justice? The Legal System Versus Individual Responsibility, *edited by Mr. Bidinotto and published by FEE, is available at $29.95 in cloth and $19.95 in paperback.*

Don't get me wrong. I'm not endorsing the Stoic view that pain builds character. Nor am I a Social Darwinist arguing for "survival of the fittest." Pain and suffering are not ends in themselves, nor is the collectivist goal of social purification a valid rationale for allowing harm to befall the weak.

But pain and suffering do have a vital purpose. They are invaluable signals to us, warnings that something is amiss—that we need to change course.

Mistakes and irresponsible behavior unavoidably lead to destructive consequences. Yet if we could not feel their impact, we'd have no reason to alter harmful behavior. The experience of pain warns us we're doing something injurious. Pain is nature's invaluable teacher; without it, we could not survive, because we'd never be deterred from self-destructive paths. A child learns not to put his hand on the stove, because it hurt the *first* time he did it.

Capitalism is a profit *and loss* system, one that rewards those who successfully produce valued goods and services, while punishing those who fail to do so. If profits were guaranteed and automatic, and losses impossible, there would be no *motive* for anyone to produce the things we need. Poverty and want soon would be everyone's fate.

That's precisely the impact of welfare statism. By trying to eliminate all suffering, it obliterates all incentives and motives to act wisely. It buffers people from the injurious consequences of error and irresponsibility, depriving them of the painful but vital lessons of life. It thus allows people to believe they can continue down destructive paths with impunity.

But even if *they* are buffered from pain, the destruction they have caused doesn't disappear: it's merely *transferred* onto others. To spare some people painful lessons, the welfare state forces innocent and responsible taxpayers to bear the pain and suffering instead.

To protect an unwed teenage mother from experiencing any discomfort from her folly, her married, working neighbors must deprive their own children to support hers. To protect American bankers from stupid investments, American workers must raid their own savings and cover the losses. To protect "family farmers" from the reality of supply and demand, urban American families must squeeze their own budgets and fund subsidies and supports.

Again, the welfare state doesn't *eliminate* pain and suffering: it merely *transfers* them from one person to another. It's a measure of modern corruption that this sordid policy is defended as embodying "compassion." But it's a curiously selective compassion: compassion only for the deserved suffering of the irresponsible and foolish, and simultaneous indifference toward the undeserved suffering of the responsible and wise.

In truth, the Compassion Lobby's claim to moral concern is fraudulent. There's nothing compassionate in transferring pain and suffering from those who caused it onto those who didn't. It is cruel injustice. Yet that's the operative moral premise of the welfare state.

Because people make mistakes, pain is always unavoidable. The question is, who should bear it: those who cause it, or those who didn't? Likewise, the idea of a painless revolution is an oxymoron. Change is always painful; but keeping our present welfare state is also causing pain. Whose pain should be our concern?

For too long, in order to spare some the hardships of self-responsibility, we have been willing to batter and burden millions of decent, hardworking citizens. *They* are the real victims today, and *their* unjustified suffering must end.

To salvage the moral initiative we must have the courage to look the Compassion Lobby directly in the eye, and refuse to blink. Rejecting their phony compassion, we must state bluntly:

"It's high time you *did* feel some pain. Better *you* than those self-responsible people who have been too long compelled to support you in your irresponsibility." □

THE FREEMAN
IDEAS ON LIBERTY

Bilingual by Choice

by James M. McCaffery

In the summer of 1992, I was a guest lecturer in comparative law at a large private law school in Latin America. One morning before class, I read in a local newspaper that the newly appointed minister of education had decreed that Indian children (defined as children who spoke an Indian language at home), who had previously received all their public education in Spanish, would now be instructed in Indian languages through the sixth grade in order to preserve Indian culture and ease their transition to Spanish. Ominously, the article mentioned that bilingual and multicultural experts from the United States had been consulted in this matter; there was no mention if anybody had asked the Indians for their opinion. I decided to do so myself.

Shortly before, I had seen a report on television about a conference at which Latin American Indians had met to discuss their mutual problems. Interestingly, the conference was conducted in Spanish (with some Portuguese), the lingua franca among Indians from Mexico to Patagonia, whose native languages may be as mutually unintelligible as German is to Chinese. Even some Indian languages that are seen as being a single tongue (Quechua, for example) have dialects that vary as much as Latin-based Spanish and Latin-based French do from each other. In rural markets I have seen Indians, who are speaking an Indian language within their group, start speaking Spanish with another Indian from a different tribe.

Mr. McCaffery resides in New Orleans and is considered a great guide to Mardi Gras.

I put the paper down and went to my class, where I tried an experiment with my students, the children of the nation's elite. When I asked what they thought of bilingual education, I got some very enthusiastic answers. All of them thought that learning to read, write, and speak in English was very important. Few knew no English; most had at least a reading knowledge of English; two or three spoke it as well as I did (showing a great effort on the part of their parents). All of the students wanted their children to learn English. They realized that their children would need English to succeed in the world beyond Latin America.

When I mentioned to the students that I was talking about bilingualism of Spanish-speaking learning an Indian language, the students started to laugh. They figured that this was a strange form of *gringo* humor, like that of the American law professor who had come the year before to lecture on animal rights in a country that has starving children in the streets of some cities. However, when I insisted that there must be some benefit they could derive from knowing an Indian language, one young lady suggested that this might be useful since one could then have Indian maids who spoke no Spanish, rather than Spanish-speaking Indian maids who command higher wages. Their contempt for the idea could not have been more patent.

Later that evening, I spoke with our teenage Indian maid about this subject. Although I did not notice an accent in the girl's Spanish, my wife assured me that the maid had an "Indian" accent. The young girl said that her family spoke an Indian language both at home and with their neighbors in her village far from the capital. But she had learned Spanish from radio, television, the movies, and of course, in school. She was now working for a while in the city to improve her Spanish, to see the world, and to save up money for a dowry to better her marriage prospects when she returned home. Her brother had been drafted (willingly) into the Army, where young Indian men who were deficient in Spanish were put into Spanish immersion classes. Those who already spoke Spanish improved their grammar and pronunciation. The Indian girl said that her parents were happy that she was perfecting her Spanish in the big city and that her brother was being schooled in Spanish in the Army. Indian parents wanted their children to get the best possible education, which meant speaking, reading, and writing good Spanish: exactly how the elite viewed English for their children.

Thus, both the rich parents of the ruling elite of the capital, who send their children to law school and make sure they learn English, and the poor Indian parents of a small village in a remote province, who want their children to master Spanish, have made rational choices about their sons' and daughters' language preparation. For government officials to override such decisions against the best interest of children and the wishes of the parents is an abuse. In Latin America and in the United States it is an increasing problem.

Governmental Meddling

Consider the bizarre experience I had recently. I received notice that my six-year-old son was being removed from his normal French classes, to be put in ESL (English as a Second Language) classes—without my permission—because my wife and I had truthfully told the school system that Spanish is the language we normally use at home. There was no suggestion that his English was in any way deficient.

How this came about is a story of how mindless governmental meddling extends today even to the learning of language, which used to be guided by the normal laws of economics, common sense, and parental choice. As a young boy I grew up in the inner city of one of the great northern urban areas of the United States. The immigrant flotsam and jetsam of Eastern Europe, speaking dozens of languages, ebbed and flowed into that city after World War II. The Catholic Church across the street had all but one Sunday service in Croatian. (The last time I visited, all but one service was in English, showing the natural evolution of language choice.) My family attended the English-language Catholic Church several blocks away, which had been founded a century before by Irish immigrants (my father's people) and later inherited by German and Polish immigrants (my mother's grandparents). Although my mother spoke Polish and German at home, she attended school totally in English without any ill effect. I attended grade school with children who spoke German, Polish, Croatian, Hungarian, Romanian, Czech, and a dozen other languages or dialects at home. These boys and girls all achieved native ability in English without any special government programs to teach them the national language, now practically the world's language.

A friend of mine, now a prominent surgeon, grew up living with his parents and both pairs of grandparents. His mother and her family spoke Lithuanian; his father and his family spoke Hungarian; the two sides of the family communicated in German. All five children knew these languages, yet spoke English as their primary tongue as a natural consequence of living in the United States. Nobody had to convince the kids to learn English; it was self-evident. No government program was needed to help them learn English. Common sense and self-interest did the job.

Several years ago I read through a book of short biographies of Americans who had won the Nobel Prize, looking for any common linguistic pattern. The only conclusion I reached was that speaking Yiddish as a child seems to be a good indicator for winning a Nobel Prize. Can it be seriously argued that Yiddish-speaking students would have won more Nobel Prizes had they not been put in English immersion but instead had spent years in Yiddish classes to ease their "transition" to English?

The great historic lesson from our past—that immigrant parents prefer, for good reason, to have their children educated in English immersion in school while preserving their native language at home or at church or synagogue—is ignored by the politicized public education apparatchik. Immigrant parents today face increasing coercion as they stubbornly try to avoid bilingual or multicultural schemes. These parents understand that their children's future lies with ability in English, not Bengali or Vietnamese. The multicultural bureaucracy demands that immigrant children not evade their instructional clutches since there can be no funding for the "problem" of bilingualism if there are no children suffering from lack of native-language instruction. Perversely, the funding for bilingual education seems to come off the top of the education budget, not the bottom, reducing the funds going into real education.

Recently I met a couple who had moved to Louisiana from another state. They told me that they had been required by their previous school district to execute affidavits that they spoke English at home. Parents who admitted that they spoke a foreign language at home could not avoid being hassled and pressured by the multicultural programmers. Father and Mother evidently do not know best—the educational establishment does. The parents most harmed are those with the least education and at the lowest economic rung since parents who are professionals are better able to fend off the bureaucrats.

Significantly, the federal government does not practice the sort of bilingualism it preaches. The Department of Defense and the State Department employ "total immersion" to train their people in foreign languages, just the way immigrant children used to learn English.

There is nothing wrong with teaching children other languages. On the contrary, it is an excellent idea if done properly, by the parents, or at least with active parental support. My own children speak English, Spanish, and French (in approximately that order). However, this is a result of a conscious and reasoned decision by my wife (a native speaker of Spanish) and me, given the particular circumstances of our family and the unique resources available in New Orleans. No bureaucrat, no matter how well intentioned (most are—I am one myself), could possibly weigh these factors as well as we, the children's parents can.

Our children attend a French-language school (grades K through 8) in New Orleans established by the French government, in cooperation with the state of Louisiana and the Orleans Parish School Board. They are taught by teachers from France, using the same textbooks used in France. Except for the children of French citizens, entry to the school is on a first-come, first-serve basis, with a line forming several days before registration. Thus, I spent a day waiting (and a night sleeping) in line to register my child in French Immersion Kindergarten six years ago. Since siblings of students in the program are automatically admitted, all of us in the line were there for the first time.

My fellow parents in line were a mixed lot—racially, ethnically, linguistically, and economically. The first in line was a poorly dressed black woman, seemingly without much formal education, who had been in line several days. She said that she had given up several days' pay (obviously a great sacrifice for her) to be sure that her child got into the program since it was her daughter's only chance to get a quality education (her child is one of the best students in her grade, American or French). Many of the other parents in line were immigrants or foreign exchange students who spoke languages other than French or English at home: German, Russian, Chinese, Portuguese, Spanish, Polish, and Vietnamese, to mention a few. For them, like my wife and me, French would be a third language for their children, a responsibility all seemed to take quite seriously. There were doctors, laborers, lawyers, waitresses, civil servants, active duty military, and truck drivers in line that night.

The proportion of French surnames was probably not out of proportion to a random cross-section of the population in the area. Nobody seemed driven by ancestral genes to have their children study French, contrary to the tenet of the new government-imposed multiculturalism that ancestry alone determines linguistic ability and preference.

These people had made personal evaluations of their children's and their families' unique environment, ability, and resources in such an endeavor. For example, it is understood by the non-French-speaking parents that there will be a cost for private French tutors for their children. I spend about $200 monthly for such tutors, a cost that will surely increase as my children continue French at a more advanced level. No bureaucrat could possibly know the parents' resolve and resources in such matters, or gauge their resolve half as well as the first-come, first-serve system does in a crude but effective way. Because their parents are willing to bear the costs, the school's students are the children with the best opportunity to succeed in its French immersion program.

The official bilingual, multicultural movement is no respecter of parent's wishes or children's best interests. Throughout the nation, but especially in California, children with Hispanic surnames whose families may have spoken English for generations are being herded into bilingual Spanish programs, supposedly to help them adjust to learning English. Just as logically (or illogically), children with Irish surnames, such as mine, should be incarcerated in Gaelic-immersion to help them better adapt to learning English, Spanish, and French.

Except in the rare case of children who are literally wards of the state, the linguistic training of children should be the matter of familial and not governmental responsibility and choice. Parents quite naturally want their children to do well in life and wish them to master the language of the society in which they live, English in the case of the United States. In any event parents all over the world wish their children to learn English, the modern lingua franca of mankind. I have noticed that French families that are temporarily in New Orleans strive to have their children master English in the short time that they have in the United States.

To rephrase Clemenceau, language training of children is too serious a thing to be left to bureaucrats. The family knows best. □

Rolling Back the Imperial Congress

by Ralph R. Reiland

A top priority in the new Congress was to approve legislation that requires members of Congress to obey the same laws that they pass for the rest of us. No longer will the private sector be mandated to build wheelchair ramps while the disabled are told to forget about easy access to the Imperial Congress.

That's a revolutionary concept to the old guard on Capitol Hill. A few years ago, a former Senate Democratic leader stated: "It's been said here many times tonight that

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we want to treat Senators the same as everyone else, that we want to have the Senate treated the same as the private sector. Not a single Senator believes that. Not a single Senator wants that."

The senator was arguing that the hiring and firing decisions in a senator's office should be exempt from civil rights laws. The EEOC wouldn't be playing any quota games with victim groups in his office. Another senator put it more bluntly: "The Senate is no lumber yard."

Those senators are gone now. They didn't understand that most of us value the houses we get from lumber yards more than we value the meddlesome laws and red tape we get from Congress. The senators didn't understand why the public ranks Washington politicians below any other occupational category, including lumber workers. At least the guys carrying plywood buy their own stamps and don't confiscate part of our paychecks by voting themselves midnight pay raises.

The call to exempt the Senate from civil rights legislation wasn't unique. Congress has exempted itself from the most far-reaching and important pieces of modern legislation: the Civil Rights Act of 1964, the Freedom of Information Act of 1966, the Age Discrimination Act of 1967, the Occupational Safety and Health Act of 1970, the Equal Employment Opportunity Act of 1972, Title 9 of the Higher Education Act of 1972, the Rehabilitation Act of 1973, the Privacy Act of 1974, the Age Discrimination Act amendments of 1975, the Ethics in Government Act of 1978, and the Civil Rights Restoration Act of 1988.

With the Americans with Disabilities Act in 1990, Senator Charles Grassley of Iowa offered an amendment that said simply that the ADA would apply to the Senate. Sam Gerdano, senior counsel to Grassley at the time, reported that he and the senator were besieged by Capitol Hill lawmakers who were worried that they might be sued for discrimination under the bill. The amendment was defeated. The Lords of the Hill who created the world's worst litigation explosion didn't want to face trial by jury.

Many Washington politicians never learned that a nation dominated by an arrogant political class that creates an increasingly intrusive government and sneers at the work of the private sector ends up with an abundance of misery (and a shortage of lumber).

We've reached the point where over half of the GDP of the United States is socialized by the various levels of government through taxes, transfer payments, and regulations. Still, there's no shortage of politicians who push for more. They ignore the key economic fact that the more market-oriented, small government economies around the world outstrip their statist counterparts by virtually every measure. When the Berlin Wall was toppled, the per capita GDP in capitalist West Germany was twice that of socialist East Germany.

Today, South Korea's GDP is six times that of North Korea. Taiwan's is more than twenty times that of mainland China.

In 1993, for the first time, the United States had more people employed in government than manufacturing. Making rules was more important than making things. Increasingly, the government became a collection of litigiously minded busybodies and self-righteous social engineers who practiced less and less restraint in their assaults against private enterprise and personal liberty.

What's springing to life now is the public backlash against the ceaseless growth of monitoring by government bureaucrats and the job-killing explosion of taxation, litigation, and regulation. Making politicians in Washington subject to the rules and regulations they pass is a meaningful first step toward pulling the nation out of its statist rut and returning to common sense.

In November's election, the public elected more businessmen and businesswomen than lawyers to the freshman class of Congress. Let's hope they start running Washington, D.C., more like a lumber yard. □

THE FREEMAN
IDEAS ON LIBERTY

John Stuart Mill's Immortal Case for Toleration

by Jim Powell

John Stuart Mill's essay *On Liberty* (1859) is the most famous work about toleration in the English language. It is clear, concise, logical, and passionate. It defends toleration—of thought, speech, and individuality—as a practical means to promote happiness for the greatest number of people. The book inspired generations of classical liberal thinkers, and today it is probably the only historic work about toleration that most people ever read.

Yet from the standpoint of liberty generally, the philosophy behind *On Liberty*—Utilitarianism—was a terrible failure. Mill and other Utilitarians relentlessly attacked the doctrine of natural rights, a moral basis for liberty which had provided the only known intellectual barrier to tyranny. Natural rights, as explained by thinkers like Thomas Jefferson and Thomas Paine, defined what governments could not rightfully do. Neither Mill nor any other Utilitarian offered fixed principles to replace natural rights. As far as Mill was concerned, Utilitarianism became a moral plea for socialism. He didn't anticipate how socialist government power could unleash horrifying intolerance during the twentieth century.

Mill's opinion had to be reckoned with because he was the most influential English philosopher of the nineteenth century, the author of respected books on economics, logic, and political philosophy, a prolific journalist, the editor of a widely followed journal of opinion, a friend of leading intellectuals in Europe and the United States. People listened when Mill spoke about a vital issue.

Mill owed his influence perhaps as much to his appealing personality as to his intellectual firepower. He was a rational, positive, generous man who sincerely loved liberty. There is moral fervor in *On Liberty,* even if he couldn't bring himself to justify liberty for moral reasons. He was far ahead of his time in insisting that women are entitled to equal rights with men—he endured more hostile criticism for his book *The Subjection of Women* (1869) than for anything else he wrote.

Recalled classical liberal author John Morley who first met Mill several years after *On Liberty* was published: "In bodily presence, though not commanding, at sixty he was attractive, spare in build, his voice low but harmonious, his eye sympathetic and responsive. His perfect simplicity and candour, friendly gravity with no accent of the don, his readiness of interest and curiosity, the evident love of truth and justice and improvement as the standing habit of mind—all this diffused a high, enlightening ethos that, aided by the magic halo of accepted fame, made him extraordinarily impressive."

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The Training of a Philosopher

Mill had humble beginnings. Not much is known about his mother, Harriet Barrow. His father James Mill went to the University of Edinburgh on a scholarship for potential clergymen in the Scottish Church. But after graduation James rebelled against Church doctrines and moved to London following the death of his mother and the bankruptcy of his father's meager shoemaking business. Although James Mill wasn't particularly qualified for anything, he was resourceful and got himself a succession of jobs editing small publications. His firstborn, John Stuart Mill, arrived on May 20, 1806.

Two years later, when James Mill was 35, he met the 60-year-old philosopher and legal reformer Jeremy Bentham. This eccentric bachelor was quite a sight in an austere Quaker-cut coat, knee breeches, and white woolen stockings. Bentham had developed the doctrine of Utilitarianism—government policy should aim to help achieve the greatest happiness for the greatest number of people. Bentham promoted the expansion of the voting franchise, and he attacked the irrational, conflicting features of British law. Bentham's zeal inspired James Mill to become a passionate political reformer.

Mill decided to groom his eldest son as a rationalist philosopher who could guide the next generation of political reformers. This involved an ambitious experiment in accelerated education at home. The curriculum consisted mainly of great books. John Stuart Mill started learning Greek when he was three. He learned Latin, arithmetic, algebra, geometry, and political economy by the time he was a teenager.

In May 1823, when John Stuart Mill was 17, he gained security for life—a six-hour-a-day administrative job at the East India Company, arranged by his father who had been working there four years. John Stuart Mill's starting pay was only £30 a year, but he got promotions and had plenty of time for intellectual pursuits. He was to work at the East India Company for 35 years.

Mill's first freelance effort to improve the world landed him in jail for a couple days on an obscenity charge: concerned about overpopulation, he had distributed birth control information in a London park. Mill was defiant, but his family and friends were scandalized.

He launched his scholarly career, writing articles for the *Westminister Review,* the Utilitarian journal which started publication in 1824, financed by Bentham and filled with articles by associates of both Mills. They attacked ideas expressed in the Whig *Edinburgh Review as* well as the Tory *Quarterly Review.*

Mill seemed to be fulfilling his dream. But after all the years of absorbing facts, concentrating on his logical powers and without a close personal relationship, he suffered a nervous breakdown in 1826. He was 20. His severe depression continued for about six months, although nobody else seems to have noticed. In the spring of 1827, he read the memoir of a minor eighteenth-century French playwright named Marmontel who talked about the death of his father, the grief of his family, and how he discovered new meaning for his life. Mill was moved to tears, reminding him that he really did have feelings. He began to read poetry. He flirted with the ideas of French socialists Comte de Saint-Simon and Auguste Comte.

The Influence of Harriet Taylor

In the summer of 1830, when Mill was 24, he had dinner at the home of London merchant John Taylor and met his 22-year-old wife, Harriet Taylor, who, it turned out, shared these passions. According to one acquaintance, she "was possessed of a beauty and grace quite unique of their kind. Tall and slight, with a slightly drooping figure, the movements of undulating grace. A small head, a swan-like throat, and a complexion like a pearl. Large dark eyes, not soft or sleepy, but with a look of quiet command in them. A low sweet voice with very distinct utterance emphasized the effect of her engrossing personality."

Mill was enchanted. They became an item, with a resigned John Taylor's consent.

They spent time together in London and traveled through Europe together, scandalizing their friends. For about two years, Mill was her mentor, sharing his panoramic view of Western thought. Gradually, though, she gained influence over Mill. She suggested changes in his manuscripts, and he reflected her passion for women's rights and social reform.

His *Principles of Political Economy* (1848) was a collaborative effort, and it became the most influential economics book of the nineteenth century. It was sophisticated enough to satisfy the most rigorous thinkers, yet it was written in plain language, understandable by almost everyone. Mill prepared the draft, she critiqued it, and he dutifully made changes which were significant in later editions (there were four editions before she died, eight altogether). He eliminated his most serious objections to socialism.

John Taylor died in July 1849. Two years later, Mill and Harriet Taylor decided to get married, and he gave her a written agreement foreswearing any special legal privileges as husband. Alas, her health was frail. In November 1858, she succumbed to tuberculosis.

On Liberty

Mill had started writing *On Liberty* in 1855. He and Harriet collaborated on it, and after her death he worked to complete it. The book was published in February 1859, dedicated to her. Like most intellectuals, Mill was mainly interested in freedom of thought and was much less concerned about freedom of action, which required secure private contracts as well as private property. The book is an eloquent plea for toleration rather than a general defense of liberty, as commonly supposed. Nonetheless, the vigor of Mill's language makes clear that he did value liberty for its own sake and not just as one among many possible ways to achieve a Utilitarian's conception of happiness.

"The object of this Essay," he wrote, "is to assert one very simple principle . . . the only purpose for which power can be rightfully exercised over any member of a civilised community, against his will, is to prevent harm to others . . . Over himself, over his own body and mind, the individual is sovereign." Mill's "one very simple principle" became quite controversial. Adversaries claimed everything an individual might do affected others and therefore was potentially subject to government intervention.

As expected, Mill based his case on "utility," rejecting natural rights and offering practical reasons for tolerating unorthodox opinions: "First, if any opinion is compelled to silence, that opinion may, for aught we can certainly know, be true. To deny this is to assume our own infallibility.

"Secondly, though the silenced opinion be an error, it may, and very commonly does, contain a portion of truth; and since the general or prevailing opinion on any subject is rarely or never the whole truth, it is only by the collision of adverse opinions that the remainder of the truth has any chance of being supplied.

"Thirdly, even if the received opinion be not only true, but the whole truth; unless it is suffered to be, and actually is, vigorously and earnestly contested, it will, by most of those who receive it, be held in the manner of a prejudice, with little comprehension or feeling of its rational grounds. And not only this, but, fourthly, the meaning of the doctrine itself will be in danger of being lost, or enfeebled, and deprived of its vital effect on the character and conduct. . . ."

Then Mill insisted that individuality ought to be tolerated even when eccentricities bother other people. First, he observed that cultivation of individuality is essential for well-developed human beings. Second, he reminded readers that you never know which individuals will contribute valuable innovations.

Mill recognized that liberty cannot survive government takeover of the economy: "If the roads, the railways, the banks, the insurance offices, the great joint-stock companies, the universities, and the public charities, were all of them branches of the government; if, in addition, the municipal corporations and local boards, with all that now devolves on them, became departments of the central administration; if the employes of all these different enterprises were appointed and paid by the government, and looked to the government for every rise of life; not all the freedom of the press and popular constitution of the legislature would make this or any other country free otherwise than in name."

Yet, inexplicably, Mill didn't see that government control is every bit as dangerous as outright government ownership. For example, while he opposed government schools, he heartily urged that government compel all children to attend schools, set educational standards, conduct regular examinations to verify that standards are being met, and if necessary the government might have to provide education. Equally amazing, this fabled Utilitarian, as devoted as ever to reason, failed to make a reasoned case for government control. While he disparaged natural rights philosophers for basing their views on "self-evident" truths, he claimed that government control of education was "almost a self-evident axiom." Moreover, Mill took the puzzling position that free trade could not be justified by his principles of liberty.

Mill didn't come up with anything to take the place of natural rights which clearly define human liberty and set specific, enforceable limits to government power. His cherished principle of utility turned out to be a slippery slope.

Without the anchor of natural rights, Mill found himself advocating steep inheritance taxes, nationalization of land, local government takeover of gas companies and—most astounding—universal military conscription. Utilitarian James Fitzjames Stephen went much further, advocating an authoritarian government to forcibly improve human behavior by applying Bentham's pleasure-pain principle on a grand scale. During the twentieth century, intellectuals and mobs alike swept aside practical considerations as they plunged into socialism.

In later writings, Mill made clear that he didn't think socialism or communism would work. For example, in *Chapters on Socialism*, a partial draft of a book he started in 1869, published posthumously by his stepdaughter in 1879, he recognized that socialist policies don't give people any incentive to improve their performance. Mill dismissed talk about central planning.

While Mill presented a compelling practical case for liberty, he avoided a moral defense of liberty. Indeed, he made it clear that he believed socialists occupied the moral high ground. Mill died on May 5, 1873, still trying to reconcile the seeming desirability of socialism with its evident dangers.

Despite critical limitations, Mill's essay did much to stimulate continuing debate about liberty. He expressed his practical case more passionately than anyone else, especially his declaration that there is a significant sphere of individual action which should never be restricted by government. Mill's work survived his death and penetrated mainstream opinion like few writings about liberty before or since. For that, he achieved immortality. □

THE FREEMAN
IDEAS ON LIBERTY

The Story of a Movement

by Peter J. Boettke

In June of 1974 in the little town of South Royalton, Vermont, the modern resurgence of Austrian economics began. George Pearson, who had graduated from Grove City College and was then working with the Institute for Humane Studies, initiated the idea to bring together the three leading active scholars in Austrian economics—Israel Kirzner, Ludwig Lachmann, and Murray Rothbard—to present a series of lectures to young faculty and graduate students who had expressed an interest in Austrian economics to the Institute.

The list of attendees was truly impressive. Besides the lecturers, such senior luminaries within Austrian economics as W. H. Hutt and Henry Hazlitt were in attendance. Even Milton Friedman dropped by for one evening—though Friedman never bought the idea of a unique Austrian economics independent from other schools of neoclassical economics. The younger generation of participants included D. T. Armentano, Walter Block, Richard Ebeling, Roger Garrison, Jack High, Don Lavoie, Laurence Moss, Gerald O'Driscoll, Mario Rizzo, Joseph Salerno, Sudha Shenoy, and Karen Vaughn. Each of these individuals has subsequently made a name within the invisible college of Austrian economists.

Other well known scholars and intellectuals—not exclusively associated with Austrian economics but whose work conveys a deep affinity to Austrian economics—were also in attendance: John Blundell (now President of Institute of Economic Affairs in London), David Henderson (Professor of Economics at the Naval Post-Graduate School, and the editor of *The Fortune Encyclopedia of Economics*), Randall Holcombe (Professor of Economics at Florida State University, and the author of numerous studies in public choice economics), and Svetozar Pejovich (Professor of Economics at Texas A&M University and a pioneer in the economic analysis of property rights).

The South Royalton lectures were published in 1976 as a volume entitled *Foundations of Modern Austrian Economics*, edited by Ed Dolan. This volume became the major introduction to Austrian economics for my generation, that is, for those of us who reached graduate school in the 1980s. The success of the South Royalton conference demonstrates how small events can have a major impact.

At the time of the conference in the summer of 1974, Austrian economics was in desperate shape. The towering intellect of the modern Austrian school, Ludwig von Mises, had passed away in the fall of 1973. His most senior intellectual heir, F. A. Hayek, appeared to have lost interest in economic theory long ago. The legacy of Austrian economics rested in the hands of Israel Kirzner, Ludwig Lachmann, Murray Rothbard, Hans Sennholz, Percy Greaves, a few other professors scattered about small colleges, the staff at FEE, some like-minded individuals at foundations and institutes like

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Austrian Economics in America: The Migration of a Tradition by Karen I. Vaughn (New York: Cambridge University Press, 1994), 198 pages $49.95

Liberty Fund and IHS, and a rag-tag group of undergraduate and graduate students.

Twenty-one years later, Austrian economics is still not on the required reading list at Harvard, but it has experienced great growth in terms of thought and influence. Formal instruction in Austrian economics is no longer limited to Grove City College. Many colleges across the land now offer explicitly or implicitly Austrian courses at both the undergraduate and graduate level. Some two dozen faculty at more than a dozen colleges and universities come immediately to mind, and no doubt many more would figure on a complete list. Moreover, the Ludwig von Mises Institute, with its summer "Mises University" program, FEE and the New York University Austrian Economics Program with their joint Advanced Seminar in Austrian Economics, and IHS, with its Liberty and Society seminar program, continue to introduce and cultivate student interest in Austrian scholarship.

The growth of interest in Austrian ideas, has spread well beyond the United States. Two years ago a conference was held in the Netherlands dealing with the history of Austrian economics, and in January of 1995 another conference was held in the Netherlands dealing with contemporary Austrian economics. In Germany, Austrian ideas have been influential in the development of an "evolutionary economics" promoted by Professor Urlich Witt of the University of Freiburg. The head of the prestigious Max Planck Institut for the Study of Economic Systems in Jena, Professor Manfred Streit, has explicit ties to the resurgent Austrian school. In Spain, Italy, France, New Zealand, Austria, and England major intellectual figures are pushing out the Austrian paradigm. In Brazil and Argentina there is a South American Austrian movement, and Guatemala is home to a Central American contingent of Austrian school economists (even a university where the main library is the Ludwig von Mises Library!). Throughout Eastern Europe and Russia, Austrian economists have emerged from the rubble of Communism. Vitali Naishul in Moscow, for example, is one of the most thoughtful scholars and political economists on the Russian scene. Australia as well boasts a vibrant classical liberal movement that has been influenced greatly by the works of Mises and Hayek.

Whereas twenty years ago there was no journal or publisher eager to promote Austrian work, today we have the journal *Review of Austrian Economics* and the research annual *Advances in Austrian Economics*. There are Austrian book series with Kluwer Academic Publishers (The Ludwig von Mises Institute), Routledge (the NYU Austrian Economics Program), and New York University Press (also the NYU Austrian Economics Program). Austrian works are not limited to these publishers or journals but can be found throughout university press and academic press catalogues (Cambridge, Chicago, Blackwell, Westview, Edward Elgar), and across the economic journals.

The Resurgence of Austrian Economics

In a wonderfully written new book, *Austrian Economics in America*, Karen Vaughn tells the story of how all of this took place. Her task is not so much to tell the institutional and personal story of the resurgence of Austrian ideas, but rather to convey to other economists the ideas and problems (both theoretical and empirical) that came to define the resurgence in Austrian economics in the 1970s and 1980s. Her story is focused exclusively on the U.S. experience and not the international growth that has become evident within the past few years. She tells an exciting intellectual story of a movement which had by 1974 been "reduced" to a few professors and a band of graduate students, who set about to make a name for themselves and the ideas they were committed to exploring. This is a story of the courage of convictions. Many of the younger scholars took their lumps over the years at the hands of the established academic traditions of economic scholarship which were intolerant of Austrian deviations.

Vaughn accurately conveys the spirit of open inquisitiveness that has characterized the modern resurgence of Austrian ideas. Ludwig Lachmann's great contribution to modern Austrian economics was to "shake the tree" so to speak. His willingness to push for the consistent development of subjectivist ideas—wherever they might lead—forced the younger generation of Austrian economists to think hard for themselves about the meaning of market processes and the relationship of Austrian economics to neoclassical economics. An unintended consequence of this pushing by Lachmann was the continued refinement of the argument by Lachmann's colleague and main opponent on several issues of basic economic theory, Israel Kirzner. Vaughn favors Lachmann's position in the debates over the implications of subjectivist thought for equilibrium propositions, and over the relationship of Austrian economics with neoclassical economics. As she states: "Despite the daunting nature of the task, I ultimately side with the Lachmannians, who argue that if Austrian economics is to have a future, it must lead to a complete recasting of the organizing principle of economic theory. Otherwise, it seems inevitable that the ideas of the new Austrians will either fade from view or be absorbed into the neoclassical orthodoxy in ways that Austrians will claim still miss the point" (p. 9).

It is important to stress that Vaughn, despite her conclusion concerning the long-term viability of traditional Austrian economics, does not build a strawman out of the more traditional Austrian position. She tries to deal fairly with Kirzner's subtle understanding of market processes and the continual maturation of that understanding over the twenty-year period she is studying (pp. 101–103; 139–150).

Lachmann, Kirzner, Rothbard

In her book the Lachmann/Kirzner debate takes center stage in the revival of interest in Austrian economics. The late Murray Rothbard plays a vital role in stimulating the resurgence of interest in Austrian economics, but he quickly disappears from the intellectual scene Vaughn is interested in analyzing (see pp. 93–100). This is because in Vaughn's account, Rothbard declined to address Lachmann's argument concerning the nature of equilibrium propositions within economics. Thus Rothbard—arguably the most important intellectual figure in the eyes of the participants at the South Royalton Conference—is strangely peripheral to the foundational internal debate amongst Austrian economists on the implications of consistently pursuing the subjectivist paradigm. While in the late 1960s and early 1970s the central characteristic of young Austrians was their interest in the Rothbardian system (including his radical libertarianism), by the early 1980s modern Austrian economics was engulfed in a theoretical controversy in which Rothbard did not really participate.

While Vaughn admits to her Lachmannian sympathies, it is clear that her position is as much influenced by her South Royalton student colleagues—Don Lavoie, Gerald O'Driscoll, and Mario Rizzo—as by the troika of Professors Kirzner, Lachmann, and Rothbard.

Vaughn has long endorsed Lavoie's work in comparative systems (she had in fact anticipated Lavoie's argument somewhat in her 1980 paper in *Economic Inquiry*). It was through her suggestion that Lavoie eventually came to publish his dissertation on the calculation debate as the seminal book *Rivalry and Central Planning* with Cambridge University Press (see her own discussion of the issues surrounding the economic calculation argument on pp. 38–61). But Vaughn also reports in this book how much she has intellectually benefited from her association with Lavoie on other issues (see pp. 127–133). Lavoie's examination of the philosophical "foundations" of modern Austrian economics in the mid-1980s, inspired by Lachmann, led him to a position sharply critical of neoclassical economics (in fact, Lavoie has since abandoned the confines of an economics department for the promise of a more intellectually viable interdisciplinary social-theory program). Vaughn became increasingly aware of her own Austrianism and persuaded of the irreconcilibility of that position with neoclassical economic theory.

O'Driscoll and Rizzo, through their coauthored book, *The Economics of Time and Ignorance*, provide the other pillar for Vaughn's understanding of where modern Austrian economics must go to develop further (pp. 133–138; 162–178). O'Driscoll and Rizzo set out to explain what Austrian economics was to a wider professional audience. Their book turned out to be a major reconstruction of Austrian economics, again inspired by Lachmann. Like others within the radical subjectivist camp of Austrian economics, Vaughn is particularly impressed with their arguments concerning the potent implications for economic understanding of the passage of real time, in contrast to the sterile treatment of time within more mainstream models of economic life.

Vaughn readily admits that the theoretical project she associates with modern Austrian economics—the project of developing an economics that will deal seriously with the passage of time and the implications of our ignorance—is still emerging. The promise of a more realistic and relevant economics largely remains to be fulfilled. But the accomplishments made so far, in fields of comparative systems, money and banking, law and economics, industrial organization, philosophical economics and pure theory, bode well for the continued fertility of a reconstructed Austrian economics.

Some readers may have problems with this or that aspect of the story Vaughn tells, but they would miss the point. If *Austrian Economics in America* had been an intellectual history of modern Austrian economics, then it could have explored more the archives of institutes like FEE, the Volker Fund, IHS, and Liberty Fund, or employed more extensively interviews with surviving members of Mises' seminar at NYU, or examined the private papers of Austrian economic scholars, to see how Austrian economics was kept afloat during its dark age of the 1950s and 1960s. That kind of history of Austrian economics is yet to be written.

Vaughn, a former president of the History of Economics Society, certainly doesn't need a lesson in how to do a history of economic thought (see her study on Locke or her various papers on Menger). Her decision not to detail the institutional history (though she does give each of these institutes mention and in doing so points the interested student in the right direction) was due to the nature of her project. Vaughn wanted to tell the history of modern Austrian economics through its internal intellectual debate rather than through its institutional infrastructure and personalities. She uses the history of the 1950s and 1960s only to set the stage for the subsequent debate (see pp. 62–91).

Vaughn's analysis of the potential tension within Mises' theoretical system is extremely important in this regard. Mises' *Human Action* presented the reader with a system of thought which was at the same time: (1) a radical subjectivist research program in economics that demanded a reconstruction of the entire corpus of economic science (from methodology to capital theory), yet was also (2) an example of orthodox economics pointing out the errors in the "New Economics" of Keynes and the fallacies of Institutionalism and mathematical market socialism. What was the connection between Mises' consistent development of Carl Menger's subjectivism and his classical liberal political economy? How did Mises differ from other classical liberal economists, such as the classical economics of Adam Smith or the contemporary neoclassical economics of Frank Knight? Does the economic policy wisdom of classical economics hold after the theory has been reconstructed in light of the subjectivist and marginalist revolution? Highlighting these potential tensions within Mises' *Human*

Action is a major contribution of Vaughn's book and should stimulate further research into the relationship between the theoretical economics and public policy of Mises.

While Vaughn's intellectual task is to summarize the terms of a debate in economic theory, she does go beyond the narrow confines of that project to enliven her narrative. Being the excellent storyteller she is, Vaughn gives the reader an excellent glimpse into the main personalities and institutions in the history of Austrian economics. We get tasty tidbits concerning Mises' Vienna and NYU seminar, and firsthand accounts of discussions in the Rothbards' living room, in the hallways of various conferences, and at the lunch table at George Mason University. Stuffy scholarly conventions may not approve, but this is interesting reading. The spice does not deter from her scholarly project. Vaughn focuses on her main task (and accomplishes it to my mind), and yet invites further research into the history of the subject by expertly whetting our appetite. There is great stuff in this book, material to learn from, disagree with, and take as a motivation for further exploration.

Some may be concerned that Vaughn sides with the radical subjectivist element within the Austrian movement. Here, I must honestly state I am not the best critical judge of this issue because my intellectual sympathies lie with radical subjectivism. Unlike many of my colleagues within the radical subjectivist wing of modern Austrian economics, however, I see within Kirzner's refinements to his market process theory (refinements made in response to the work of Lachmann and of G.L.S. Shackle, and James Buchanan) strong possibilities of reconciliation between radical subjectivist ideas and more traditional Austrian arguments about the systematic nature of market processes. In particular, the Misesian view of the functional significance of economic calculation within capitalist processes of production, as elaborated within Kirzner's theory of entrepreneurial discovery, offers a conception of market coordination radically different from neoclassical theory, yet provides us with a coherent notion of economic order and an alternative standard of economic welfare from which to judge states of the world. Following Lachmann we must reconstruct economics along consistently subjectivist lines, but as Lachmann himself said, we must be thankful we have Mises' work to aid us in this task.

Whatever side one takes on these issues, one must recognize the importance of Vaughn's book. One of the leading academic publishers in the scholarly world has published a book-length treatment of the debates which animate modern Austrian economics. This is a major intellectual event, and should be celebrated by all those who have an interest in Austrian economics. Twenty years after a conference in a little town in Vermont, organized on a shoestring budget and attended by a small group of beleaguered professors and interested graduate students, Austrian economics is not only alive and well, but thriving.

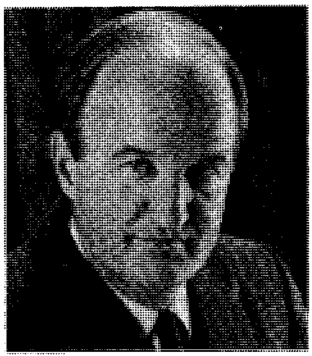
Milton Friedman stated at that South Royalton conference that there was no such thing as Austrian economics—only good economics and bad economics. Well, Friedman was right to an extent. But it turns out that Austrian economics—seriously grappling with the implications of time and ignorance for economic science, rather than focusing instead on ever more refined exercises in constrained optimization—provides the foundation for a humanistic, logically sound, and policy-relevant economics. In the end, that is Vaughn's conclusion and that is something which all the branches of modern Austrian economics can celebrate. □

In Memoriam
John Chamberlain

October 28, 1903–April 9, 1995

He laid down his pen and was gathered to his people.

Did the Gold Standard Cause the Great Depression?



"Far from being synonymous with stability, the gold standard itself was the principal threat to financial stability and economic prosperity between the wars."
—Barry Eichengreen, *Golden Fetters* (1992), p. 4

Berkeley Professor Barry Eichengreen has fueled the flames of anti-gold in his recent historical work, *Golden Fetters: The Gold Standard and the Great Depression, 1919–1939* (Oxford University Press, 1992). Essentially, the author argues that (1) the international gold standard caused the Great Depression and (2) only after abandoning gold did the world economy recover. The book has been praised by colleagues, further dampening enthusiasm for the precious metal as an ideal monetary system.

It should be noted at the outset that Eichengreen, a Keynesian, is extremely biased against gold. In 1985, while teaching at Harvard, he edited a collection of essays entitled *The Gold Standard in Theory and History* (New York: Methuen, 1985), which pretends to offer a "complete picture" of how an international gold standard would operate, with pro's and con's. Yet he failed to include a single article by a gold supporter! His last chapter, "Further reading," makes no reference to Mises, Hayek, Röpke, Rothbard, Sennholz, Laffer, and other noted defenders of gold. So much for objectivity and what MIT professor Peter Temin calls "the best collection of readings on the gold standard available today."

Despite his extensive research and history, Eichengreen cannot crucify mankind upon a cross of gold. In reality, the blame for the Great Depression must be laid at the feet of Western leaders who blundered repeatedly in re-establishing an international monetary system following the First World War. Their mistake was establishing a fatally flawed mixture of gold, fiat money, and central banking, known as the "gold exchange standard," instead of returning to the "classical gold standard" that existed prior to the Great War.

Eichengreen rightly points out that the mischief began during the First World War, when the European nations went off the gold standard and resorted to massive inflation to pay for the war. Following the Armistice, European nations desired to return to gold-convertible currencies, but they created a weak monetary system known as the "gold exchange standard," where currencies were pegged primarily to the British pound and the American dollar rather than to gold itself. The gold exchange standard created a pyramid of paper claims upon other paper claims, with gold playing a far lesser role.

Austrian economists, such as Ludwig von Mises and F. A. Hayek, and the American sound-money school, led by Benjamin Anderson and H. Parker Willis, recognized that the fractional-reserve, fixed-exchange gold standard was a recipe for disaster. They predicted an eventual economic crisis under the gold exchange standard.

Monetary troubles worsened when, in 1925, Britain made the fateful error of pegging the pound at the exchange rate that prevailed before World War I at $4.86, clearly an artificially high rate. As a result, Britain suffered a deflationary depression for the rest of the 1920s. Moreover, to help Britain return to gold at the prewar ex-

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change level, the Federal Reserve pushed down interest rates in 1924 and 1927, igniting a fateful inflationary boom in the U.S.

Eichengreen blames the gold standard, but the real fault lies in Britain's nationalistic zeal to return to gold at an artificially high rate. A more sensible solution would have been for all European nations, including Britain, to return to gold at a redefined rate that recognized the increased supply of money and price levels following the war. In Britain's case, this would have meant a new exchange rate of approximately $3.50.

Eichengreen also blames the gold standard for the monetary crises of the 1920s and 1930s, but it was really a gradual movement away from a genuine gold standard that caused the economic debacle of the 1930s.

Eichengreen even admits that the prewar classical gold standard worked well. He writes, "For more than a quarter of a century before World War I . . . the gold standard had been a remarkably efficient mechanism for organizing financial affairs." (p. 3) Eichengreen attributes exchange-rate stability and prosperity to international cooperation, but the underlying reason was that industrial nations largely avoided inflation and strictly linked their monetary policy to gold flows during this period.

The classical gold standard required issuers of money to hold sufficient gold reserves to handle the demands of anyone who wished to redeem their currencies into lawful money. National banknotes and bank reserves were redeemable in gold coins or bullion at any time. For example, each gold certificate issued by the U.S. Treasury contained the following declaration: "This certifies that there has been deposited in the Treasury of the United States of America TWENTY DOLLARS IN GOLD COIN payable to the bearer on demand." Although the U.S. Treasury did not maintain 100 percent specie reserves for all its legal obligations under the classical gold standard, it did hold more than 100 percent reserves to cover its gold certificates.

Auburn University economist Leland Yeager explains the virtues of a fully-backed commodity standard: "Under a 100 percent hard-money international gold standard . . . the government and its agencies would not have to worry about any drain on their reserves. . . . There would be no danger of gold deserting some countries and piling up excessively in others . . ."[1] Because of monetary stability under the prewar gold standard, Milton Friedman and Anna J. Schwartz conclude, "The blind, undesigned, and quasi-automatic working of the gold standard turned out to produce a greater measure of predictability and regularity—perhaps because its discipline was impersonal and inescapable—than did deliberate and conscious control exercised within institutional arrangements intended to promote monetary stability."[2]

Was the Depression Inevitable Under Gold?

Eichengreen and other gold critics have pointed out that in a crucial time period, 1931–33, the Federal Reserve raised the discount rate for fear of a run on its gold deposits. If only the U.S. had not been on a gold standard, the critics say, the Fed could have avoided this reckless credit squeeze that pushed the country into depression and a banking crisis. However, Friedman and Schwartz demur, pointing out that the U.S. gold stock *rose* during the first two years of the contraction. But the Fed reacted ineptly. "We did not permit the inflow of gold to expand the U.S. money stock. We not only sterilized it, we went much further. Our money stock moved perversely, going down as the gold stock went up."[3]

In short, even under the defective gold exchange standard, there may have been room to avoid a devastating worldwide depression and monetary crisis.

How should we solve our continuing monetary problems? After recounting the chaotic events between the world wars, Eichengreen opposes the strict discipline of gold. Amazingly, he calls for more international cooperation between central banks, which even he admits is "weak soup for dinner at the end of a bitter cold day." (p. 398) A much better solution would be to return the classical gold standard. □

1. Leland Yeager, "An Evaluation of Freely Fluctuating Exchange Rates," quoted in Mark Skousen, *Economics of a Pure Gold Standard*, 2nd ed. (Mises Institute, 1988), pp. 81–82.

2. Milton Friedman and Anna J. Schwartz, *A Monetary History of the United States, 1867-1960* (Princeton University Press, 1963), p. 10.

3. *A Monetary History*, pp. 360–61.

BOOKS

Hayek on Hayek: An Autobiographical Dialogue

edited by Stephen Kresge and Leif Wenar

The University of Chicago Press • 1994 • 208 pages • $27.50

Reviewed by Robert Batemarco

F.A. Hayek died in 1992 at the age of 92. Most readers of *The Freeman* know of his writings on business cycles and political philosophy. But what of Hayek the man? *Hayek on Hayek*, a supplement to the planned 19-volume *Collected Works of F.A. Hayek*, gives us insight into the life experiences and turn of mind that shaped one of the premier free-market economists of our time.

Prominent among the economic concepts Hayek brought to light was the idea of the market economy as a "spontaneous order." How fitting this was in light of the unforeseeable events which impelled Hayek's career along the circuitous path it traveled. Attracted to economics by his experience in World War I, cured of Fabianism by Ludwig von Mises, drawn to theorizing by his exposure to Wesley Mitchell's "history without theory," he ended up forsaking his youthful fascination with biology. His early plan to straddle the academic and government sectors was also derailed by external events—his drawing the attention of Lionel Robbins and being offered a position at the London School of Economics, World War II preventing his return to Austria, and the success of *The Road to Serfdom*, which at the same time reduced his standing among professional economists and led to a position at the University of Chicago's Committee on Social Thought. Hayek's migration from country to country kept him, for the most part, out of the government sector. He was ultimately thankful for this, having theorized "that all economists who serve in government are corrupted as a result. . . . I owe my own independence [to the fact] that I cleared out of every country as soon as they started using me for governmental service."

Hayek relates that the most intellectually stimulating period of his life was that part of the 1930s he spent at LSE. It was there that his work on the business cycle led him to prominence as the principal critic of John Maynard Keynes. When Hayek stood up to Keynes' customary attempt to intellectually steamroller younger colleagues, meeting him with serious arguments at every turn, he earned the respect of his nemesis. Despite the close friendship that eventually developed between the two men, Keynes' intellectual evaluation of Hayek was no better than "Of course he is crazy, but his ideas are rather interesting."

Hayek's view of Keynes was no more flattering. He describes Keynes as devoid of any knowledge of economic history, even of economic theory other than Marshall's, yet supremely confident that he knew more than anyone else. As Hayek put it, "He was so convinced that he was cleverer than all the other people that he thought his instinct told him what ought to be done, and he would invent a theory to convince people to do it."

Not carrying the day over Keynes was not only one of Hayek's biggest personal disappointments, but also represented a collapse of effective intellectual opposition to the inflationary policies that have prevailed ever since. Ironically, Hayek believes that the combination of Keynes' sudden death, which accorded him a sort of secular sainthood that placed criticism of his ideas beyond the pale, and his own demonization among academic economists as a result of his *Road to Serfdom*, finalized Keynes' victory. Nonetheless, Hayek confides that his own belief in the Austrian Business Cycle theory he espoused was strengthened by subsequent events.

At this point in his career, Hayek tired of macroeconomics and his professional work turned to methodology and political philosophy. Conceiving of economics as an empirical science, he deviated from the praxeological approach pursued by his mentor, Ludwig von Mises. However, he never accepted the positivism dominant in the economics profession today, which teaches that theories derived from false assumptions are fine as long as they yield accurate predictions. Indeed, his failure to have even attempted to rebut Milton Friedman's *Methodology of Positive Economics*, which he deemed "in a way . . . quite as dangerous a book," as Keynes' *General Theory*, was another major source of regret to Hayek.

In some ways, Hayek's method was his downfall. In contrasting the mental aptitudes of Böhm-Bawerk, "the absolute master of his subject," and Wieser, "a slow thoughtful person, to whom nothing was simple, . . . who hated discussing anything because he had to give a quick answer," Hayek makes it clear that he himself more resembled Wieser. He adds, "what original ideas I have actually had did not come out of an orderly process of reasoning."

In discussing his own adolescent rejection of the Catholic faith into which he was born, Hayek opined that, "if someone really wanted religion, he had better stick to what seemed to me the 'true article,' that is, Roman Catholicism. Protestantism always appeared to me as a step in the process of emancipation from a superstition . . . which, once taken, must lead to complete unbelief." Surely, both Catholics and Protestants will take exception to different parts of this claim. I raise it, however, because of a parallel I detect between his rejection of the religious orthodoxy of Catholicism and the Austrian economic orthodoxy of praxeology. While in turning away from the latter, Hayek never approached the total rejection of free-market economics, he did move further in that direction than many people realize. This comes through in the transcript of a 1945 radio discussion of *The Road to Serfdom* reproduced here. Free-market purists will surely cringe at the concessions Hayek makes under the admitted pounding he takes from the other panelists, one a socialist, the other a New Dealer: expressing support for a government-guaranteed minimum income and central banking ("that the monetary system must be under central control has never, to my mind, been denied by any sensible person"), for instance.

The narrative is, as one would expect from this type of book, somewhat fragmented and occasionally repetitious. Still, the editors deserve our gratitude for weaving together as well as they did this melange of scattered autobiographical notes and interviews into a coherent narrative. Their efforts have accorded us a glimpse into the prolific mind of a man who, whatever his compromises, courageously opposed the inflationary, socialistic, and redistributive spirit of his age. □

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The New Unionism in the New Society: Public Sector Unions in the Redistributive States

by Leo Troy

George Mason University Press • 1994 • 228 pages • $42.50

Reviewed by Charles W. Baird

Leo Troy, Distinguished Professor of Economics at Rutgers University, has written much about the American union movement—its history, law, economics, and future prospects. The focus of his work has been the changing nature of unionism here and in other advanced industrial countries, especially Canada. In *New Unionism* he has brought together the analyses of several papers he wrote in the 1980s and the early 1990s. This is an important book, not just for those of us who specialize in unionism, but for all who are concerned about the future course of American society.

Before I get into the substance of the book, with which I enthusiastically agree, I have some minor quibbles. The book consists of six chapters, a bibliography, three appendices, and three charts. Although the book has a 1994 copyright, it is apparent that the six main chapters were written no later than mid-1992. Two appendices are reprints of articles Troy wrote in 1986 and in 1987. The articles are germane to his theme, but it would have been useful to update them. Finally, the entire book suffers from an abundance of typographical errors that should have been picked up when the manuscript was in proofs. The impression is that the production of the book, not its writing, was a careless, hurry-up job.

Troy's first sentence in Chapter 1 is, "A New Society began to evolve during the past generation and its leading characteristic is the redistributive state." Those words were, to me, reminiscent of the opening sentence of the *Communist Manifesto*: "A specter is haunting Europe—the specter of Communism." The association is not as strained as it seems, for Troy's main theme is that government employee unionism (what Troy calls the "New Unionism") is the principal means by which a "New Socialism" has already taken hold, and is spreading, in the United States.

"Old Unionism" (collective bargaining between private sector employers and their employees) has long been waning. It reached its peak market share of 36 percent in 1956. In 1993 the figure was 11.2 percent. Conventional labor academics and practitioners used to think of this as a uniquely American "disease" which they attributed to the resistance of American private sector employers to unionization. As Troy explains in the present book, this conventional wisdom was wrong on both counts. The decline of Old Unionism is neither unique to the United States, nor caused by employer resistance to unionism. The decline is happening in all advanced industrial countries for two primary reasons.

First, there has been a shift from heavily unionized, blue-collar manufacturing employment to largely union-free, high-tech manufacturing and service employment. Second, national and international markets are becoming more and more competitive. According to Troy, these two forces will reduce the market share of Old Unionism to below 7 percent by the year 2000.

The old conventional wisdom that private sector union decline was a uniquely American disease was debunked by Troy when, in 1990, he demonstrated that the foreign private sector figures were grossly overstated because they included unions that, in the United States, would be considered public sector institutions. When Troy applied the same definitions of public and private unionism that are used in the United States to foreign unionism, he discovered that private sector unionism has been declining in other advanced industrial countries as much as it has been here. Even pro-union academics now acknowledge that Troy is right on this point.

But unionism isn't dead. Government employee unionism, the New Unionism, is not only well established in America (only seven states have failed to pass laws that promote the unionization of state and local employees), it is spreading and becoming more and more menacing to freedom. In 1993, 37.7 percent of all government employees were unionized. Troy expects that figure to exceed 40 percent by the turn of the century. New Unionism already dominates Old Unionism in Canada, Britain, France, and Italy, and Troy expects the same to happen here.

Most observers think of government sector unionism as merely an extension of private sector unionism. Troy doesn't agree. He uses the term New Unionism precisely to suggest that government sector unionism is a different, and much more dangerous, breed of unionism. For example, Old Unionism and socialism were antagonists. Old Unionism wanted to preserve the free enterprise system and redistribute income from private sector employers to private sector employees. In contrast, the New Unionism promotes what Troy calls the New Socialism, or the redistributive state. The New Socialism recognizes that government ownership of the means of production creates poverty for nearly everyone, so it advocates private ownership of enterprises, but it seeks the socialization of incomes. New Socialism and its chief instrument, New Unionism, seek to transfer income from the private sector to the public sector.

The New Socialism seeks to create as much dependency on government, and as large an army of unionized government employees to carry out government programs and enforce government regulations, as possible. All in the name of "fairness."

New unionism was virtually nonexistent until President Kennedy signed an executive order in 1962 that authorized the formation of federal employee unions with powers of exclusive representation and mandatory good faith bargaining. After that, state after state adopted similar laws, some of which even forced government employees to join, or at least pay dues to, government employee unions. After all, unionists argued, a worker is a worker whether he works in the private sector or for government. It is unfair for government workers to be denied the same collective bargaining rights that private sector workers have enjoyed since the passage of the National Labor Relations Act (NLRA) in 1935.

Troy convincingly argues that collective bargaining in the government sector is actually an attack on the sovereignty delegated to government by the American electorate. When a government is forced to bargain, exclusively, with a private organization on the determination of public policy, that government is no longer sovereign. It no longer has a monopoly on the legal use of force. Government employee unions become a fourth branch of government whose approval must be obtained before public policy can be fashioned and implemented. With the growth of New Unionism, voters have to share what control over government they have with private organizations called government employee unions. Troy says that a collective bargaining agreement between a government employee union and a government employer is like a treaty between two sovereign powers.

According to Troy the New Unionism doesn't have to worry about eventually losing market share the way the Old Unionism has. Government employment is largely immune to competitive market pressures. Government monopolizes its activities, and, through regulation, prevents private sector alternatives from developing. Moreover, government employers want the same things that government employee unions want—bigger budgets, more responsibilities, and more income transferred from the private sector to the public sector. That is why government employers are so much more "cooperative" than private sector employers. It is in their direct self-interest to cave in to union demands.

Troy is pessimistic about the future of New Unionism and New Socialism. He considers such innovations as term limits, balanced budget amendments, tax caps, and privatization as possible countervailing forces, but he doesn't seem to have much confidence that such measures will be adopted, or, if adopted, that they will be very effective. The only cause for hope, it seems, is the phenomenon of municipal bankruptcy, such as New York City in the 1970s and again today. Such crises make the perils of New Unionism obvious to anyone who looks.

I am more optimistic than he is. Government failure and voter cynicism are now widespread and growing. The failures of the Old Socialism brought it down, I don't see why the failures of the New Socialism will not, eventually, do the same. In the meantime, books like this one are indispensable in the ongoing battle against socialism in all its forms. □

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Race and Culture: A World View

by Thomas Sowell

New York: Basic Books • 1994 • 331 pages • $25.00

Reviewed by John W. Robbins

Thomas Sowell, a prolific economist and senior fellow at the Hoover Institution in California, has written an important and heretical book on the relationship between race and culture—heretical, that is, as judged by the prevailing dogmas of social science.

Sowell states the obvious, which apparently is not at all obvious to many social scientists: there are significant differences among cultures; some cultures are in fact superior to other cultures; and they are superior because some values, skills, habits of thought and practice, and ideas are superior. All these notions, Sowell says, are rejected by the social science establishment: "This book challenges many dogmas of so-called social science, as well as many underlying assumptions about racial issues and cultural differences."

Based on extensive travel and research (the hundreds of notes run for 58 pages), *Race and Culture* is packed with information about races, ethnic groups, migration, conquest, intelligence, slavery, economics, politics, and history. It is indeed a "world view," not in the sense of a *Weltanschauung*, but in the sense that Sowell has canvassed the world for evidence for his thesis—an international view. He believes that those who are preoccupied with race relations in the United States have failed to study race relations throughout the world and recorded history, and thus entertain warped and distorted views. His book is a badly needed rebuttal to the social science charlatans who infest academia.

In order that he not be misunderstood, Sowell defines his terms immediately in the preface: by "culture" he means "specific skills, general work habits, saving propensities, and attitudes toward education and entrepreneurship—in short, what economists call 'human capital.'" He warns us that "the purpose of this book is not to offer some grand theory explaining cultural differences"—and it does not—but to demonstrate the "reality, persistence, and consequences of cultural differences." "Culture" as Sowell defines it—not genetic superiority or inferiority, nor objective conditions, economic forces, or social structures—is what shapes peoples and history.

Sowell uses the word "race" in a colloquial sense: "a more scientific definition of race is not attempted." Sowell argues that the preponderance of historical evidence does not support any theory of inherent racial superiority or inferiority, whether the race be Black, Oriental, Semite, or Caucasian. He cautions the reader against drawing unwarranted conclusions from empirical evidence, especially statistics: "Vast differences between the economic productivity of peoples from different cultures do not imply that these differences are permanent, much less hereditary."

More important than any "objective conditions" are attitudes: "attitudes toward education, toward business, and toward labor, especially so-called 'menial' labor." A poor attitude toward productive labor has resulted in three-quarters of college graduates in India going to work for the government. Schooling—I do not say education—in many countries has imbued the graduates with what Sowell calls "a passionate sense of entitlement." Sowell scorns "self-flattering" ethnic studies, which he finds in many countries, not only in the United States.

What requires explanation, Sowell says, is not the disdain for labor one finds in most cultures, including Latin America ("Work is for dogs and Negroes" is a Brazilian saying), but "the extremely high productivity of a relative handful of northwestern European nations and their overseas off-shoots, such as the United States and Australia."

Sowell is at his analytical best in the chapter "Race and Economics," explaining the economics of the nineteenth-century help-wanted ads that read, "No Irish need apply"; why the "vicious cycle of poverty" is a myth; why nineteenth-century American workforces were wholly Jewish or wholly Gentile; and much more. Along the way he informs us of innumerable and fascinating details, e.g., Japanese immigrants at the turn of the century were more prevalent in agricultural and domestic labor than blacks.

His book is very readable and his style is epigrammatic at times: "The most dangerous kind of ignorance is the ignorance of the educated"; "The political mobilization of envy"; "A society can be made ungovernable by the impossibility of satisfying those with a passionate sense of entitlement"; "Being wrong may be a free good for intellectuals, judges, or the media, but not for economic transactors competing in the marketplace"; "Respect is earned, not conferred. It is not a door prize. Equal respect is a contradiction in terms."

On slavery Sowell writes: "The biggest story about slavery—how the ancient institution, older than either Islam or Christianity, was wiped out over vast regions of the earth—remains a story seldom told." Sowell reports how "the anti-slavery political crusade [that] began among evangelical Christians in eighteenth-century Britain" was wildly successful, even beyond the dreams of its founders, William Wilberforce and Henry Thornton.

Sowell's concluding chapter, "Race and History," is, unfortunately, his weakest. He seems fascinated by the influence of geography on history, although he does not endorse Montesquieu's geographical soft-determinism. Despite ending weakly, *Race and Culture* is first-rate: readable, interesting, timely, and important. □

Dr. Robbins is Director of The Freedom School and Professor of Political Philosophy at College of the Southwest, Hobbs, New Mexico.

Education and the State: A Study in Political Economy Third Edition, Revised and Expanded

by E. G. West

Liberty Fund • 1994 • 364 pages • $14.00 cloth; $8.00 paperback

Reviewed by Julio H. Cole

E. G. West's *Education and the State* is an important book on an important subject. Liberty Fund has performed a valuable service in sponsoring the expanded third edition of this well known analysis of the economics of state education. Indeed, though West's masterful and no-nonsense study has long been an acknowledged classic in its field, it has nonetheless been out of print for quite some time—too long, I should say, given the continuing topicality of its theme.

No one ever seems to be completely satisfied with the quality of education at any given time. Perhaps that is in the nature of things. Too often, however, the temptation arises to invoke state intervention in the educational market in order to improve matters, since it is widely assumed that a free market cannot be relied upon to produce private educational services of "acceptable" quality in socially "optimal" amounts. Thus, the state is called upon to finance schooling (note that, as West points out, there is a difference between "education" and mere "schooling"), usually in the form of state-managed public school systems, for a variety of reasons: among other things, public schools are expected to reduce crime, produce good citizens, provide for equal opportunities, and promote economic growth. Quite a tall order!

West examines these and other arguments in painstaking detail, subjecting them to penetrating and relentless criticism, and generally concludes that they are either lacking in cogency or based upon faulty interpretations of the evidence. His methodology is eclectic: rigorous theoretical analyses are complemented with careful historical research and a comprehensive survey of the relevant literature, including an excellent chapter on the opinions of the classical economists, contrasting especially the views of Adam Smith and John Stuart Mill (it is well to recall, in this regard, that West is also a leading Smith scholar, having written the biography *Adam Smith—The Man and His Works*).

To be sure, most of the historical material is drawn from nineteenth-century British experience (this edition does, however, include a new chapter on "The Political Economy of American Public School Legislation"), although this does not detract from the book's relevance for other times and places. Similar problems are faced by virtually all societies: Should the state educate at all? If so, is a publicly managed school system the best possible solution? Does state education have unwanted and unintended side effects? In posing these questions I have been paraphrasing West. Let me now quote him directly: "Has state education become a 'necessary' institution simply because it is one of those institutions to which we have become accustomed?"

Serious thinking on educational policy reform cannot really begin until these questions are addressed openly and honestly. *Education and the State* is a bold attempt to face these issues. This handsome new edition will help to provide the wide readership it deserves. □

Professor Cole teaches economics at Universidad Francisco Marroquin in Guatemala.

Letters to the Editor

On Nuclear Power

Concerning Rodney Adams' "The First Atomic Age" and "Nuclear Power: Our Best Option" by Mike Oliver and John Hospers (January 1995): Both articles totally ignored the U.S. Army Engineer Reactor Group, formed in 1954 and in operation until 1974. This organization built, operated, and maintained small nuclear power plants, both high and low enriched, pressurized-water, all over the world very successfully. They were in existence and operational at the North and South Poles and in Alaska, Wyoming, Virginia, and the Panama Canal Zone. This elite group of servicemen proved that small nuclear power plants could operate successfully under the most arduous conditions. A good deal of the technology that companies such as GE and Westinghouse gained in nuclear power plants came from that program.

The inability of our free enterprise system to develop further, what was already proven, will remain one of the great mysteries of our time.

—David E. Gonier (Retired, U.S. Army)
Fredericksburg, Virginia

Rodney Adams replies:

I have a great deal of respect for the technical accomplishments of the Army in their reactor program. Not only did the Army Engineer Reactor Group successfully operate small pressurized-water reactors in the locations Mr. Gonier mentions, but they also built and operated the first closed-cycle nuclear heated gas turbine. ML-1, a 300 KW(e) machine designed to be transported to remote communications sites, is a technical ancestor of the machine that Adams Atomic Engines, Inc., is marketing.

I must disagree, however, with his final comment. There is little mystery why the Army's technology was never commercialized. No one involved with the program, either from the military or from the contractor organizations, ever left their organization with the fire to develop new markets for the exciting technology they had learned. Even in the nuclear industry, few people have heard much about the Army's program or its accomplishments.

The main point in my article is that technical revolutions are led by promoters as much as they are by inventors, engineers, and technicians. The success of a market economy depends on people who are free to be rewarded for the risks of challenging the status quo. Market success also depends on those people being allowed to fail. Bureaucratic organizations rarely provide the freedom necessary for true innovation.

Assent on Tacit Consent

I was pleased to see the work of a fellow Montanan in your January 1995 issue. Bowen Greenwood's "Tacit Consent: A Quiet Tyranny" was very well reasoned and presented.

The idea of tacit consent is, of course, detrimental to a free government. For years the Left has been telling us, "If you live here, and enjoy the benefits of the state, then you agree to pay the taxes we levy to maintain that state." They've used the idea of tacit consent to justify taxes to which we would never actually consent.

My congratulations to *The Freeman* for your continuing good work, and your success at finding insightful new writers, especially local ones!

—Senator Sharon Estrada
Montana State Senate

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IDEAS ON LIBERTY

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PERSPECTIVE

Turning Libertarian: An Appreciation

The earliest remembrance I have of the people called libertarians was a day, some years ago, when I flipped on the TV and saw some sort of libertarian convention. It was being held in Hartford, I believe, and was televised, probably to the horror of the delegates, by PBS. But to a young boy like me the libertarians might as well have been on Mars. They shared in my mind the same position as the communists: heathens caught up in some soul-threatening enthusiasm. After all, my Catholic parents called themselves neither communists nor libertarians.

But, over the course of my life, I, like many conservatives, such as William F. Buckley Jr. and George Will, have tasted the worldly enthusiasms, and find myself undergoing a metamorphosis which leads me each day to identify myself more and more as a "libertarian."

Why does this happen to so many traditional conservatives? Where once I stood at my mother's knee in our warm and cozy kitchen, and listened as she told me about her hope for a pro-family tax credit, I now rage against the wind for a flat tax. Once I hoped the Supreme Court would allow prayer in schools, now I pray for school choice. Once I worried about the ERA, now I worry about the EPA, FDA, HHS, and the IRS.

Is it simply cynicism, a recognition of the pervasive "intrigue" in government? It's true that as we grow older, and learn how politics works, we realize that politicians are not only people, but they are often small-minded people, of small ideas and imagination. This is true of local politicians, and all national politicians start local.

But no matter how much of this we see, corruption in government is something which merely shakes us from a deeper mythology about our world, namely our tendency to slough off our personal responsibility, and to invest life and moral qualities into things larger than ourselves. Libertarianism, it seems to me, has always been at its best an attack on this larger sort of thinking. In many ways the libertarian movement, by no means a monolith, has brought a certain "dialectical" quality to American political philosophy, much the way the pre-Socratics challenged Hellenic mythology. Libertarianism, like other good intellectual movements, is about questioning assumed premises. And the premises in need of questioning today are those of the all-knowing expert-laden government.

A great period of questioning occurred in my life when I studied philosophy at St. John's University in New York. There I took a class in political philosophy with a lively, iconoclastic professor by the name of Douglas Rasmussen, who was something of an authority on Ayn Rand, and who flatly announced to us that he would teach the class from a libertarian point of view. "So this is what a libertarian looks like up close," I thought.

He used a book called *The Libertarian Reader*, by Tibor Machan, which to this day is one of those books that, when I open it, I relive the time in which I first read it. (I'm sure you all have books like that.) We began the class by analyzing the political theory of John Rawls. If there is ever a mythology about the state this is it. Rawls is, perhaps other than Marx, the archetypal mythologizer of the collective. Under the withering criticism of Rasmussen, with a little help from Robert Nozick, I felt a paradigm being shattered. It was a paradigm of the world as a collection of forces beyond my control. (I had a little help from Aristotle's virtue theory and Augustine's criticisms of determinism as well, I might add.) But as I reflect on this time in my life, and as I have seen years later as a college professor myself, the young often enter adulthood blithely unaware of the mechanisms of their own free will, the power they have over their character and destiny. Yet, they are stuffed full of enthusiasms about how they must, must, change the world, a mantra which begins at the high school graduation. The more I reflect on the state of mind with which we begin adulthood, the more I call myself a libertarian.

My library is now well supplied with books by Hayek, Mises, Rothbard, and yes, Ayn Rand. Many have yet to be read, but are on the list. As we all know, a library is a reflection of what its owner aspires to, not what he has accomplished. Yet I believe I have already assented to the core of libertarianism, the remainder is the fleshing out. The libertarian knows that the world makes sense, that it will work for you, if you have but the mind and the will for it. Otherwise, it is all a confusing series of transfer payments.

—MATTHEW CAROLAN
Executive Editor, *National Review*

Who Is a Libertarian?

• A *libertarian* believes that the government should protect all persons equally against external and internal aggression, but should otherwise generally leave people alone to work out their own problems and aspirations.

• A *libertarian* respects the right of every person to use and enjoy his honestly acquired property—to trade it, to sell it, or even to give it away—for he knows that human liberty cannot long endure when that fundamental right is rejected or even seriously impaired.

• A *libertarian* believes that the daily needs of the people can best be satisfied through the voluntary processes of a free and competitive market. And he holds the strong belief that free persons, using their own honestly acquired money, are in the best possible position to understand and aid their fellow men who are in need of help.

• A *libertarian* favors a strictly limited form of government with many checks and balances—and divisions of authority—to foil the abuses of the fearful power of government.

• A *libertarian* has much faith in himself and other free persons to find maximum happiness and prosperity in a society wherein no person has the authority to force any other peaceful person to conform to his viewpoints or desires in any manner. His way of life is based on respect for himself and for all others.

—DEAN RUSSELL
Ideas on Liberty (FEE), May 1955

THE FREEMAN
IDEAS ON LIBERTY

Knowledge, Ignorance, and Government Schools

by Sheldon Richman

The president of the American Federation of Teachers, Albert Shanker, put it well: "It's time to admit that public education operates like a planned economy, a bureaucratic system in which everybody's role is spelled out in advance and there are few incentives for innovation and productivity. It's no surprise that our school system doesn't improve: It more resembles the communist economy than our own market economy."[1]

Shanker knows more than he realizes. The problem with government, or so-called public, schools is identical to that of socialism. As the Austrian school of economics teaches, socialism (because it lacks private property and prices) founders on its inability to discover crucial knowledge that is spontaneously produced and widely dispersed in society. A small group of planners simply cannot know what the market will reveal through the competitive process. The knowledge, or calculation, problem also sinks government schools. There is a certain ironic justice to the fact that government schools are plagued by systemic ignorance.

Open vs. Closed-Endedness

The Austrian-school economist Israel Kirzner has elaborated on the knowledge problem by distinguishing economic approaches that see the world as closed and open-ended. A closed universe, writes Kirzner,

> is . . . one in which relevant alternatives present themselves to decisionmakers in definitely perceived form. The decisionmaker sees himself confronted by a limited number of clearly marked out possible courses of action, each leading to a definitely perceived outcome. Once the parameters of this closed universe have been identified, once the decisionmaker's preferences among the given set of alternative possible outcomes have been recognized, the decisionmaking process becomes strictly mechanical. Given these parameters and preferences, choice is completely predictable and determined.[2]

In other words, in a closed universe, everything of relevance is known to the decisionmaker. He must merely engage in a calculation of costs and benefits to arrive at his choice.

But in an open-ended universe, things are rather different. As Kirzner tells us: "Decisionmaking in the open-ended universe occurs within a context in which key elements required for deliberate, calculative decisionmaking are totally absent. While some possible courses of action may be more or less clearly perceived, others are not seen at all. While some possible outcomes (of given courses of action) may be

Mr. Richman is the author of Separating School and State: How to Liberate America's Families, *published by the Future of Freedom Foundation in Fairfax, Virginia.*

glimpsed, others are not recognized."[3] Reality, in this approach, is more like a gemstone than a flat, two-dimensional painting. There are facets not in view. But more than that, one may not even be aware that those facets exist.

Thus, Kirzner writes: "The possibility of utter surprise is central to the open-ended universe."[4] One may come upon information unexpectedly. Serendipity happens. "Such a universe," he adds, "provides ample scope for—in fact, it imperiously demands—the imagination, creativity, and prescience of the decisionmaker. . . . Successful decisionmaking, in the open-ended universe, consists rather in creatively anticipating the as yet unknown, in imaginatively filling in the missing contours of the apparently open-ended environment."[5]

One must understand that Kirzner is not talking about mere "imperfect knowledge." There is much we do not know because knowing it is not worth the cost. I am ignorant of the chief export of Burkina Faso. But I know I lack that knowledge, and, further, I know how to fill in that knowledge gap. I will do so when I believe the benefits outweigh the costs. Thus, my ignorance is known in the economics literature as "rational ignorance."

But there is another, more fundamental kind of ignorance: ignorance of which I am unaware, utter ignorance. For example . . . well, of course I can't give an example. If I could it wouldn't be utter ignorance. (Hypothetically, if I hadn't heard of Burkina Faso, I wouldn't know that I was ignorant about it.)

Obviously, the real world is of the open-ended variety. We don't know what we will learn tomorrow. We are capable of being surprised. Discovery is commonplace. It should go without saying that discovery is vital to our well-being. The enhancement of life, then, depends on our having institutions that encourage discovery. The important question is which set of institutions is more appropriate to an open-ended universe in the provision of services, such as educational services: government or the market, bureaucracy or entrepreneurship? Which way of doing things both recognizes our pervasive utter ignorance and increases the chances of discovery and utter surprise? We know from the collapse of communist economies around the world that political institutions have fared badly at the provision of goods and services. One reason for that is socialism's inability to cope with the open-ended world.

The market, on the other hand, does quite well when allowed to operate, and it does so precisely because it is not a unitary thing. The market, as Thomas Sowell has written, is "the freedom to choose among many existing or still-to-be-created possibilities."[6] As such, the market is best suited to the open-ended nature of reality. Why? Because it provides a powerful incentive for people to be open to utter surprise and discovery: the profit and loss system. When people stand to profit from their discoveries, they are more likely to locate (or create) opportunities that would otherwise be lost.[7]

Government Schools

We may now judge government schools by the criterion of ability to cope with open-endedness. The distinguishing feature of a government school system is that it is a virtual monopoly financed through the coercive mechanism of taxation. People must surrender their money to the system even if they don't use the schools or are dissatisfied with them. Although parents are legally permitted to send their children to independent schools, tax financing precludes that option for about 90 percent of families. Most people simply cannot afford tuition for independent schools after paying their school taxes. Thus, the market for independent education is artificially constricted, consisting mainly of highly affluent people. Many fewer independent schools exist than would otherwise be the case but for the existence of a tax-supported system. The variety of schools is likewise artificially constricted.

As a result, most decisions about education are made by small groups of elected or appointed government officials. Their decisions apply to everyone in their jurisdiction. The only way for most people to avoid their directives is to move from the jurisdiction, a costly alternative.

One can see that political decisionmaking is not suited to coping with an open-ended world. There's no reason to think that the small group of decisionmakers knows everything, and there is no profit and loss system pushing them to make entrepreneurial discoveries. For example, methods of teaching are selected by government school officials. By virtue of the political system, they have the power to impose those methods on everyone within their jurisdiction. There might be better methods that this small group of officials doesn't know about. Someone in the jurisdiction might even know such a method. But the system creates obstacles to his offering an innovation to parents and children. An innovative educator could try to open his own school, but as we have already noted, most taxpayers can't afford the tuition.

Alternatively, he could attempt to persuade the government school officials to adopt his methods. But he may find unreceptive ears because the officials are unfamiliar with his ideas or acceptance of them might offend entrenched interests. Even if the school officials humbly acknowledge that they do not know everything, they nevertheless claim the exclusive power to recognize whose ideas are worth carrying out and whose are not.

The bureaucrats may decide to look for new educational methods, but their system lacks the reality check of the marketplace. If parents are unhappy with new methods selected by officials, they can't take their business and money elsewhere. Dissatisfied parents could try to unseat elected officials. But, compared to consumer power in the marketplace, that is a costly, complicated, and indirect form of recourse. Besides, organized interests, such as the teachers' union, are more likely to prevail.

The upshot is that a government school system lacks the entrepreneurial element that has so powerfully lifted living standards around the world. In a free market, innovators are free to try out new ideas. But consumers are free to reject them. Competitors may simultaneously offer different services for consumers to choose among. Competing ideas clash in the arena of the market—to the benefit of consumers. To be sure, an entrepreneur may have to persuade a lender to finance a project. But lenders too are aiming to make money, which can only be done by pleasing consenting consumers. Private business people can go bankrupt, school officials cannot. There, in a nutshell, is the difference.

Contracting Out

All these considerations indicate why some of the fashionable reforms proposed for government schools miss the point. A few school districts have contracted out the management of their schools to private firms. Some hail such a measure as a cure for what's wrong with education. But it is not. Contracting out merely exchanges "public" monopoly managers for "private" monopoly managers. Consumers still cannot readily take their business elsewhere. The *ends* of the educational system are still set by the same small group of officials, who are protected from competition. The *means* are left to a private management firm that has an effective monopoly for the term of its contract.

Charter Schools

The charter school movement is similarly flawed. Under this reform, schools, public or private, may apply for special status under which they are free, to some extent, of central control by the school district and students' tuition is paid from tax revenues. The reform is a limited version of the voucher plan, under which children may attend any school, and, like the voucher plan, charters will tend to corrupt formerly independent schools. But leaving that aside, the charter plan suffers from the same defect—what F. A. Hayek called the "pretense of knowledge"—as a conventional government school system: A small group of officials, whose knowledge is necessarily limited, decides which schools and educational philosophies are eligible for participation and which are not. Those that are excluded are badly handicapped by the political system.

Hayek called the competitive market a "discovery procedure." As he pointed out, there are things we can know only if the market is permitted to reveal them. We don't know what we will learn tomorrow. The implications of that fact for education are enormous. Without real entrepreneurship, we are deprived of innovations that could transform our lives in remarkable ways. Without a free market in education, we really don't know what we're missing. □

1. Quoted in "Reding, Wrighting & Erithmatic," *Wall Street Journal*, October 2, 1989.
2. Israel M. Kirzner, "Foreword: Advertising in an Open-ended Universe," in Robert B. Ekelund, Jr., and David S. Saurman, *Advertising and the Market Process: A Modern Economic View* (San Francisco: Pacific Research Institute, 1988), pp. xvi–xvii.
3. *Ibid.*, p. xvii.
4. *Ibid.*
5. *Ibid.*
6. Thomas Sowell, *Knowledge and Decisions* (New York: Basic Books, 1980), p. 41. Adds Sowell, " '*The market' is no particular set of institutions*. . . . Any comparison of market processes and government processes for making a particular set of decisions is a comparison between given institutions, prescribed in advance, and an option to select or create institutions ad hoc." *Ibid.* emphasis in original.
7. Kirzner has done yeoman's work elaborating these points. See his *Competition and Entrepreneurship* (Chicago: University of Chicago Press, 1973) and *Perception, Opportunity and Profit: Studies in the Theory of Entrepreneurship* (Chicago: University of Chicago Press, 1979). See also Roy E. Cordato, *Welfare Economics and Externalities in an Open Ended Universe: A Modern Austrian Perspective* (Boston: Kluwer Academic Publishers, 1992).

History of the Voucher Idea

by Antony Flew

It is often thought—in fact it has even been said by contributors to *The Freeman*—that education vouchers were first proposed by Milton Friedman in his *Capitalism and Freedom* (University of Chicago Press, 1962). But this is not true. Milton Friedman may have been the first person to introduce and apply the label "education voucher," and he has certainly popularized such proposals both in that book and in later publications. But similar proposals were in fact made much, much earlier.

Thomas Paine and Education Allowances

What were, apparently, the very first such proposals are to be found in Chapter 5 of Part II of Thomas Paine's *Rights of Man: Being an Answer to Mr. Burke's Attack on the French Revolution*, a work first published in 1791 and dedicated to President George Washington. This chapter is entitled "Ways and Means of Improving the Condition of Europe, Interspersed with Miscellaneous Observations." These ways and means embrace several different but complementary proposals. They are all carefully costed; on the assumptions that England would be the first country in which they were adopted, and that the necessary funding could be found by cutting out a total of four million pounds of expenditure on the monarchy and on the armed forces. The first claims on this sum, which Paine estimated would consume just under three and three quarter million pounds were for the payment of pensions to the old and relief to the poor. He then contends that most of the remainder should be applied as follows:

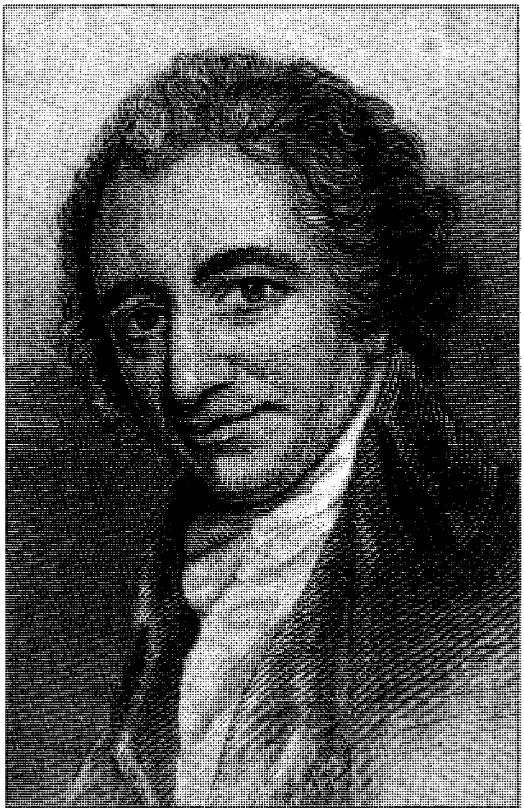
Professor Flew resides in Reading, England.

> After all the above cases are provided for, there will still be a number of families, who though not properly of the class of poor, yet find it difficult to give education to their children; and such children, under such a case, would be in a worse condition than if their parents were actually poor. . . . Suppose then four hundred thousand children to be in this condition, which is a greater number than ought to be supposed, after the provisions already made. The method will be to allow for each of these children ten shillings a year [half a pound] for the expense of schooling, for six years each, which will give them six months schooling each year and half a crown [two and half shillings] for paper and spelling books.

Paine calculates that the cost of providing these education allowances would amount to a quarter of a million pounds a year. The final task is to dispose of the comparatively modest residue of the original four million pounds in a series of miscellaneous benefactions. But before proceeding to that task Paine adds a footnote insisting that the education could and ought to be privately provided, and that its provision would benefit both the teachers and the children taught. For "There are always persons of both sexes to be found in every village, especially when growing into years, capable of such an undertaking," while "Twenty children at ten shillings each amounts to ten pounds a year for not more than six months work" and "there are often distressed clergymen's widows to whom such an income would be acceptable." So—"Whatever is given on this account to children answers two purposes, to them it is education, and to those who educate them it is a livelihood."

John Stuart Mill versus State Education

In 1859, in a much too rarely noticed and quoted passage of his classic essay *On Liberty*, John Stuart Mill repudiated not just public school monopolies but any state in-



Thomas Paine (1737–1809)

volvement at all in education: ". . . that the whole or any part of the education of the people should be in State hands, I go as far as anyone in deprecating. . . . A general State education is a mere contrivance for molding people to be exactly like one another. . . ." It was in this context that Mill—without, it would seem, any awareness that he had been anticipated by Thomas Paine—offered his own education voucher proposal:

> Were the duty of enforcing universal education once admitted. . . . If the government would make up its mind to require for every child a good education, it might save itself the trouble of providing one. It might leave to parents to obtain the education where and how they pleased, and content itself with helping to pay the school fees of the poorer classes of children, and defraying the entire school expenses of those who have no one else to pay for them.

Writing *On Liberty* in 1859—well before the first establishment by the Forster Act of 1870 of a state-maintained system of primary education in Britain—Mill understandably had nothing to say about the economic costs as opposed to the ideological dangers of a state monopoly in the supply of educational services. But earlier, in his 1848 *Principles of Political Economy*, he was as wholehearted as could be wished in his assault on monopoly in general. Mill argued there against socialists: "I utterly dissent from the most conspicuous and vehement part of their teaching, their declamations against competition. . . . They forget that wherever competition is not, monopoly is; and that monopoly, in all its forms, is the taxation of the industrious for the support of indolence, if not of plunder."

Indolence and plunder are strong and scarcely appropriate charges to level against the teachers and the officials in the monopolistic public school systems of either the United States or the United Kingdom. But the fact that both systems have in recent years been consuming ever more taxpayer funding with no corresponding increases, and in some directions actual declines, in education quality does reveal the motivation for the united and implacable opposition within those systems to the introduction of any measure of competition. For competition supplies customers with better value for their money. In 1861, two years after Mill wrote the passages just quoted, a witness with long and wide experience of British schools, which were still at that time all private, testified before a Royal Commission on Popular Education that:

> It is subject of wonder how people so destitute of education as labouring parents commonly are, can be such just judges as they also commonly are of the effective qualifications of a teacher. Good school buildings and the apparatus of education are found for years to be practically useless and deserted, when if a master chance to be appointed who understands his work, a few weeks suffice to make the fact known, and his school is soon filled, and perhaps found to be inadequate to the demand of the neighbourhood.

State education in Britain was first established by the Forster Act of 1870. But William Edward Forster, who gave his name to that Act of Parliament, was himself a classical Gladstonian liberal. (In the United States today the liberal media would denounce him as an extreme conservative!) Certainly the system established by that Act eventually developed into one catering for over 90 percent of the relevant age groups, and one from which parents can withdraw their children only if they are able and willing to pay twice, once through taxation and then again through school fees. But that was not how it was in the beginning, or how Forster himself ever wanted it to become. He insisted—against some (then) Conservative opposition—that poor parents unable to pay school fees for their children should be enabled to choose an independent denominational school if they so wished instead of having to use the state system. The Forster Act therefore included the following Section 25:

> The school board may, if they think fit, from time to time, for a renewable period not exceeding six months, pay the whole or any part of the school fees . . . [for] . . . any child resident in their district whose parent is in their opinion unable from poverty to pay the same; but no such payment shall be made or refused on condition of the child attending any public elementary school other than such as may be selected by the parent; and such payment shall not be deemed to be parochial relief given to such parent.

Unfortunately the embryo contained in this Section 25 was killed in infancy by the growing bureaucracy established under the Act as a whole and the foundation was laid for national compulsory education in England. □

THE FREEMAN
IDEAS ON LIBERTY

Vouchers: Politically Correct Money

by Gary North

The standard argument in favor of school vouchers is that vouchers will restore lost parental authority over their children's education. This argument reveals a failure to understand the crucial relationship between moral authority, legal authority, and economic authority. It has persuaded a lot of parents to promote a reform that will not only not fulfill its stated goals but will actually undermine some parents' authority even further.

The debate over vouchers is a debate over authority. One of the fundamental institutional principles is this: without sanctions, there can be no authority. Authority without sanctions is merely opinion.

This leads us to the question of sanctions. There are two kinds of sanctions: positive and negative. Generically, they are known as the carrot and the stick: rewards and punishments. Through the imposition of appropriate sanctions, those in authority maintain their authority.

When we ask, "Who's in charge here?" we are seeking the locus of final institutional authority. The locus of authority is discovered in two ways: (1) identifying the source of law in a system; (2) identifying the nature of the system's sanctions. No matter who is said to be sovereign in a system, if he cannot change the law and impose the sanctions, he is not sovereign.

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A Debate Over Morality

The debate over vouchers is ultimately a debate over moral authority. This is more often admitted by proponents of vouchers than by defenders of the present system of school finance. But the proponents of vouchers have generally failed to extend their moral inquiry beyond the question of parental choice. They have not asked the far more fundamental question: What is the source of the funding, i.e., the source of the sanctions?

Whenever we seek to resolve a conflict between moral positions embodied in rival systems of authority, we should at some point examine the sanctions of the respective systems. We should ask two questions. First, do the system's sanctions violate the moral principle that the sanctions are said to defend? Second, do these sanctions violate an even more fundamental moral principle? Sanctions that are inconsistent with either principle should be abandoned.

In the continuing debate over education, the proposed institutional solutions offered by all sides have only rarely been examined in terms of the question of the appropriateness of sanctions. Because of the confusion over sanctions, there is a remarkable degree of attention to what are secondary aspects of the debate. The debate is easily sidetracked down dead ends. One of the most popular of these dead ends is the debate over the performance of teachers. To reverse a political campaign slogan of some years back, the real debate is not about competence; it is about principle. But this is not readily understood by the public.

To see how the debate can get sidetracked, let us consider a familiar aspect of modern education: busy work. To understand why it exists, we need to consider the present system of sanctions in taxpayer-funded education.

Busy Work

Back in the early 1950s, when I was a student in junior high school, "busy work" was a phrase used by educators to describe intellectually useless work that teachers would assign in order to fill up the day. For example, by keeping students busy copying printed materials, teachers could escape the burden of teaching. Senior educators admitted that busy work is a bad thing: uncreative pedagogy. Those classroom teachers who agreed with this assessment defined busy work as the kind of work which somebody else assigned.

The most graphic portrayal of busy work that I have ever seen was in the movie *Teachers*, in which one utterly incompetent high school teacher, known to his peers as "Ditto"—from the ditto machine—died during one class period while reading the newspaper at his desk, and his students did not know he had passed away until several class periods later. His peers had no respect for him, yet he remained on the faculty until the day he died.

On the whole, I do not remember being assigned busy work very often, although this may be due to my fading memory or, possibly, to the forgettable nature of the assignments. But there is no doubt that my peers and I recognized busy work when we saw it, and we resented it. We knew that the teacher who assigned busy work was evading his responsibilities at our expense. He was being paid to teach us, but he was doing little more than serving as a sort of caretaker. It did not take a college degree to serve as a caretaker.

I had a friend in theological seminary who had been the victim of busy work prior to his high school days. He had grown up in Harlem. He spoke of one teacher who had filled the room's blackboards each day with mindless materials, and had then told each class to copy all of it. My friend had no doubt that the teachers who had adopted such teaching methods had given up on their students. He had escaped this mind-numbing educational system only by taking a test and getting into Stuyvesant High School, one of New York City's three advanced placement high schools.

What had gone wrong with the system? From the point of view of the better students, everything. From the point of view of the system, nothing. It was performing exactly as designed, though of course not as promised and publicly defended.

First, teachers had lost faith in the abilities of their students to learn very much. Because they did not believe that their students could perform well, the teachers had ceased to perform well. In a sense, the teachers mimicked their mediocre students. It was a downward spiral: bad teaching, poor student responses, more bad teaching. The system of classroom sanctions was perverse. The students punished bad teaching with negative sanctions, but these negative sanctions made things worse.

Outside the classroom, the system of sanctions also produced a downward spiral. Parents did not know, did not care, or did not possess sufficient authority to change the system. They did not impose meaningful sanctions on the bureaucrats who ran the schools. Next, the taxpaying public could not easily police what went on inside those classrooms. Meanwhile, local school administrators had no economic or other institutional incentive to take the trouble to get the busy work teachers to change. Finally, the teachers were protected by the teachers' union, which made it difficult to fire incompetents.

The Common Denominator: Ineffective Sanctions

What had gone wrong was the result of a consistent application of the existing system of sanctions. First, the worst teachers, knowing that poor student performance would reflect badly on their teaching ability, did their best to avoid testing their students' performance on a day by day basis. Besides, tests take time to administer and grade. No one required them to do this on a regular basis. They simply assumed that their students could not learn much. My friend was told that he was not intellectually capable of getting into Stuyvesant, and the school's counselor refused to administer the entrance exam. Only when my friend's father intervened and demanded that he be allowed to take the exam was he able to get in. My friend's father imposed direct, personal sanctions: threats. As for my friend's intellectual capacity, he began teaching himself Latin in junior high school. This meant nothing to his counselor.

Second, most parents had no authority over the teachers because local school attendance was compulsory. They could not send their children to another school. They could not impose the negative sanction known as "voting with your feet."

Third, parents did not pay for their children's education. The schools were tuition-free. Some parents did not demand much because the schools did not cost them anything. Perhaps they had suffered through a similar educational experience. In Harlem in the early 1950s, parents had little experience in organizing, especially those who had come up from the South. With neither the sanction of money nor the sanction of politics, they were easily ignored by teachers and the bureaucrats who employed them without policing them.

Fourth, most New York City taxpayers were not residents of Harlem. They did not see what was going on. In any case, they had very little authority over the allocation of educational revenues. The education bureaucrats had long since become sovereign over the funds collected from the taxpayers. He who pays the piper calls the tune in free market transactions, but when the threat of coercion undergirds the collection of funds, the primary goal of the tune-players is to insulate themselves from the tune-callers. This is done through political mobilization, but more importantly, through layers of bureaucracy between the politicians who collect and allocate the funds and the actual distribution of the funds. The more successful the bureaucracy, the more the politicians become the agents of the bureaucracy rather than agents of the voters.

Fifth, for the local school's administrators to admit that they had a problem with certain teachers would be to admit that they had failed in screening out incompetent employees. The longer the incompetents stay on the payroll, the more difficult it is for any bureaucrat to fire them. The question is: "Why did you wait so long?" This question itself calls into question the good judgment of the bureaucrats. The rule of academia is the rule of every bureaucracy: hire mediocre people who are neither so incompetent that they will call into question the screening abilities of those who hired them nor so competent that they will expose their peers as incompetents. The lowest common denominator gets progressively lower as time passes unless the bureaucrats are threatened with budget cuts: negative sanctions.

Sixth, the teachers' union was able to keep out of the legal workplace all those prospective teachers who were willing to work but who had not joined the union. The union was able to maintain its authority in much the same way as the school administrators did: through the coercive power of the State. The union had negotiated contracts that had transferred much of the screening process to the union. It had negotiated this contract because the local school board was compelled by state and federal law to negotiate with the union "in good faith," meaning that the board could not fill the empty positions with non-union teachers.

The result was a loss of faith: by the teachers in their students; by the students in their teachers; by the parents in the educational system; by the administrators in the good judgment of the parents; and by the union in the administrators. In more recent years a new factor has been added: the loss of faith by the voters in the politicians.

At each level, the central factor was sanctions. By politicizing education, the voters consented to a system that rewards those educational bureaucrats who can devise ways to insulate their careers and their performance from the negative sanctions of the voters as well as the consumers, i.e., the parents who have legal authority over their children. The positive sanction of money (paychecks) continues; the negative sanction of parental wrath is deflected. The chief losers are the students.

Vouchers as Economic Sanctions

Will vouchers reduce busy work? Probably. But is this all that needs to be changed? Let us consider how the voucher system is said by its defenders to work. The parent will be given a voucher worth a specific amount of public tax money. This voucher will serve as a sanction: positive for the school that enrolls the student; negative for the school that loses the student.

The question still remains: Who holds the hammer? Who really administers the sanctions? The parent? Only as an intermediary, not as the source of the system's sanctions. The State grants to the parent the right to make a choice among those local schools that meet the State's standards, whether formal or ethical. For example, no politician in the New York City school system is going to vote for a system of vouchers that will enable parents to send their children to private schools that teach the innate inferiority of minorities—at least not those minorities that constitute powerful voting blocs in New York City. An Academy of the White Aryan Brotherhood is not going to become eligible to receive vouchers. Count on it. Furthermore, the U.S. Supreme Court will block the use of public funds in schools that do not meet the tests of secular education or that do not conform to the prevailing criteria of racial and sexual equality. We have already seen this in the Grove City College case and the Bob Jones University case.

The coercive power of civil government restricts the ability of buyers (parents) and sellers (teachers) to come to a mutually satisfactory agreement. The civil government controls the licensing of teachers. They must be graduates of State-accredited institutions. Furthermore, the federal government controls the negotiation process through restrictions established by the National Labor Relations Board. Trade unions, which include the teachers' unions, are granted certain immunities from free market forces. The State restricts non-union sellers of labor services from making unrestricted bids to buyers.

The sanctioning power embodied in an educational voucher does not originate with the parent. It originates with the political order and must be exercised within the framework established by that political order. The voucher is in fact a potential sanctioning device over all education, taxpayer-funded and parent-funded, that will be used by politicians to placate certain voting blocs at the expense of others. Voucher-using parents will become economic intermediaries positioned in between local schools and the politicians. But the ultimate authority over education will not change: in the hands of the voters and their agents, not parents and their agents. The voucher will increase the authority of parents over those schools that are eligible to receive vouchers, but this increase in authority will be restricted by law. In short, the voucher system creates the illusion of parental authority without the substance thereof.

Vouchers will become negative sanctions against those schools that teach ideas contrary to the prevailing political correctness or that adopt teaching methods contrary to the prevailing educational correctness. Schools that might have attracted parents who were previously willing to pull their children out of a system of no-parental-choice government education will find that the voucher system has in fact empowered the prevailing orthodoxy. These schools' market will shrink, as parents take their vouchers and their children to State-approved schools where the vouchers serve as currency. Parents will be tempted by the limited choice offered by "free" vouchers. Many parents will forgo the far greater educational freedom offered today by judicially unencumbered money.

Ideology Replaces Busy Work

I have previously defined "busy work" as intellectually useless work that teachers assign in order to fill up the day. The voucher system will have a tendency to reduce the quantity of busy work assigned. The least competent teachers will be replaced. But this does not solve the problem of ideology. The parent whose beliefs are at odds with the prevailing educational establishment will discover that busy work assigned by incompetent teachers was less of a threat to his authority, and also to the long-term outlook of his child, than a reformed educational program that self-consciously seeks to change the minds of children. By putting poor teachers under pressure, or perhaps even getting them fired for lack of student enrollment, the voucher's sanctioning authority will surely increase the efficiency of the taxpayer-funded school system to impart the prevailing politically correct ideology to a generation of students.

There are some parents who are not persuaded that education can ever become religiously neutral, politically neutral, or any other kind of neutral. Education is always a method of picking and choosing among competing ideas. It is therefore possible to censor ideas by gaining control over the educational system and not allowing any discussion of certain ideas. Lester Frank Ward, who provided American Progressives with their sociological worldview,[1] presented this strategy of institutional infiltration through ideological filtration as early as 1883. "Instill progressive principles, no matter how, into the mind, and progressive actions will result."[2] But there is a problem here: the negative reaction against the coercive suppression of ideas. "The attempt to change opinions by direct efforts has been frequently made. No one will deny that coercion applied to this end has been a signal failure."[3] Then how should progressive people change unprogressive minds who hold unprogressive views? *By a systematic program of exclusion and censorship.* "The forcible suppression of the utterance or publication in any form of unwelcome opinions is equivalent to withholding from all undetermined minds the evidence upon which such views rest; . . ."[4] Thus, he concluded: "It is simply that true views may as easily be created by this *method of exclusion* as false ones, which latter is the point of view from which this fact is regarded. The more or less arbitrary exclusion of error, *i.e.*, of false data, is to a great degree justifiable. . . . This, however, is the essence of what is here meant by education, which may be regarded as a systematic process for the manufacture of correct opinions."[5]

Ward had two great hatreds: the free market social Darwinism of Herbert Spencer and conservative Christianity. Neither perspective is taught in any government school textbook today. Ward's idea-screening process has obviously worked well.

Vouchers will no doubt decrease the amount of busy work assigned to children, but they will not increase the range of what Ward called "correct opinions." Vouchers will in fact reduce the range of available opinions by reducing the present demand for private education which is outside the existing taxpayer-funded educational establishment. Vouchers will place into the hands of this entrenched establishment the economic sanction necessary to reduce the income of counter-establishment private schools.

We like to say, "You get what you pay for." But if you are not allowed by civil law to pay for something, you probably will not get it. Vouchers—*politically correct money*—place in the hands of the educational establishment the authority to certify those institutions where voucher-holders will be allowed to spend their politically encumbered money.

Cutting Straight

A voucher is like a tool used to sharpen a circular saw that is set at an incorrect angle. The tool can make the blade cut smoother, but it cannot make it cut straight. If people who really want a straight-cutting saw waste their time sharpening a crooked one, and by doing neglect to hire skilled saw-straighteners, the sharpening tool is a liability.

A voucher is not a neutral tool that is useful in meeting the objectives of every parent's educational goals for his child. A voucher is a morally biased sanction. It rests on a presupposition: the State is sovereign over education, not parents. This presupposition leads to a series of conclusions. First, the taxpayer's sovereignty over his property must be sacrificed on the altar of State sovereignty. Second, the parent's range of choices must be limited—not by a law formally outlawing competing schools, but by restricting eligibility for reimbursement through vouchers. Third, the voucher-using parent is legitimately made an accomplice of the State in the coercive transfer of funds from the taxpayer to the educational establishment by way of the parent. This tends to reduce the parent's moral authority to challenge the educational establishment.

The parent, as a beneficiary of the wealth-transfer system, is tempted by the offer of "free," politically correct money to regard the coercive wealth transfer as morally valid. He is less willing to re-think the initial presupposition: the sovereignty of the State over education. He is willing to transfer the lion's share of his original authority—the authority to define the range of acceptable educational opinion—to the educational establishment. Just like that saw, he begins by thinking crooked. He is therefore less likely to demand that a different moral perspective be taught to his children. It would be naive on his part to imagine that the recipients of public funds for education will make it their first priority to challenge the moral validity of the use of State coercion to raise funds from the general public for the support of education.

The focus of the debate over vouchers has been on the sharpening process, not on setting the correct angle—correct as defined by the parent. The debate has, on the surface, been technical: how to deliver a superior educational product to children. But the prevailing definition of "superior education" has neglected the moral component of education. Specifically, it has ignored the question of the moral foundation of a system that uses force to achieve a positive goal: the education of children. We must never forget that the positive sanction of public education is funded through the imposition of negative sanctions: the confiscation of private property.

How straight can this blade cut? If all education rests on moral foundations, then how can a moral universe that denies the legitimacy of the use of force to achieve our personal goals be taught to successive generations by schools funded by such force? If the blade is set at an angle, how can it ever cut straight? Only if those in authority over it adjust the blade. If the moral blade is set at an angle, how can we ever learn to think straight? Only by re-thinking our morality. But who will help us to re-think our morality if our goals (education) and their goals (employment) are funded immorally?

Bribing a Prophet

The biblical prophet's job was to stand up for the truth. His walk had to match his talk. This was not always easy. If the enemies of truth could offer the prophet a bribe, even a concealed bribe, they could deflect the prophet's walk.

He who would reform any system is acting prophetically. He is coming before some establishment with this message: "The present way of doing things is wrong, not just technically but morally. It is time to abandon evil ways of doing things, which ultimately rest on evil notions of right and wrong. It is time to restructure our moral outlook. This will require the restructuring of existing sanctions—rewards and punishments—which promote the present evil system."

The entrenched establishment can protest the critic's analysis. But sometimes it is easier just to buy off the critic. If the establishment can persuade the critic to become a beneficiary of the present system, this will reduce the public impact of his message.

The biblical prophet had to be alert to the presence of a bribe. If someone in authority was offering him a personal incentive for no good reason, that person was up to no good. The prophet had to examine the gift as if it were bait on a hook; otherwise, he could be snared.

The bait may look safe at first. The hook may not be visible. The mark of a prophet was his ability to see through the gift to the underlying motive. Abram rejected a gift from the king of Sodom after Abram's victory over the invading Chedorlaomer. He said, "That I will not take from a thread even to a shoelatchet, and that I will not take any thing that is thine, lest thou shouldest say, I have made Abram rich" (Genesis 14:23). Abram's implicit argument was simple: If God is totally sovereign in history, then He must get all of the glory. If God is totally sovereign, then Abram must receive all of his rewards from God. God is totally sovereign; therefore, Abram concluded, he would accept no reward from the king of Sodom and, by implication, the gods of Sodom. The gift was bait; bad theology was the hook. Abram did not take the bait.

Today, there are millions of parents who have, on principle, pulled their children out of the taxpayer-funded educational system. They have done so in the name of a principle. But which principle? That is the question. Is it parental authority over education? Fine; this is a morally correct principle, which is why it is politically incorrect today. But remember: without sanctions, there is no authority; there is only opinion. The educational establishment denies this principle of parental authority. It asserts the State's authority over education. The State can impose negative sanctions on parents who refuse to adhere to this principle: compulsory education, teacher licensing, and taxation.

If these negative sanctions weaken or no longer persuade millions of parents, then there is a fall-back position available: positive sanctions. The voucher system is such a positive sanction, one that is far less threatening to the existing educational bureaucracy than an outright tax credit for each child in an accredited school. Ultimately, though, even the educational tax credit is bait, for such credits will only be allowed to parents whose children are in State-approved schools. Parents who send their children to politically incorrect schools will not be eligible.

This is a terrible evil of taxpayer-funded education. It creates a moral dilemma and an institutional threat to parents who are opposed to taxpayer-funded education because: (1) taxpayer funding violates the principle of non-coercive exchange; (2) taxpayer funding violates the principle of parental authority over education. Parents must oppose on principle the most attractive political hook of all: a tax credit—something that seems to decrease the State's authority, when in fact it increases the State's authority over education. It takes a tremendous act of will to resist such a large piece of bait.

The Locus of Authority

A standard phrase in the private school movement is this one: "Parents have authority over their own children's education." The statement rests on an assumption: the parent's legal status confers legal responsibility over the children.

So much for the assertion. Let us look at the sanctions. We must do this in order to identify the true locus of authority. Where does the parent obtain the funds to educate his children? From his own productivity? From money given to him by others? In short, from assets legally owned by him? Then he is economically sovereign over his children's education. There is consistency here: legal sovereignty and economic sovereignty match. He provides educational services for his children using resources legally in his possession. He awards positive sanctions (income) on some, thereby imposing negative sanctions (losses) on others. By giving the carrot to one school, he removes it from the others.

Any tampering with this system of sanctions necessarily transfers authority over education. *The source of the sanctions is the locus of authority.* If the State provides the sanctions through coercion, then the State is the locus of authority. Any attempt to disguise this locus of authority is an attempt to confuse the legal issue, which is ultimately a moral issue.

This is why the debate over vouchers has created so much confusion. It has clouded the moral issue because it has clouded the legal issue. The moral issue is the identification of the proper locus of authority. Vouchers inevitably retain the sanctioning authority in the hands of the State, which is the source of the funding. Those who defend vouchers may seek to evade the implications of their position, but those who are serious about retaining parental authority over education must not have their attention deflected. *Follow the money.* If the trail leads to the State, then so must the locus of authority.

Any argument based on the ideal of parental authority is undermined by vouchers. Those who defend the use of vouchers should, as a matter of moral principle, cease to invoke the argument of parental authority. They should publicly affirm the legitimacy of the State's authority over education, with parents serving merely as intermediaries who will decide which State-approved teachers and State-approved schools that teach a State-approved curriculum will prosper.

Conclusion

Earlier, I wrote: "Whenever we seek to resolve a conflict between moral positions, we must at some point examine the respective systems of sanctions. We must ask two questions. First, does the system of sanctions violate the moral principle that the sanctions are said to defend? Second, do the sanctions violate an even more fundamental system of morality?"

The popular defense of vouchers, based on the ideal of parental authority, violates the first principle. Only if the defender of vouchers forthrightly presents his recommendation as a means of strengthening the State's control over private education would the argument for vouchers be consistent.

Second, do the sanctions violate a more fundamental moral principle? The answer here is yes: the principle that the State is not to serve as an agency of positive sanctions. The State gains access to the wealth required to grant positive sanctions only by imposing negative sanctions on taxpayers. The State should lawfully impose negative sanctions only against those who have used violence or fraud to achieve their goals. The State's goal is the securing of justice through the imposition of negative sanctions, not the granting of rewards at the expense of the judicially innocent. The State must not be trusted with positive sanctions.

Vouchers violate both principles. They are a form of politically correct money. They are bribes. People who oppose today's politically correct use of coercion in order to fund education should oppose the idea of vouchers, tax credits for education, and every other piece of bait that the State offers. It is time to start cutting straight. □

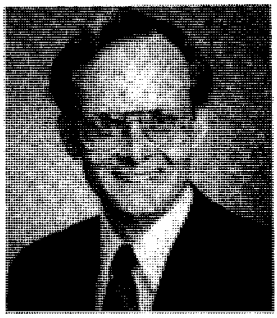
1. Henry Steele Commager, *The American Mind: An Interpretation of American Thought and Character Since the 1880's* (New Haven, Conn.: Yale University Press, 1950), ch. 12.

2. Lester Frank Ward, *Dynamic Sociology; or Applied Social Science*, 2 vols. (New York: Appleton, [1883] 1907), II:547.

3. *Ibid.*

4. *Ibid.*

5. *Ibid.*, p. 548.



Destruction Is No Blessing

Last January, a devastating earthquake struck Kobe, Japan. Who can forget the awesome scenes of destruction?—skyscrapers reduced to piles of rubble, freeways heaved and twisted, homes wiped out by fire. Thousands perished and one of the country's leading commercial hubs was left paralyzed.

Amid all that ruin, some observers saw a ray of hope. Destruction, they argued, will require repair and that means the creation of new jobs. The Kobe earthquake will actually stimulate economic activity, turning at least some of the pain of the initial losses into a national blessing.

"Despite the devastation," wrote Nicholas D. Kristof in the January 18 edition of the *New York Times*, "some experts said that in some ways the earthquake could give a boost to an economy struggling to recover from a long recession." The spending needed to rebuild the port of Kobe "may give a stimulus to Japan's economy, the world's largest after America's."[1]

This notion that destruction is an economic stimulus is not new. After World War II, some who surveyed the wreckage of western Europe argued that the rebuilding effort would lift the continental economy. Reflecting back on those years, British Prime Minister Harold Wilson once explained the rapid rise of Germany and the stagnation of Britain in these terms: Germany had the good fortune of having its manufacturing capacity totally wiped out, whereas Britain was still using plants that had survived the war. The implication was that Britain would be better off today if only Germany had dropped far more bombs on it in the 1940s.

After natural disasters here in the U.S., one sometimes hears the same line of reasoning. When floods in the Midwest left behind billions in lost property in 1993, then-Treasury Secretary Lloyd Bentsen openly declared on national television that the nation's economy would receive a healthy stimulus as a result.

It's hard to imagine survivors of the Kobe earthquake deriving much solace or consolation from such assurances. "I'm so glad my home was flattened because now I have the chance to rebuild it and stimulate the economy" is not a widely held view, I'm sure.

The great free market economist Henry Hazlitt dismissed "the blessings of destruction" myth in a chapter by that title in his classic *Economics in One Lesson*:

> No man would want to have his own property destroyed either in war or in peace. What is harmful or disastrous to an individual must be equally harmful or disastrous to the collection of individuals that make up a nation.
>
> Many of the most frequent fallacies in economic reasoning come from the pro-

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pensity, especially marked today, to think in terms of an abstraction—the collectivity, the "nation"—and to forget or ignore the individuals who make it up and give it meaning. No one could think that the destruction of war was an economic advantage who began by thinking first of all of the people whose property was destroyed.

In other words, the problem with all this is that some people are not using their heads to think this through; they are looking at a tree or two and ignoring the forest.

This is the same fallacy that arises if one looks only at where a thief spends his loot and not where he got it from in the first place. We don't assume that bank robbery is an economic stimulus just because some businesses benefit when the thief goes on a shopping spree. Everyone seems to understand, in that instance, that every dollar the thief spends at the local mall is a dollar that can't be spent by the people to whom the money really belongs.

When destruction is part of the equation, the futility ought to be even clearer. If the citizens of Japan rebuild Kobe at a cost of \$20 billion, that's \$20 billion they won't have for other things. Much will be lost forever because it is irreplaceable at any price. Anyone who simply observes the increased activity in the construction business as people spend to rebuild and then concludes that the earthquake is some sort of economic blessing in disguise is myopic and simplistic.

Wouldn't it be great if we lived in a world wherein destruction *was* indeed a magical route to economic progress? It's the one thing that governments do very well and have more experience in than any other group or institution. Blowing things up or tearing them down is a lot easier to accomplish than creating them in the first place—and for some, it can be downright fun as well. We could dispense with toil and sweat and just go on a rampage, knowing that the economy was being boosted in the process. If Mother Nature wouldn't cooperate by giving us an occasional disaster, we could blow up a few dams and create our own floods.

If there was any good news at all in the Kobe disaster, by the way, it wasn't to be found in the rubble. A headline in the January 28 *New York Times* said it all: "Kobe's Best Problem: Too Many Gifts." While government agencies drowned in their own red tape, private individuals and organizations poured forth a gusher of generosity. Relief supplies overwhelmed the city, so much so that within two weeks of the quake, officials were pleading "enough is enough!"

People helping people is a good thing. Wanton destruction of things of value is not. Simple truths, but some people don't yet seem to fully comprehend them. □

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1. For a rebuttal to the experts, see Thomas L. Martin, "The Blessings of Earthquakes?" in *The Freeman*, May 1995, p. 275.

THE FREEMAN
IDEAS ON LIBERTY

Capitalism Is Merciless—to Capitalists

by Allan Levite

Attending college in the late 1960s left me with many unique memories. Among these was the economics class in which the instructor told the students that such firms as IBM and Xerox were so huge and powerful that they dominated their markets. Smaller competitors were helpless against them. They exercised such tremendous control over patents and technology, and spent so much on research and development, that other firms in their industries could never hope to compete effectively, much less overtake them. For these reasons, government intervention was necessary to protect both consumers and competitors.

Of course, this sort of thinking was neither confined to the 1960s nor the exclusive product of economics professors. Many decades ago, socialist author George Orwell, in an effort to demonstrate the superiority of socialism over capitalism, made much the same point when he mentioned a phonograph company that had bought a patent for a superior phonograph needle. The company did not produce the needle and never intended to. It simply wanted to kill the invention, so that it would not compete with its existing product line. (Orwell seems to have forgotten that patents are government-created and government-enforced monopolies.) He used this example to illustrate his point that capitalism suppresses more technology than it creates. Under capitalism, he wrote, money is risked only on projects that promise quick profits. Remove the profit principle, he claimed, and inventors would have a free hand.[1]

But time has completely disproven his theory. The phonograph companies were completely unable to use this tactic or any other to stop the spread of cassette tape and CD-ROM technology. This is an ample illustration that no matter how much they might try, capitalists cannot repeal the laws of markets. (Governments have also tried to do so, with the same lack of success.) For brief periods, capitalists can dominate markets or industries, but the achievement of such domination is always temporary. It sets in motion forces that no capitalist or group of capitalists could ever control. Lucrative profits, for example, attract competitors; and soon, the level of profit evens out. This does not prove Marx's thesis about the falling rate of profit, for a decline of profitability in one industry will be offset by gains in another. But it does help to disprove the notion that "the big boys" run things. If they did, they would surely be able to prevent the loss of their own markets!

Both IBM and Xerox had ample power over technology by means of their tremendous research expenditures and control of patents, but it did not help them keep their markets. As for projects presumably being squelched because they do not offer quick profits, one need only compare the number

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of new ventures that appeared in socialist countries with the number that appear in capitalist countries. Whether or not a project promises profits is largely a matter of guesswork—that is, opinion. And opinions are never lacking. The mere fact that so many profit-oriented ventures fail is sufficient proof that a venture hardly needs to be demonstrably lucrative to be attempted.

On occasion, a product will enjoy such success among consumers that its leadership over competitive brands will appear to be unassailable. Backed by the profits thus generated, the firm will spend large sums on advertising to maintain the product's leadership. Competitors will be unable to supplant it. Because of this market domination, the lucky corporation is protected from price competition and can unfairly maintain monopoly prices and profits—or so we are told. This certainly seemed to be the case with Marlboro cigarettes, which has been the leading brand for a long time. I've never smoked myself, so I've always wondered if Marlboro's market leadership was solely the product of its hugely successful advertising efforts. But most of the smokers I've asked believe that Marlboros taste better than other brands. Despite this presumably better taste, however, and even though Philip Morris spends enormous sums on advertising this brand, it has lost some of its market share to low-priced "generic" cigarettes, which are hardly even advertised. Philip Morris was forced to respond by lowering Marlboro's price by 40 cents per pack, which increased its market share by about 5 percent, but contributed to a fall in the company's operating profit from $5.2 billion to $2.8 billion.[2] There have been very few instances in business history of brands as successful and powerful as Marlboro. Yet it could still not resist these competitive pressures.

Price Competition in the Computer Industry

The necessity of competing in terms of price is nothing new, nor is it confined to cigarettes. The company I work for sells hard disks for personal computers. The extent to which prices of PC's have dropped in the last ten years is already well known, but let me provide a typical example from our price lists. Our Fall 1991 price list showed a price of $5,099 for a 1-gigabyte (1,000-megabyte) SCSI hard disk. The current price for a drive of that capacity is $1,099—a drop of $4,000. Not only that, but our newer model also takes up less desk space and transfers data at a 42 percent faster rate.

Such examples did not need to wait for the development of the PC. Penicillin sold at first for $20 per dose. As more and more companies began to manufacture it, the price eventually dropped to 2 cents.[3] In 1908, Henry Ford's Model-T Touring Car sold for $850. Eight years later, a new Ford Touring Car sold for only $360.[4] A labor union would consider it a great victory to have won for its members as much money as these capitalists allowed consumers to save. If a government bureau had disbursed the same amounts to the public, high school history textbooks from that era to this one would have been praising the foresight and benevolence of the bureau's policies.

If capitalists had as much control over markets and prices as we have been led to believe, it seems highly unlikely that they would permit such price drops to occur. If costs decline, why not just maintain the retail price at its previous level and reap huge profits? The answer is that this cannot be done. Even the less astute capitalists are quick to see that if they drop prices just a little, additional sales can be gathered. Naturally, as Adam Smith pointed out over two centuries ago, they would also be quick to see that it would be advantageous to conspire together and agree to fix prices at certain levels, preventing a price war. But such agreements never last long. The same economic forces that inspire capitalists to make such pacts also break the pacts apart. Even if outsiders who are not parties to the agreement can somehow be kept under control and prevented from undercutting prices, the parties to the agreement will not hold to it for long. There is always more to be gained from breaking the covenant than from sticking to it. More importantly, consumers will find substitutes for the price-fixed product if they perceive that its price is being held above the true market price, which reflects the value they put on it.

The most noteworthy point about the conspiratorial argument is that anyone who accepts it would have to assume that *all* capitalists would operate in this manner. To be sure, all capitalists are driven by the prospect of financial gain, so they would all have a strong incentive to keep profits high by fixing prices and avoiding price competition. Geographic distance would no longer minimize this effect. It is true that foreign trade has played an increasingly important role in the world economy, and that capitalists in one country now compete against capitalists in other countries. But if capitalists in different countries wish to conspire together to fix prices, modern means of communication make this no more difficult than placing a phone call.

The capitalists in the computer industry would be characterized by all this no less than any others. But as we have seen, price wars have been the rule nevertheless, and not only in any one country, but on a worldwide basis. This gives us an excellent opportunity to look back in retrospect on the Justice Department's antitrust suit against IBM, which was riddled with inaccuracies and contradictions, and which had to keep changing its premises to keep pace with changes in the market. In 1982, the Solicitor General finally decided that the case was without merit and dropped it—after both sides had wasted hundreds of millions of dollars fighting it.[5] (Part of this was money that IBM might have spent on research and development.) But if the government had wanted to break up IBM, it could have done so without spending a penny of taxpayers' money. It could simply have waited for the market to do the job. In 1993, IBM lost eight *billion* dollars.

The Pitfalls of Bureaucratic Management

This illustrates that the market is not the only force that tends to cut giant firms down to size. Technology and bureaucracy can do that all by themselves. IBM has been the victim of both. Computer technology has made mainframe computers—IBM's mainstay—increasingly obsolete. IBM could have shifted entirely to smaller machines, but its bureaucracy resisted change for too long. Bureaucracy not only displaces the entrepreneurial spirit that turns small firms into big ones, it also makes the entrepreneurial spirit unwelcome. Big firms become bureaucratic, and bureaucratic firms become cumbersome and slow to respond to customers' needs. Decisions take too long to make, and smaller firms that are not encumbered by such problems find ways to serve customers' needs better. Government bureaucracies can endure because governments do not need to make a profit or to respond to competitive pressures. But in industry, the bureaucracy that is typical in large firms can undermine the most powerful corporations and gradually decrease their market power, while increasing that of the smaller firms.

This is not to say that IBM was inefficient or that it produced bad products. In fact, it has always been known for making good products, which is why it got to be as big as it was. But even good products cannot create and hold monopolies, because substitutes exist and because even firms that make good products might not be making the *right* products for the market. Despite IBM's size and strength, other firms began to make other products that many of IBM's customers started using as substitutes for IBM's mainframes. The market "grew up," and no longer wished to be as dependent on IBM and its machines as it had been. The advent of PC's made it possible for customers to write or buy software that could perform the tasks they needed done, without depending on IBM.

Socialism and Innovation

But couldn't socialism accomplish the same thing, by simply breaking up large corporations or nationalizing them? Let's analyze how this would work—specifically, how it would treat innovations, since economic growth depends on innovations. Suppose that the government had taken over all industry by 1970. In 1975, a government planning bureau would have been visited by Steve Jobs and Steve Wozniak, the founders of Apple Computer. These young hobbyists would have had to ask the bureau to allocate funds for their project. But the government bureau would have had little reason to redirect money that had been destined to fill immediate needs, and devote it instead to an untried, unproven, and highly doubtful project—one that had nothing to do with necessities such as food, shelter, and health care. To top it all off, Jobs and Wozniak were neither recognized authorities nor successful managers. Worse still, in order for their machine to be useful, someone would have had to write software programs for it, which had not been done at that time. But in a country where the profit motive existed, the "two Steves" had little difficulty finding venture capitalists willing to fund their project. The fact that IBM dominated the computer industry at the time did not retard their progress in the least.

Many *unanticipated* uses were found for the machine they created. Socialist planning does not take unanticipated uses into account, and couldn't even if it wanted to. The trial-and-error system of profit and loss determines what works much more adequately than central planning ever could. And if the project of the "two Steves" had failed (under capitalism), only the venture capitalists would have suffered a financial loss. Under socialism, the taxpayers as a whole would have borne the loss. *This* is why Orwell's fears that capitalism would suppress innovation are groundless, although they would be true with respect to socialism.

What lessons can we draw from all this? First of all, capitalism is a great force for efficiency. It rewards firms that serve their customers' needs and punishes firms that are inefficient. It allows firms to grow to huge size and to amass great wealth—if they earn it. If they cease to do so, or if competitors do it better, they will decline, no matter how big and powerful they were.

These are lessons we should all ponder the next time we are told that the powers of the government must be enlisted to redirect industrial activity towards various "public" goals. □

1. George Orwell, *The Road to Wigan Pier* (New York: Harcourt Brace Jovanovich, 1958), pp. 206–07.
2. Andrew E. Server, "How to Escape a Price War," *Fortune*, June 13, 1994, p. 83.
3. Stanley Siegelman, "Pharmaceuticals," *Chemical Week*, August 2, 1989, p. 32.
4. Richard S. Tedlow, *New and Improved: The Story of Mass Marketing in America* (New York: Basic Books, 1990), p. 125.
5. Charles H. Ferguson and Charles R. Morris, *Computer Wars* (New York: Times Books, 1994), pp. 10–11.

THE FREEMAN
IDEAS ON LIBERTY

Lessons from a Year in Romania

by Sandra L. Goodman

Those of us who enjoy the benefits of a market system can learn a lot from the recent experiences of Central and Eastern European countries. For me, spending a year in Romania teaching economics to university students reinforced three important lessons.

Lesson #1: Resources are scarce, and, one way or another, people will compete for them.

At any point in time, resources are limited. Therefore, people are forced to make choices about how to use available resources to their best advantage.

Because of scarcity, people must compete for what is available. The form competition takes is shaped by the constraints and incentives people face. In markets, prices reflect competitive pressures. Producers bid up the prices of resources they believe will help create goods to satisfy consumers' wants. Consumers bid up the prices of goods they value. Goods are distributed to the people who value them the most, as indicated by the prices they are willing to pay.

Under socialism, where prices are fixed and thus not allowed to reflect a good's value, other methods develop to distribute goods to the people who want them. Queuing is one of the most noticeable systems. In Romania in 1993, most prices remained fixed, and the money price of goods was very low. A more accurate indicator of a good's value was the amount of time people had to spend waiting in line to buy it.

Periodic announcements of price increases by the government fueled inflationary fears and encouraged hoarding. Queues appeared, which heightened people's fear of future shortages. When an increase in the price of gasoline was announced, lines of sputtering cars, filled with empty plastic containers, snaked through city blocks and along highways waiting for gasoline. When sugar prices were slated to increase, people rapidly depleted the kilogram-sized paper bags of sugar from store shelves.

Not far from my flat was an *alimentara*, a state-run grocery store that sold a limited selection of canned foods, dairy products, bread, and, every Thursday, toilet paper. Late in the evening people would place their *pungas*, the plastic shopping bags Romanians carry everywhere because you can never be sure when and where you'll find what you're looking for, along the concrete porch outside the front door. By 6:00 a.m., when the *alimentara* opened, people had joined their *pungas* in the queue. I never figured out what kept people from cheating in this arrangement—stealing bags or jumping ahead. But there was some sort of monitoring system because the line of *pungas* was always there.

Just as prevalent as queues is the unoffi-

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cial distribution system. Whatever you call it—graft, political favors, backscratching—unofficial connections pervade transactions in Romania. As a student told me, "It helps to have an uncle somewhere." Grocery clerks routinely hold back part of the store's merchandise to sell to friends and relatives.

In the past, instead of waiting months for shoddy and indifferent medical treatment, patients and their families provided doctors with fresh meat and other payments in kind to obtain timely and adequate care. Now they must supply hard currency to obtain a private room instead of a crowded ward, or to get prompt surgery and periodic doctor's visits while recuperating.

Lesson #2: There are no markets without private property rights.

To work, markets must be based on a system of functional property rights that is generally accepted as fair. To be fully functional, property rights must be clearly defined, enforced, and readily transferable. Unfortunately, the property rights regime in Romania, like some of the others being established in Eastern Europe, is incomplete.

For example, consider Romania's 1991 Land Law. This law returns agricultural lands that were confiscated after World War II to their former owners. Additionally, workers on cooperative farms, Romanian city-dwellers who move to the countryside and work the land, and civil servants in rural areas are eligible for redistributed land. This latter group is barred from selling land they receive for ten years.

By mid-1992, only about 75 percent of the 5 million former owners whose land had officially been returned actually had titles to their land.[1] And much of Romania's fertile agricultural land lay fallow in 1993.

A university professor I knew in Timisoara, a city located on the far western side of the country, had inherited an apple orchard near the Ukrainian border on the eastern side of the country. He knew nothing about growing apples, had no desire to be an apple farmer, and had no money to hire someone to tend the orchard. And, of course, he had no ownership title or other documents which he would need to sell the land to a real farmer. So, for lack of a tradeable property right, the orchard remained untended, and the apples rotted on the ground.

Peasants didn't know who would own the crops they harvested, so they didn't plant. From train windows I saw untilled fields of brown stubble extend to the horizon.

Occasionally, I would see men hunched over hoes, standing above a row of crops (most likely potatoes or cabbage). They rarely had more than a hoe, horse, cart, and wooden plow to work their land. The process of privatizing state property had not yet extended to state-owned farm equipment. And, in any case, large-scale equipment designed for industrial collective farms is useless on small, individual plots.

Problems caused by insecure ownership rights to land and crops forced Romania to import grain and foodstuffs in 1993. Historically, Romanians have taken great pride in their reputation as "the breadbasket of Europe." Passing along stories from their grandmothers about former bountiful harvests, students told me with shame that potatoes had been imported into the country for over two years.

Not only must private property rights be complete, but public acceptance requires that they be perceived as fair by the majority of the populace. Romania's land law distributes land to former owners that might not be the same property that was previously owned, nor is it necessarily in the same area. The amount of land that can be returned to an owner is restricted to ten hectares (22 acres), regardless of the size of the original holding.

These elements of the law erode public support. And because ownership shares are determined by local governmental authorities, many Romanians feel that the privatization scheme is merely a continuation of political favors and government's control over production.

Lesson #3: Entrepreneurs move resources toward higher valued uses.

As the government of Romania gradually became less oppressive during my stay, I was able to compare government's waste of resources with the use of resources by private entrepreneurs. It was clear that entrepreneurs, however new to the task, were moving resources toward the people who value them.

The Electromotor factory in Timisoara illustrates how resources are wasted under socialism. Electromotor was the largest user of copper in the Banat region through the 1980s and early 1990s. The factory makes industrial motors whose bobbins are spun with copper. By local standards, its operations are considered efficient. Motors are spun with the correct amount of copper, and most of the copper allocated to the firm finds its way around a motor.

But the fact is that, before 1990, Electromotor's major customers, French and Italian manufacturers, bought the motors merely for the copper they contained. Buying Romanian motors, disassembling them, and using only the copper was cheaper than buying copper at world prices.

When Ceausescu's Communist government fell in 1990, Electromotor was forced to pay world prices for imported copper, and the price of Electromotor motors increased to world levels. The French and Italian customers halted their orders, but Electromotor continued to produce motors. In 1993, some 80 percent of their production was unsold, piled and rusting behind the factory.

Other Romanian factories produce chlorine products with a mercury-based production process that uses a great deal of energy. In the West, this now-wasteful process is largely obsolete, phased out in the 1970s as energy prices rose and worry about the dangers of mercury increased. To maintain their profits, Western firms minimized costs by reducing their use of energy and avoided liability by stopping the use of mercury. But Romanian companies, following a fixed production plan and operating without a legal system that protects the rights of others, had no incentive to upgrade their products or improve their processes.

The state-owned bread company wastes precious food resources. Bread produced by the state is heavy, tasteless, and inedible within 48 hours. Yet, before the price of bread started to increase, people bought ten to 12 loaves a day and fed it to pigs they were fattening for slaughter. It was cheaper than corn or any other feed.

During the year I spent in Romania, prices were slowly being freed and private businesses were emerging. The most noticeable impact was an increase in the availability of consumer goods. Since most Romanians lack access to the capital required for industrial production, the country's fledgling private sector centered around retail activities. Things people wanted began to appear in shop windows: jeans and t-shirts from Turkey, appliances from Germany, video and stereo equipment from Korea and China, canned foods from Italy and Greece, fur caps from Russia, and locally grown houseplants and flowers.

Cottage industries such as handicrafts, woodwork, and art shops sprang up, too. Copying services were also available at many small shops. My university students no longer had to copy entire lectures by hand (textbooks were rarely provided). Now I could easily make copies for them myself. Private seamstresses and tailors had long existed, but now they began to produce dresses that resembled the French and Italian imports that had recently appeared in private shops. Although bread from private bakeries cost more than twice as much as state bread, bread sales from private bakeries were thriving. The smell of fresh, hot, edible bread had people lining up on the sidewalks when loaves appeared from the ovens. This bread was not fed to pigs.

Even in industry, which remained largely state-owned, there were changes. Before 1990, factories received quotas of steel and other metal inputs. Factory managers usually requested more metal than they needed for production, for a variety of reasons—to trade metal on the black market, to meet unrealistic production quotas, and to cover the losses of metal stolen by workers.

Now that factories have to buy metal at world prices, they use it much more conservatively. Before 1990, they were required to return a specific percentage of metal to the Ministry of Industry (supposedly for recycling but mostly to ensure that it wasn't all stolen). Ministry officials report that the amount of steel returned for recycling is less than half what they received before 1990, a sign that steel is being used in production, not wasted or stolen.

Conclusion

F. A. Hayek identified the basic problem facing an economy as that of identifying and choosing among all the possible ways that resources might be used to satisfy people's wants. Central planners simply don't have enough information or the incentives to make resource-use choices that can sustain consumer satisfaction and economic growth. In Romania, this meant that products were produced that nobody wanted and raw materials were wasted.

In contrast, markets channel competitive pressures into a process in which individuals, acting as entrepreneurs, have the incentive to discover new and better ways to use resources. Facilitated by a legal system that protects private property rights, markets create a level of social wealth and satisfaction unrivaled by any alternative structure. In Romania in 1993, the importance of that system became clearer to me than ever before. □

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Why Socialism Failed

by Mark J. Perry

Socialism is the Big Lie of the twentieth century. While it promised prosperity, equality, and security, it delivered poverty, misery, and tyranny. Equality was achieved only in the sense that everyone was equal in his or her misery.

In the same way that a Ponzi scheme or chain letter initially succeeds but eventually collapses, socialism may show early signs of success. But any accomplishments quickly fade as the fundamental deficiencies of central planning emerge. It is the initial illusion of success that gives government intervention its pernicious, seductive appeal. In the long run, socialism has always proven to be a formula for tyranny and misery.

A pyramid scheme is ultimately unsustainable because it is based on faulty principles. Likewise, collectivism is unsustainable in the long run because it is a flawed theory. Socialism does not work because it is not consistent with fundamental principles of human behavior. The failure of socialism in countries around the world can be traced to one critical defect: it is a system that ignores incentives.

In a capitalist economy, incentives are of the utmost importance. Market prices, the profit-and-loss system of accounting, and private property rights provide an efficient, interrelated system of incentives to guide and direct economic behavior. Capitalism is based on the theory that incentives matter!

Under socialism, incentives either play a minimal role or are ignored totally. A centrally planned economy without market prices or profits, where property is owned

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by the state, is a system without an effective incentive mechanism to direct economic activity. By failing to emphasize incentives, socialism is a theory inconsistent with human nature and is therefore doomed to fail. Socialism is based on the theory that incentives don't matter!

In a radio debate several months ago with a Marxist professor from the University of Minnesota, I pointed out the obvious failures of socialism around the world in Cuba, Eastern Europe, and China. At the time of our debate, Haitian refugees were risking their lives trying to get to Florida in homemade boats. Why was it, I asked him, that people were fleeing Haiti and traveling almost 500 miles by ocean to get to the "evil capitalist empire" when they were only 50 miles from the "workers' paradise" of Cuba?

The Marxist admitted that many "socialist" countries around the world were failing. However, according to him, the reason for failure is not that socialism is deficient, but that the socialist economies are not practicing "pure" socialism. The perfect version of socialism would work; it is just the imperfect socialism that doesn't work. Marxists like to compare a theoretically perfect version of socialism with practical, imperfect capitalism which allows them to claim that socialism is superior to capitalism.

If perfection really were an available option, the choice of economic and political systems would be irrelevant. In a world with perfect beings and infinite abundance, *any* economic or political system—socialism, capitalism, fascism, or communism—would work perfectly.

However, the choice of economic and political institutions is crucial in an imperfect universe with imperfect beings and limited resources. In a world of scarcity it is essential for an economic system to be based on a clear incentive structure to promote economic efficiency. The real choice we face is between imperfect capitalism and imperfect socialism. Given that choice, the evidence of history overwhelmingly favors capitalism as the greatest wealth-producing economic system available.

The strength of capitalism can be attributed to an incentive structure based upon the three Ps: (1) *prices* determined by market forces, (2) a *profit-and-loss* system of accounting and (3) *private property* rights. The failure of socialism can be traced to its neglect of these three incentive-enhancing components.

Prices

The price system in a market economy guides economic activity so flawlessly that most people don't appreciate its importance. Market prices transmit information about relative scarcity and then efficiently coordinate economic activity. The economic content of prices provides incentives that promote economic efficiency.

For example, when the OPEC cartel restricted the supply of oil in the 1970s, oil prices rose dramatically. The higher prices for oil and gasoline transmitted valuable information to both buyers and sellers. Consumers received a strong, clear message about the scarcity of oil by the higher prices at the pump and were forced to change their behavior dramatically. People reacted to the scarcity by driving less, carpooling more, taking public transportation, and buying smaller cars. Producers reacted to the higher price by increasing their efforts at exploration for more oil. In addition, higher oil prices gave producers an incentive to explore and develop alternative fuel and energy sources.

The information transmitted by higher oil prices provided the appropriate incentive structure to both buyers and sellers. Buyers increased their effort to conserve a now more precious resource and sellers increased their effort to find more of this now scarcer resource.

The only alternative to a market price is a controlled or fixed price which always transmits misleading information about relative scarcity. Inappropriate behavior results from a controlled price because false information has been transmitted by an artificial, non-market price.

Look at what happened during the 1970s

when U.S. gas prices were controlled. Long lines developed at service stations all over the country because the price for gasoline was kept artificially low by government fiat. The full impact of scarcity was not accurately conveyed. As Milton Friedman pointed out at the time, we could have eliminated the lines at the pump in one day by allowing the price to rise to clear the market.

From our experience with price controls on gasoline and the long lines at the pump and general inconvenience, we get an insight into what happens under socialism where every price in the economy is controlled. The collapse of socialism is due in part to the chaos and inefficiency that result from artificial prices. The information content of a controlled price is always distorted. This in turn distorts the incentives mechanism of prices under socialism. Administered prices are always either too high or too low, which then creates constant shortages and surpluses. Market prices are the only way to transmit information that will create the incentives to ensure economic efficiency.

Profits and Losses

Socialism also collapsed because of its failure to operate under a competitive, profit-and-loss system of accounting. A profit system is an effective monitoring mechanism which continually evaluates the economic performance of every business enterprise. The firms that are the most efficient and most successful at serving the public interest are rewarded with profits. Firms that operate inefficiently and fail to serve the public interest are penalized with losses.

By rewarding success and penalizing failure, the profit system provides a strong disciplinary mechanism which continually redirects resources away from weak, failing, and inefficient firms toward those firms which are the most efficient and successful at serving the public. A competitive profit system ensures a constant reoptimization of resources and moves the economy toward greater levels of efficiency. Unsuccessful firms cannot escape the strong discipline of the marketplace under a profit/loss system. Competition forces companies to serve the public interest or suffer the consequences.

Under central planning, there is no profit-and-loss system of accounting to accurately measure the success or failure of various programs. Without profits, there is no way to discipline firms that fail to serve the public interest and no way to reward firms that do. There is no efficient way to determine which programs should be expanded and which ones should be contracted or terminated.

Without competition, centrally planned economies do not have an effective incentive structure to coordinate economic activity. Without incentives the results are a spiraling cycle of poverty and misery. Instead of continually reallocating resources towards greater efficiency, socialism falls into a vortex of inefficiency and failure.

Private Property Rights

A third fatal defect of socialism is its blatant disregard for the role of private property rights in creating incentives that foster economic growth and development. The failure of socialism around the world is a "tragedy of commons" on a global scale.

The "tragedy of the commons" refers to the British experience of the sixteenth century when certain grazing lands were communally owned by villages and were made available for public use. The land was quickly overgrazed and eventually became worthless as villagers exploited the communally owned resource.

When assets are publicly owned, there are no incentives in place to encourage wise stewardship. While private property creates incentives for conservation and the responsible use of property, public property encourages irresponsibility and waste. If everyone owns an asset, people act as if no one owns it. And when no one owns it, no one really takes care of it. Public ownership encourages neglect and mismanagement.

Since socialism, by definition, is a system marked by the "common ownership of the means of production," the failure of socialism is a "tragedy of the commons" on a national scale. Much of the economic stagnation of socialism can be traced to the failure to establish and promote private property rights.

As Peruvian economist Hernando de Soto remarked, you can travel in rural communities around the world and you will hear dogs barking, because even dogs understand property rights. It is only statist governments that have failed to understand property rights. Socialist countries are just now starting to recognize the importance of private property as they privatize assets and property in Eastern Europe.

Incentives Matter

Without the incentives of market prices, profit-and-loss accounting, and well-defined property rights, socialist economies stagnate and wither. The economic atrophy that occurs under socialism is a direct consequence of its neglect of economic incentives.

No bounty of natural resources can ever compensate a country for its lack of an efficient system of incentives. Russia, for example, is one of the world's wealthiest countries in terms of natural resources; it has some of the world's largest reserves of oil, natural gas, diamonds, and gold. Its valuable farm land, lakes, rivers, and streams stretch across a land area that encompasses 11 time zones. Yet Russia remains poor. Natural resources are helpful, but the ultimate resources of any country are the unlimited resources of its people—human resources.

By their failure to foster, promote, and nurture the potential of their people through incentive-enhancing institutions, centrally planned economies deprive the human spirit of full development. Socialism fails because it kills and destroys the human spirit—just ask the people leaving Cuba in homemade rafts and boats.

As the former centrally planned economies move toward free markets, capitalism, and democracy, they look to the United States for guidance and support during the transition. With an unparalleled 250-year tradition of open markets and limited government, the United States is uniquely qualified to be the guiding light in the worldwide transition to freedom and liberty.

We have an obligation to continue to provide a framework of free markets and democracy for the global transition to freedom. Our responsibility to the rest of the world is to continue to fight the seductiveness of statism around the world and here at home. The seductive nature of statism continues to tempt and lure us into the Barmecidal illusion that the government can create wealth.

The temptress of socialism is constantly luring us with the offer: "give up a little of your freedom and I will give you a little more security." As the experience of this century has demonstrated, the bargain is tempting but never pays off. We end up losing both our freedom and our security.

Programs like socialized medicine, welfare, social security, and minimum wage laws will continue to entice us because on the surface they appear to be expedient and beneficial. Those programs, like all socialist programs, will fail in the long run regardless of initial appearances. These programs are part of the Big Lie of socialism because they ignore the important role of incentives. Socialism will remain a constant temptation. We must be vigilant in our fight against socialism not only around the globe but also here in the United States.

The failure of socialism inspired a worldwide renaissance of freedom and liberty. For the first time in the history of the world, the day is coming very soon when a majority of the people in the world will live in free societies or societies rapidly moving towards freedom.

Capitalism will play a major role in the global revival of liberty and prosperity because it nurtures the human spirit, inspires human creativity, and promotes the spirit of enterprise. By providing a powerful system of incentives that promote thrift, hard work, and efficiency, capitalism creates wealth.

The main difference between capitalism and socialism is this: Capitalism works. □

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IDEAS ON LIBERTY

The New Nihilism

by Michael D. Weiss

On the streets of New York City, not far from the complacent New Age ambiance of the touristy West Village cafes and uptown Sushi bars, terror culture is afoot. Arising from post-modernism, terror culture is the "voice" of a new movement. With growing force and articulation, not to mention federal funding, this terrible voice echoes from Columbia's Philosophy Hall to the trendy coffee bars of SoHo and the squatters' "apartments" of Manhattan's midtown. This new movement has been called the paradigm of the twenty-first century, but its philosophy signals nothing less than the death of civilization.

Although the stench of death is strongest below 14th Street, the signs of it are everywhere. From phone sex ads and the club listings in underground newspapers, a careful observer glimpses the cultural terrorists. Ghoulish books called *Hunting Humans* and *The Atrocity Exhibition* fill their shelves. *Faces of Death* (a movie available at most video rental stores containing spliced footage of actual killings) and hard-core pornography sit next to their VCRs. Tattoos and piercing deface their bodies. Dressed in torn jeans or in the all-black uniform of their movement, they frequent the nightclubs, galleries, and bookstores of the City.

What is truly frightening about terror culture is that it is gaining ground, making its way into the mainstream. One of the bestselling books and most popular American movies in recent years, *Silence of the Lambs*, was decidedly terroristic. The serial killer, Hannibal Lecter (played by Academy-award winner Anthony Hopkins), was transformed into a Sherlock Holmes-type hero. On television, talk shows and real-life crime shows popularize violence and fringe lifestyles. After the Jeffrey Dahmer case, a California trading-card distributor released serial killer cards for kids. Rock album covers are no longer for the squeamish and many would shock a forensic physician.

College fashion is ugly. Women sport black hair and nose rings, wear men's "Doc Marten's" shoes or cowboy boots, ripped jeans, and t-shirts sporting bizarre, horrifying, or obscene logos. According to Lola, a pink-haired, nose-ringed student at New York's Parsons School of Art, "Post-modernism is the rage in art schools. Everybody dresses in black. It's fashion." In fact, every person I talked to, whether a self-proclaimed devotee of terror culture or not, conceded that terror culture has affected the contemporary cultural scene. Terror historian Arthur Kroker describes the new post-modernism as "playing at your local theater, TV studio, office tower, doctor's office, or sex outlet."[1]

Borrowing much from the relativists, terror culture has at its core radical nihilism, a complete subversion and rejection of value. Terror culture goes beyond the relativist observation that all concepts of value or quality are contingent and socially con-

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structed and ultimately espouses a theory of anti-value.

From the Graves of Academe

To understand terror culture one must look to its genesis in academic post-modernism. Post-modernism, as its name suggests, is first and foremost a reaction to modernity. "Modernity" represents a belief in progress and in the value of art, science, and religion. The modern era, according to historian Arnold Toynbee, is "an unbroken vista of progress toward Earthly Paradise" full of idealism and technological optimism.[2] The modernist world is orderly and logical, and man can ultimately conquer it through reason.

Post-modernism, like relativism, rejects modernity's premise that human beings will achieve a progressive realization of truth through human endeavor. As Professor Todd Gitlin of UC Berkeley expressed it, "Post-Modernism derides the search for depth as mere nostalgia."[3] The post-moderns reject teleological belief systems; they reject the notions of progress, truth, and beauty because these notions only make sense inside our culture's current way of looking at things.

Employing these ideas, a painting movement has emerged in New York City which rejects all distinctions between bad and good art by employing tasteless images, inept drawing, poor craftsmanship, and unschooled color. The movement's 1978 show at the New Museum of Contemporary Art had the title "Bad Painting."[4] As expressed by Julie Wachtel, a post-modern artist whose works consist of traces of cartoon figures from cheap greeting cards directly onto canvas, post-modernism rejects the very "idea of quality."[5]

The war on civilization has certainly begun on the streets of New York. On Broadway, near Broome Street, vendors sell disembodied mannequin parts for $5 apiece (3 for $12). On St. Marks at Second, sidewalk artists hawk obscene and grotesque pictures: an American flag above which sits a half-clothed stripper in a Grim Reaper's cowl, mountains of skulls against a post-nuclear backdrop, headless businessmen, rotting corpses in bondage. At Art 54 at 54 Grand, black and white lithographs of mangled children (triple-sized) and fallen angels sell for $3,500. The curator tells me that the pieces sell very well. "I get a lot of interest in them. I like them. The subject matter may be a little much, but I think that's the point. People want to be a little bit shocked."

St. Mark's Books at 9th and 3rd advances the war on civilization. The store is full of urban primitives (the vanguard of the terror culture movement), all in black, perusing magazine racks of obscure, photocopied magazines on anarchism, obscenity, terror, and, of course, every conceivable brand of rock and roll. On the front rack are some of the best sellers: *The Atrocity Exhibition*, *The Torture Garden*, *Assassination Rhapsody*, *Freaks*, and *Hannibal Lecter, My Father*. Others include the complete Marquis de Sade collection, *Venus in Furs* by Sacher-Masoch, *Macho Sluts*, and, perching sheepishly, John Bradshaw's New Age self-help guide, *Iron John*. Readers sit surrounding a rack full of *Singin' Dose Anti-Psychotic Blues #6*, published in Brooklyn. This magazine, edited by "Frank," espouses mass murder (not serial killing, which Frank calls "weak") and has sections on murder technique and records (17 at McDonald's in Fresno). A longer-haired customer wearing a tweed trenchcoat tells me he enjoys Frank's writing. "I got into this stuff through photography. The interesting thing is that it keeps going and going. It's a lifestyle; it's something you have to do. I'm trying to do crime stuff now. Freelance. Like Weegee [the *nom de guerre* for Prohibition-era crime photographer Arthur Fellig] only more real."

Body Piercing

Another front of terror culture's "war on everything" involves body mutilations—disfiguring, scarring, and piercing. In its upstairs quarters on 5th Avenue, the Gauntlet is the premiere piercing center in New York. In its first three months it performed over 800 piercings (roughly 14 a day). Its offices are inoffensive and even stylish. Minimalist couches and glass counters sit atop polished hardwood floors. The first tip that this is not another trendy midtown hair boutique comes from the contents of the counter. It is filled with metal rings obviously not designed for ears. Also lying under the glass are needles, surgical forceps, jawbones, neo-Egyptian hieroglyphs depicting genital mutilations, and what looks like chainmail. On the other side of the room is a table containing copies of *P.F.I.Q. (Piercing Fans International Quarterly)*, a sort of combination hard-core pornography/how-to guide for amateur piercers. Also on the table is *Androgyny* and a copy of a tattoo magazine, *Body Art*. The piercing rooms at the Gauntlet are extremely clean, better looking than the average doctor's office. It has been inspected twice by the Health Department, passing easily both times. The piercing is done without anesthesia. Some piercings hurt no more than installing an earring. Others, Dan says, are "out of body experiences."

Dan, the skin-headed, multi-pierced, highly tattooed manager and master piercer at the Gauntlet ("the only fully qualified piercer in town"), gave an assessment of the piercing movement. "Most of the piercings we do are the three N's: noses, nipples, and navels. But we'll do almost anything—genitals, eyebrows, whatever." Dan says that his clientele is not all alternative. "We get all different types of people from all walks of life, from Wall Street to the East Village."

Publication and Performance

Terror culture even has its own publication. *Semiotext(e)* is the definitive guide to terror culture. *Semiotext(e)* is published by Autonomedia, a co-operative run by Columbia University's Jim Fleming and Sylvère Lotringer. It is headquartered in the French Department of Columbia University, although it has recently expanded to additional offices in Brooklyn. In 1978, Lotringer, co-editor and French professor, decided to change the focus of the magazine, to make it more "relevant." Thus *Semiotext(e)* in its current incarnation is, according to Adam Parfrey, editor of *Apocalypse Culture*, "kinda anarchistic, heretic, post-punk, post-situationalist, cutting edge subversive-type stuff."

I met Jim Fleming in the old factory building in Brooklyn which houses *Semiotext(e)* and, incidentally, serves as Fleming's home. Fleming came aboard in 1979, shortly after the decision to refocus the magazine. Topics covered by the magazine include animal sex, child sex, morbid sex, violent sex, and the cryptically named "critical sex." The schizo issue celebrated schizophrenia and included lyrics from the punk rock song *Teenage Lobotomy* and the Boston Declaration of Psychiatric Oppression. The magazine's writers include a who's-who of the avant-garde: John Cage, Jacques Derrida, Michel Foucault, Kathy Ackter, Phillip Glass, and William Borroughs. Recent issues of *Semiotext(e)* have sold more than 30,000 copies.

As far as avant-garde art goes, preeminent in the creation of terror culture was National Endowment for the Arts "problem child" Karen Finley. Finley's often federally funded performance art has been distinguished by Artforum magazine as "obscenity in its purest form."[6] In her taxpayer-financed act Finley smears food into her genitals and defecates on stage.[7] Finley's show includes descriptions of violent and perverse sex acts with priests, children, relatives, and the handicapped.[8]

Following Finley's lead, former pornography performer Annie Sprinkle now does her thing in artistic settings such as New York's avant-garde and federally funded performance space, The Kitchen.[9] The Kitchen also featured the extremely violent pornographic art films of Richard Kern, best known for his *Death Trip* films.[10] These performances graphically illustrate the terror culture agenda. These artists violently attack the idea of value, championing anti-value. They do not claim that what they do is not pornographic or obscene. Nor do they claim it is beautiful. It is nihilist, trying to tear down the dominant culture at all costs, attacking all fronts at once.

And the nihilist project is working. One can see its effectiveness clearly while sitting in the Life Cafe at 10th and B at 2 a.m. on a Friday night. The Life is a favorite New York University hangout. (New York University, especially its Cinema Studies program, attracts many aspiring nihilists.)

Terror culture is taking hold in the cities—and is spreading to the suburbs and small towns. It wreaks moral and physical death. It does not take psychological expertise to realize that immersing oneself in pictures of mutilated children, hard-core pornography, and self-mutilation is not conducive to a healthy mental state.

Ominous Parallel

Much of the experience of modern-day New York echoes another metropolis, another time. Consider the impressions of a local writer describing the hip part of town:

> . . . it was a den of unabashed perversity; one went for instance to night spots . . . to watch men in drag dance together . . . or . . . for a glimpse of lesbian sex chez soi. . . . If it was a bout of whipping you wanted, the whores parading around . . . would gratify your desire. They wore high, bright-red riding-boots as an advertisement for their specialty, and some used to carry short whips in order to narrow any margin of doubt to a minimum.[11]

This was not last week's New York City, but a description of Weimar Germany circa 1928. The cultural parallels are striking in their sheer extremity. A recent documentary of New York's underground scene, *Mondo New York*, has been compared to Weimar decadence,[12] and there can be little grounds to argue. The question that confronts one is how can two places, so separated by their respective histories, have so many similarities? Weimar Germany followed a tremendous military defeat and evolved against a backdrop of omnipresent political anarchy. Modern-day Manhattan (with all its problems), by contrasts, enjoys relative social stability, a comparatively high standard of living, and, is still the foremost city of the world's only superpower. Yet Weimar and New York, despite their differences, share a common philosophical milieu: philosophical relativism.

The troops of England, France, and the United States, could not harm Germany as greatly as the Berlin relativists. In Manhattan the relativists have had over a quarter century to work.

Unfortunately, we all know the end to the Weimar story. That is not to say that our destiny will be the same. It is merely to say that the risk exists, parallel cultural phenomena suggest parallel political development. Indeed, the United States may have already exceeded the Weimar decadence and the concomitant demoralization of our common culture; at least in Weimar, no one proposed federal funding of the anti-culture. □

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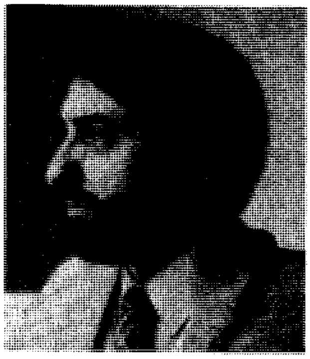

The "Root Causes" of Crime

Since 1960, per capita crime rates have more than tripled, while violent crime rates have nearly quintupled. By any measure, we live in a nation much less safe than that in which our parents grew up.

This simply cries out for an explanation. What in our modern society could possibly account for the sudden and explosive growth in force, fraud, and coercion?

Liberals typically posit socio-economic factors, such as poverty. Yet how can we attribute the rising tide of violence to rising poverty, when the periods of fastest crime growth have been during times of rapidly rising American wealth?

This popular "explanation" also fails on comparative grounds. Why is the richest nation on earth experiencing increases in predatory behavior that vastly exceed crime rates in much poorer nations? Why now, at a time of relative abundance and wealth, instead of during impoverished times past—say, during our Great Depression? And why after decades of dumping trillions of dollars into programs to eradicate privation, hunger, illiteracy, insecurity, disease, homelessness—the alleged "root causes" of crime?

Liberal explanations for crime that blame psychological or biological factors also fall flat. Why, for example, would there have been an abrupt leap in mental illness or genetic defects starting in 1962, when crime rates began to take off?

However, I must also challenge a common conservative explanation for rising crime: blaming it on the welfare state.

Though a governmental "safety net" of sorts has existed since the New Deal, the modern American welfare state wasn't enacted into law until the Great Society, and didn't begin to make its impact felt until the end of the 1960s. Yet crime rates began to soar *before* that—in the *early* 1960s. How can we attribute rising crime to a welfare state which didn't then exist?

Second, criminal behavior patterns start in youth, peaking in the late teen years. Whatever caused crime to explode in the 1960s would have had to been planted in young people during their formative years: in the 1950s. Where was the 1950s welfare state?

Third, many nations have had welfare states far longer than America, yet have crime rates far lower than ours. Why?

Finally, U.S. crime rates have begun in recent years to level out, even decline a bit. Has there been any corresponding decline in welfare statism to "cause" this? Clearly not.

These liberal and conservative explanations for criminality share a common root: they blame factors *outside* the criminal himself. Liberals say "poverty made him do it." Conservatives say "welfare checks made him do it." Both share the false premise of economic determinism.

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Criminal Justice? The Legal System Versus Individual Responsibility, *edited by Mr. Bidinotto and published by FEE, is available at $29.95 in cloth and $19.95 in paperback.*

It is more fruitful to ask not "What causes crime?" but "What causes us *not* to commit crimes?" Social scientists posit two reasons: what they refer to as "external and internal constraints on behavior."

External constraints are deterrents. We don't commit crimes for fear of negative consequences, or punishments. Internal constraints, by contrast, are what we used to call "conscience." Most people accept certain moral standards; and when we violate those standards, we feel guilty about it. Our guilt feelings inhibit us from committing crimes—even when we think we can get away with them.

My view—spelled out in *Criminal Justice?*—is that crime has increased because of a systematic erosion in recent decades of *both* external *and* internal constraints on behavior. Deterrence has been weakened, while conscience has been deadened.

Consider, first, the undermining of deterrence. For half a century, utilitarian prescriptions for crime control amounted to giving endless "second chances" to juvenile criminals, repeated probationary sentences to adult felons, and speedy releases to the relative few who landed behind bars.

In 1949 the U.S. Supreme Court declared that retribution was "no longer the dominant objective of the criminal law," but should be replaced by "reformation and rehabilitation." Former Attorney General Ramsey Clark, in his influential 1970 book, *Crime in America*, declared that "Punishment as an end in itself is itself a crime in our times. . . . Rehabilitation must be the goal of modern corrections. Every other consideration should be subordinated to it."

And so it was. The odds of punishment for a given crime have fallen sharply over the past 30 years. Today, a person who commits a serious crime has a better than 98 percent chance of avoiding prison. And thanks to early parole and generous "good time" allowances, the typical inmate serves only a third of his court-imposed sentence.

The undermining of external constraints is only a part of the problem. More important is the erosion of internal constraints.

Most of us go about our daily business with a secure sense of routine. We walk past co-workers, sit with family members, wait in grocery store lines, seldom giving a thought to our personal safety. But imagine what it would be like to live in a world in which all these people suddenly, inexplicably, violently turned on you. In such a jungle, human life would become impossible. We would live like animals; our operative premise would no longer be "live and let live," but "kill or be killed."

We have not yet reached that stage, but the signs of social deterioration are unmistakable (see my March column, "Cultural Pollution"). More and more people act like speeding vehicles without steering wheels or brakes, leaving in their wake a growing trail of bloodshed and destruction.

A moral code is the source of "internal constraints on behavior." It is the rudder of any culture, which keeps it from crashing against the shoals of violence, and sinking into chaos. Yet modern intellectuals, wedded to relativism, have not only abandoned the helm of moral leadership: they assault anyone who dares to assume it. Their normative vandalism has been so complete that today, even to use words such as "morality," "conscience," or "virtue," invites mockery and the rolling of eyes.

These intellectuals have virtually obliterated all external and internal constraints. As utilitarians, they have undermined deterrence. As relativists, they have eliminated guilt. They have thus unleashed the sociopaths we see around us—savages who act with impunity, and without conscience.

We rightfully expect our justice system to impose external constraints on those lacking internal constraints. But we can never hire enough police, or build enough prisons, if our underlying *moral* crisis is not addressed. The real roots of criminality lie in the moral abdication occurring in our homes, communities, and institutions.

Restoring moral direction is not a job we dare delegate to politicians. Rather, if our culture is to survive, we ourselves must begin to uphold, fight for, and inculcate the values and standards upon which any civilization rests. □

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Affirmative Action

In the strange world of politics and power, one agency of government inflicts economic harm on the public, another seeks to alleviate it. One raises the costs of construction through labor laws or zoning restrictions, another seeks to offset the raises through construction grants, low–interest loans, and subsidized rents. Federal legislation erects employment barriers for minorities, such as the Davis–Bacon Act and minimum wage laws, other programs seek to give assistance to the victims. The Federal Reserve System depreciates the dollar through inflation and credit expansion, other departments mean to rescue it by regulating and controlling the people.

Affirmative Action does both; it inflicts economic harm and then seeks to alleviate it. It professes to promote the economic conditions and opportunities of so–called underprivileged minorities and simultaneously erects new, formidable barriers for the people it sets out to benefit. It bestows special favors through the apparatus of politics but also handicaps its beneficiaries through economic restrictions and mandates.

The civil rights legislation of the 1960s launched the Affirmative Action program. The Civil Rights Act of 1964 granted protected status according to race and sex; the Age Discrimination in Employment Act of 1967 extended the protection to the elderly. Later amendments to the act further broadened government authority in all matters of discrimination. The 1964 Act created the Equal Employment Opportunity Commission (EEOC) and charged it with investigating complaints. The Commission cannot enforce its findings, but can ask the Department of Justice to sue a discriminating individual or firm. It receives and analyzes many thousands of complaints every year.

The EEOC budget is rising steadily, now exceeding $250 million a year. The rise can have only two explanations: either discrimination has grown worse since Affirmative Action was launched or the Commission is making a show of discrimination in order to justify its own bureaucratic growth. Whatever it may be, the agents of EEOC are personally interested in an aggravation of discrimination.

Commission guidelines aim to ensure that every employer hire a proper percentage of minority people that comprise the labor force in the community. Where the population is preponderantly black, a company is expected to employ a corresponding percentage of blacks; in a Spanish–speaking locale it must engage the proper percentage of Hispanic workers.

EEOC policies accomplish the very opposite of what they set out to achieve. By forcing employers to hire workers according to ethnicity rather than productivity EEOC created an exodus of business from the inner cities. After all, there are few skilled workers in the inner cities but many uneducated and untrained minority workers subsisting on public assistance. To escape from EEOC mandates, many companies promptly located new plants and stores in largely white communities. Companies with inner–city facilities quickly close them as soon as they suffer losses, blaming old equipment or foreign competition. Every observer knows full well that they are escaping the labor mandates of EEOC.

The Commission inflicts immeasurable economic harm also on women while it professes to defend and promote their interests. It spearheads the movement of "comparable worth," which merely is a new version of the "just price" doctrine of ages past. Rejecting most market considerations of income, it elaborates rights and privileges defined and granted by legislators and regulators.

In the labor market a house painter or plumber may have a higher income than a librarian with a Master's degree. In the judgment of consumers, they render more valuable services than the librarian. But, according to EEOC, this is sexual discrimination! The Commission ranks jobs and income according to a complicated point system based on years of schooling and training, the number of academic degrees, hours of work, etc. The points then are run through a computer which invariably arrives at sexual discrimination and employer greed and guilt.

EEOC policies obviously rest on an old elitist contempt for manual labor, especially dirty and dangerous labor, and an astonishing bias for college degrees. The economic world of individual freedom and the private property order actually does not pay for academic degrees, it only rewards services rendered. Whenever education makes a person more productive in rendering marketable services, it tends to yield higher personal incomes. After many years of training, the heart surgeon is likely to earn a good income. Whenever education does not impart productivity and usefulness, it may make a person learned and wise, but does not assure a high income. The brilliant scholar of Sanskrit or the astronomer studying the Aurora Borealis may not improve his earnings capacity. In a free society he is free to pursue his interests to his heart's content, but he cannot command an income similar to that of the surgeon who is saving human lives.

Many scholars and scientists who choose and love their lifestyles covet the incomes of others. Envy and covetousness make them join the enemies of the market order and call for redistribution of other people's income by political force. Lamenting the "unfair" distribution of incomes, some readily condemn the enterprise system while they extol the virtues of the political command system.

Affirmative Action inflicts harm on the elderly. The Employment Retirement Income Security Act of 1974 (ERISA) meant to make it easier for elderly people to qualify for pensions. Unfortunately, as in all cases of political interference in economic life, the Act brought about the very opposite of what it meant to achieve. Its costly funding requirements immediately caused the liquidation of nearly 30 percent of all private pension plans and prevented the launching of countless others. ERISA rules make employers think twice before they launch a pension program. After all, pension funds now may seize up to 30 percent of a company's net worth to satisfy employee claims. Pension liabilities have the same status as tax liens, they are senior to all other claims.

As ERISA mandates raise the cost of labor, they tend to depress take-home pay and fringe benefits. If these are rigid and cost adjustments are resisted or prevented for any reason, the ERISA mandates actually cause unemployment. For many elderly workers ERISA actually erected another barrier to employment, the very springhead of pensions.

False labor doctrines have given rise to the Affirmative Action program. Millions of Americans whom it was supposed to benefit are its primary victims. Their suffering manifests anew that political power wrings much evil. It pollutes whatever it touches.

Hans Sennholz

Hans F. Sennholz

THE FREEMAN
IDEAS ON LIBERTY

A Walk on the Supply Side

by Raymond J. Keating

In the movie *Ferris Bueller's Day Off*, Ben Stein portrayed a high school teacher droning on about supply-side economics while students fell asleep and even drooled in their seats. Critics of supply-side economics must relish this and other pop-culture references, believing them to buttress their own view of supply-side as a kind of "pop economics."

However, supply-side economics is not just a recent fad popularized by *The Wall Street Journal*'s editorial page and a small band of late-twentieth-century conservative economists. The historical roots of supply-side theory run deep. In fact, the seeds of supply-side thought were firmly planted by such classical economists as Adam Smith and Jean-Baptiste Say, with strands of supply-side ideas dating back literally thousands of years. As nations debate and embark on economic changes taking us into the next century, it is crucial to understand what "supply-side economics" actually means.

Supply-side economics has been defined and ill-defined many times over the past two decades. Often, it seems that supply-siders themselves fail to agree on a definition. Economist Norman Ture cut through much of the morass surrounding supply-side economics, compactly summarizing the subject as follows: "Supply-side economics is merely the application of price theory—so-called 'microeconomics'—in the analysis of problems concerning economic aggregates—so-called 'macroeconomics.'"[1] Though brief, Ture's statement captured the essence of supply-side economics.

I would expand the definition of supply-side economics a bit to the following: *Supply-side economics places supply over demand in the hierarchy of economics, and therefore deals with enhancing economic production, efficiency, and growth within the context of the marketplace; largely—but not exclusively—focusing on relative prices, such as incentives for working, saving, investing, and risk-taking.* While supply-side tax policy has been highlighted for the past two decades, the supply-side school's purview is much wider.

The Pre-Eminence of Supply Over Demand

The phrase "supply creates its own demand" is known as Say's Law, after the nineteenth-century French economist Jean-Baptiste Say, and constitutes a central tenet of supply-side economics. The idea undergirding Say's Law is that supply comes before demand in the economic pecking order, if you will. The fundamental point remains that nothing can be demanded before it is first offered, created, or invented—that is, before it has been supplied—by someone. In addition, no one can *legitimately* demand something before first supplying a product or service of value to others.

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Say, however, never actually wrote in his *Treatise on Political Economy* that "supply creates its own demand." He observed that "products are always bought ultimately with products."[2]

Understanding that products are bought with products, that one must produce before one can demand, any economy that emphasizes demand over supply is destined to be confronted with stagnation and relative decline, as the size of government inevitably increases, the scope of wealth distribution efforts expand, and the economy slows as creativity, innovation, and risk-taking diminish. Say himself asserted that "the encouragement of mere consumption is no benefit to commerce; for the difficulty lies in supplying the means, not in stimulating the desire of consumption; and we have seen that production alone furnishes those means. Thus, it is the aim of good government to stimulate production, of bad government to encourage consumption."[3]

Say's Law not only provides a foundation for the "equilibrium in most economic models and a source of the stability of capitalism," as supply-sider George Gilder has noted, but also explains how economic growth occurs.[4] Gilder observed: "As the driving force of economic growth, Say's law exalts the creativity of suppliers over the wants and needs of demanders or consumers. As entrepreneurs invent new things and learn how to make them more efficiently, unit costs and prices drop and goods become more attractive. As goods become more affordable to a wider public, more people work to acquire them by creating goods to exchange. These new suppliers both provide and acquire new wealth at ever lower expense."[5] That is, supply—work, investment, entrepreneurship, and risk-taking—drives economic growth.

Norman Ture identified the sheer absurdity of a contrary economic theory purporting that government fine tuning or enhancement of aggregate demand fosters economic growth. Ture laid out a devastating supply-side criticism of Keynesian demand management: "The prevailing view that government actions do directly affect aggregate income derives from perceiving these actions as impacting initially and directly on aggregate demand, via effects on disposable income, the changes in which are deemed to result directly in changes in total production. The supply-side analysis, on the other hand, holds that government actions have no direct initial impact on real aggregate demand and, indeed, affect nominal aggregate demand only as a consequence of changes in the stock of money. Changes in real aggregate demand, to be sure, would elicit increases in total output. The pertinent question is how changes in real aggregate demand can occur without a preceding change in total output. By definition, aggregate demand is the sum of purchases of all types by all economic entities—governments, businesses, households, etc. Also, by definition, these outlays must exactly equal aggregate income which in turn, at every moment in time, must just equal the value of aggregate output. Changes in real income, therefore, occur only as changes in output occur. And changes in output occur only as a result of changes in the amount of production inputs or in the intensity or efficiency of their use. To have a first-order effect on income, therefore, government actions would have to alter directly the amount or effectiveness of production inputs committed to production. But government actions, in and of themselves, do not change the aggregate amount of production resources available in the economy or their productivity. Changes in the amount of production inputs committed to production will result only if the real rewards for their use, i.e., the real price received per unit of input, is changed."[6]

That is, as Say noted, products ultimately are purchased with products. Growth occurs when supply-oriented incentives are enhanced.

Entrepreneurship

Supply-side economics returns the entrepreneur's role to the center of economic theory. After all, if, as Ture asserts, "changes in output occur only as a result of changes in the amount of production inputs or in the intensity or efficiency of their use," then the entrepreneur must take center stage as he is the agent of innovation and creativity that increases inputs and/or efficiency.

The modern-day Keynesian school's focus on government-attempted adjustments in aggregate demand naturally ignores the critical aspect of entrepreneurship in the economy. In addition, the increasing mathematical nature of economics as an academic discipline has left little room for the entrepreneur's roles as innovator and bearer of risk.

This focus on entrepreneurship perhaps best illustrates the difference between supply-side economists and industrial policy economists. A free-market economy leaves most economic decisions to individuals operating in the private sector, rather than government bureaucrats and/or elected officials, as is the case with industrial policy and its more extreme cousin, socialism. While both supply-side and industrial policy economists largely concern themselves with supply-related issues (e.g., investment, production, etc.), the supply-side school of economic thought operates within the wider intellectual framework of free-market economics, knowing that production for the sake of production is fruitless. Production must meet current or create new demands. Value must be created. And supply-side economists recognize that the government lacks the requisite experience, knowledge, and incentives to make resource allocation decisions or to create value.

The critical role of the entrepreneur in the economy is to see added value where others have failed to do so—to enhance production and/or efficiency. That is, to fulfill the essence of Say's Law—that supply creates demand. In turn, one can identify numerous types of entrepreneurship. The Schumpeterian entrepreneur, named for economist Joseph Schumpeter and his notion of "creative destruction," offers innovations or inventions that can transform entire industries and economies. Other entrepreneurs offer improvements in the way particular firms perform through, perhaps, different management or production structures; while still others simply see better ways of doing things and start their own businesses. Additional entrepreneurs are at work in the investment community. For example, an investment banker or corporate raider might see added value through a proposed corporate merger or takeover. Then there are the venture capitalists willing to risk their own investment dollars supporting an idea, invention, innovation, or new business.

George Gilder articulated the importance of returning the entrepreneur to the economist's center stage: "Economic recovery depends on the resurrection of entrepreneurs. This resurrection cannot fully and durably occur until the ultimate arbiters of economic policy—the economists—resurrect entrepreneurship in their own influential theories. The contrary vision of capitalism without capitalists springs in part from a fundamental error of economic thought, drastically overrating the importance of physical capital formation and other quantitative measures of economic activity and drastically underestimating the decisive and controlling importance of entrepreneurial creativity."[7]

Relative Prices and Incentives

As Norman Ture noted, supply-side economic analysis is largely microeconomic in nature, i.e., supply side in many ways equates to price theory. Price theory deals with the allocation of resources among different uses, the price of one item relative to another.[8] In particular, supply-side economists focus on the relative prices of work versus leisure, saving and/or investment vs. consumption, risk-taking versus risk avoidance, and productive, market-based activities versus activities based on tax avoidance or government fiat. As a result, we see the great supply-side emphasis on marginal tax rates—or the tax on the next dollar earned—more so than on average tax rates.

Supply-side economists argue, for example, that high marginal income tax rates raise the cost of additional work or work effort as compared to leisure. Higher tax rates also make it cheaper for an individual to undertake non-taxable, do-it-yourself work, like painting one's own house, rather than performing income-generating, taxable work while hiring a house painter. Under these circumstances, the benefits of division of labor are lost to the economy. The returns of tax avoidance are enhanced as well.

A high marginal income tax rate regime also creates a clear bias in favor of consumption over saving and investment. Real and human capital investments become relatively more expensive versus consumption. Particularly worrisome, high tax rates, as well as onerous regulations, raise the relative price of such critical yet high-risk endeavors as entrepreneurship and venture capital investment. According to supply-side theory, the implications under such a regime can be severe. High-risk ventures require at least the opportunity for high returns. When such opportunities are diminished by governmental policies, a stultified economy results, with the relative security of, for example, employment in government or in a large corporation, and investment in government securities, being enhanced versus the potential returns on more risky, but more productive, entrepreneurial endeavors. Risk-taking, so crucial to economic growth, is discouraged by onerous taxes and regulations.

The full impact of relative prices on employment is captured in what supply-side economists refer to as the *tax wedge*. In essence, the tax wedge is the difference between the total cost to an employer for an employee, and the actual take-home pay of that employee. Taxes, regulations, and government mandates constitute the tax wedge. A large tax wedge significantly raises the price of labor relative to capital. Concurrently, the tax wedge can diminish incentives for employees to accept overtime; boost employee compensation demands; and/or narrow the gap between take-home pay and government benefits (e.g., welfare or unemployment compensation) for some workers.

These relative price/incentive arguments fall under the economists' label of "substitution effects." That is, as the costs of productive endeavors—such as working, investment, and risk-taking—decline as marginal tax rates are reduced, for example, the incentives to substitute these activities for leisure, consumption, and tax avoidance are enhanced. *Under such a scenario, the opportunity costs of not working, investing, or risk-taking increase.*

Other economists have claimed that just the opposite occurs under a tax-cut scenario, that individuals will choose to paradoxically work or invest less. These economists essentially claim that the income effect takes precedence over the substitution effect. The income effect argument states that individuals have a targeted level of income, and a tax cut allows them to reach that target by working less. Substantive problems arise with such an argument: (1) It not only nullifies supply-side, relative-price arguments, but Keynesian demand-management policies as well. Keynesian arguments that more government spending increases aggregate demand and therefore economic growth, falls prey to the same income effect argument. Individuals would work less, and GDP and income would fall; (2) If the income effect were to hold in general, that would mean that ever-higher marginal income tax rates should induce ever-increasing levels of work and investment. Or, under the contrary scenario of tax reductions, as the price of work, saving, or investing falls, individuals choose to work, save, and invest less. *In essence, as supply-side economist Paul Craig Roberts has noted, income becomes an inferior good.*

Roberts identified the full implication of the income effect argument: "In economics, any time the 'income effect' works counter to the 'substitution effect,' we have the relatively rare case of what is called an 'inferior good' (i.e., people purchase less of it as their income rises). Since income is command over all goods, [the income effect] argument implies that all goods are inferior goods: A tax cut will cause people to purchase only more leisure, not more income (i.e., goods)."[9] It is difficult to muster a more devastating counter-argument to the income-effect criticism of supply-side economics than this inferior goods point made by Roberts.

Inflation as a Monetary Phenomenon

Price stability is a paramount concern of supply-side economists. After all, inflation creates numerous economic woes. It acts as a tax by whittling away at individuals' earnings, savings, and investments. Inflation raises interest rates. If income tax rates are not indexed, inflation pushes people into higher tax brackets without any real increases in income. Also, inflation weakens the international value of a currency, resulting in capital flight and economic stagnation. In the end, inflation is a clandestine tax that damages economic growth and opportunity.

Supply-side economists agree with most other free-market economists on the fact that inflation is a monetary phenomenon, and not a result of too much employment and economic growth, as today's Keynesian economists argue. For supply-siders, the classic definition of inflation holds firm: too much money chasing too few goods. So contrary to Keynesian thinking, supply-side economists will argue that expanded production and economic growth actually act as an inflation remedy.

International Trade, Investment, and Currency Devaluation

Supply-side economists are exclusively, but by no means uniquely, free traders. Like most other schools of economic thought, supply-side subscribes to the notion of Ricardian comparative advantage. From a supply-side view, the lowering of tariffs and other trade barriers expands markets and opportunities, promotes competition, and fosters economic growth.

Also, supply-side economists extol the benefits of exchange-rate stability. Why? Exchange rate volatility creates uncertainty in terms of international trade and investment decisions. Supply-siders would agree with Adam Smith's observation that "a commodity which is itself continually varying in its own value, can never be an accurate measure of the value of other commodities."[10] Such uncertainty discourages international investment. Supply-side economists argue that this international uncertainty exerts upward pressures on interest rates, as investors seek to compensate for added risks, most prominent being government devaluation.

Mexico's recent devaluation provides a clear example of the woes of devaluation. Generally, nations will devalue their currencies versus other currencies in a misguided and futile effort to manipulate the terms and balance of trade. Hence exports are cheaper to their trading partners, and their own imports more expensive.

This neo-mercantilist fantasy suffers from two problems. First is that products are still purchased with other products, so any advantage derived from exchange-rate manipulation will be short-lived until individuals re-adjust their currency terms of trade—ensuring that if two bottles of wine traded for one pair of shoes before devaluation, the same trade could be made eventually after devaluation. The only way to really alter such a transaction is by increasing production, improving efficiency, or changing tastes. Second, this short-term "advantage" is obliterated by inflation, capital flight, and economic stagnation. Huge swings in the value of currencies make it difficult, if not impossible, for individuals to make any long-range decisions regarding international investment.

General View of Government

As already noted, supply-side economics falls under the broader category of free-market economics. Therefore, supply-siders hold the same skepticism of government as do their free-market cousins, such as monetarists and Austrian economists.

However, various supply-siders have been criticized by some of these free-market cousins for not focusing *enough* attention on government spending. Such criticisms may apply to certain individuals, but cannot be applied to the general supply-side school of economic thought.

In fact, devoid of proper incentives, government is viewed by supply-side economists as inherently wasteful. In essence, supply-siders view government as generally unable to produce anything of value. Government can redistribute; it surely can destroy; and when functioning adequately, it can protect; but government remains unable to create.

Therefore, supply-side economists concern themselves with the overall size of government. In fact, in the supply-side view, the size of government generally takes precedence over concerns about, for example, the size of a nation's budget deficit. Supply-side economics argues that what primarily matters is the total amount of resources being diverted away from productive private-sector ventures to generally unproductive government undertakings. Then supply-side economists evaluate the method for financing those government expenditures. The relative shares of borrowing versus taxing are evaluated according to the respective marginal costs to the economy.

In particular, supply-side economists view government social-welfare programs with a wary eye, not only due to the amount of waste associated with such programs, but more importantly, due to the perverse incentives such programs establish. Of concern is the fact that the welfare state breaks the key supply-side principle of supply preceding or creating demand. The welfare state allows an individual to demand *without* first supplying a marketable good or service—flying in the face of the basic requirement for a prosperous economy and society according to supply-side theory, that "products are bought ultimately with other products." So, we have a situation where an individual being subsidized through government welfare is buying products with products produced by others. This system provides disincentives for the individual on welfare to undertake productive activities, while also establishing disincentives for those individuals providing the welfare subsidies, as they receive less return for their work, investment, or risk-taking. Also under such a system, not only are producers confronted with higher taxes, but the marginal tax rate—including the combined loss of government benefits plus the tax rate on income—confronted by welfare recipients thinking of moving off welfare can be considerable, even in excess of 100 percent.

Lastly, supply-side economists naturally view the government's role of protecting life, limb, and property as essential to a healthy economy and society. Devoid of such protections, absolutely no reason exists for individuals to move beyond mere subsistence levels of production.

The Supply-Side Difference

What is the fundamental difference between economists and schools of economic thought? The late economic journalist Warren Brookes wrote: "Since economic thought first became formalized over two centuries ago, there have been essentially two different views about wealth. One view, first defined by Adam Smith and Jean-Baptiste Say, is that wealth is primarily metaphysical, the result of ideas, imagination, innovation, and individual creativity, and is therefore, relatively speaking, unlimited, susceptible to great growth and development. The other, espoused by Thomas Malthus and Karl Marx, contends that wealth is essentially and primarily physical, and therefore ultimately finite."[11]

Though I risk upsetting many economists who shun the "supply-side" label, broadly, I think the former can be categorized as supply-siders, the latter wear the blinders of demand-side economics. I do not make such an assertion lightly.

For example, it was the great Austrian economist Ludwig von Mises who observed in his *Human Action*: "Capital levies, inheritance and estate taxes, and income taxes are . . . self-defeating if carried to extremes." Mises went on to explain:

> It is one of the characteristic features of the market economy that the govern-

ment does not interfere with the market phenomena and that its technical apparatus is so small that its maintenance absorbs only a modest fraction of the total sum of the individual citizens' income. Then taxes are an appropriate vehicle for providing the funds needed by the government. They are appropriate because they are low and do not perceptibly disarrange production and consumption. If taxes grow beyond a moderate limit, they cease to be taxes and turn into devices for the destruction of the market economy. . . .

[T]he true crux of the taxation issue is to be seen in the paradox that the more taxes increase, the more they undermine the market economy and concomitantly the system of taxation itself. Thus, the fact becomes manifest that ultimately the preservation of private property and confiscatory measures are incompatible. Every specific tax, as well as a nation's whole tax system, becomes self-defeating above a certain height of the rates.[12]

No supply-side economist could have put the argument better. □

1. Norman Ture, "Supply Side Analysis and Public Policy," *Essays in Supply-Side Economics*, edited by David G. Raboy (Washington, D.C.: Institute for Research on the Economics of Taxation, n.d.), p. 11.
2. Jean-Baptiste Say, *A Treatise on Political Economy* (New York: Augustus M. Kelley Publishers, 1971), p. 161.
3. *Ibid.*, p. 139.
4. George Gilder, *Microcosm* (New York: Touchstone, 1989), pp. 61–62.
5. *Ibid.*
6. Norman Ture, "Supply Side Analysis and Public Policy," *Essays in Supply-Side Economics*, p. 13.
7. George Gilder, *Recapturing the Spirit of Enterprise* (San Francisco: ICS Press, 1992), p. 165.
8. Milton Friedman, *Price Theory* (New York: Aldine Publishing Company, 1976), p. 7.
9. Paul Craig Roberts, "The Breakdown of the Keynesian Model," *Keeping the Tablets: Modern American Conservative Thought* edited by William F. Buckley Jr. and Charles R. Kesler (New York: Harper & Row, 1988), p. 229.
10. Adam Smith, *An Inquiry into the Nature and Causes of the Wealth of Nations*, Volume 1 (Chicago: University of Chicago Press, 1976), p. 37.
11. Warren T. Brookes, *The Economy in Mind* (New York: Universe Books, 1982), p. 12.
12. Ludwig von Mises (Chicago: Contemporary Books, 1966), pp. 740–741.

The Minimum Wage Law

by Raphael G. Kazmann

The minimum wage law is based on the assumption that some minimum hourly rate of pay should be legislated so that people will have a minimum income to support themselves and their families. The law makes it illegal for an employer to pay an hourly rate lower than the minimum wage specified by the Congress. In line with this reasoning, the higher the minimum wage, the more prosperous the workers will be. If this is so, why not set the minimum hourly wage at $20 so that everyone will be better off? The proponents of the minimum wage have avoided taking this step.

A basic law of economics states that the higher the price of something, be it a commodity or labor, the smaller the quantity demanded. In simple English: the higher the price, the smaller the sales. When a minimum wage is established at a level above the one that would be determined by market forces, employment opportunities are usually reduced for the least productive workers because their services are priced too high for the market. In fact as the minimum

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wage is raised, even some workers who had been employed are discharged simply because their services do not produce value in excess of their wages (plus Social Security taxes, vacations, medical insurance, and so on). We can deduce that the principal impact of minimum wage legislation is to reduce the opportunities for useful employment by the potentially least productive individuals. Thus the most economically vulnerable portion of the population is being prevented by the government from becoming self-sustaining. This outcome may not have been anticipated by the well-intentioned legislators who passed the minimum wage law as part of the Fair Labor Standards Act of 1938.

The enforcement of minimum wage legislation accomplishes two things: (1) it makes low-skilled labor more expensive than it would otherwise be, thus fostering labor-saving devices that higher priced labor creates (and raising the prices in the affected industries), and (2) it reduces the numbers of young and low-skilled workers entering the labor market where training and apprenticeship would later permit the trainee to obtain a better, higher paying job.

Martin Feldstein described matters clearly: "The minimum wage law has an unambiguously harmful effect on some young workers. Even if an individual were willing to 'buy' on-the-job training by taking a very low wage for six months or a year, the minimum wage would not permit him to do so. . . . For the disadvantaged, the minimum wage law may have the ironic effect of lowering lifetime incomes by a very large amount." (*The Public Interest*, Fall 1973)

Civil Rights legislation in its inception was most benign by removing legal barriers to the employment of blacks and other minorities. Inexplicably, however, it ignored the impact of minimum wage laws on the employment of young people just entering the labor force, particularly on black teenagers. Yet the empirical evidence illustrates the trends, even though any statistical evidence that pertains to the entire country is likely to contain inaccuracies of detail. Since 1938, when the minimum was set at $0.25 per hour, the hourly minimum has risen until,

Comparison of Youth and Unemployment Rates by Race (males)

Year	Min. Wage	General	White 16–17	Black 16–17
1948		3.8	10.2	9.4
1949		5.9	13.4	15.8
1950	.75	5.3	13.4	12.1
1951		3.3	9.5	8.7
1952		3.0	10.9	8.0
1953		2.9	8.9	8.3
1954		5.5	13.4	14.4
1955	1.00	4.4	11.3	13.4
1956		4.1	10.5	15.0
1957		4.3	11.5	18.4
1958		6.8	15.7	26.9
1959		5.5	14.0	25.2
1960		5.5	14.0	24.0
1961	1.15	6.7	15.7	26.8
1962		5.7	13.7	22.0
1963	1.25	5.7	15.9	27.3
1964		5.2	16.1	24.3
1965		4.5	12.9	23.3
1966		3.8	10.5	21.3
1967		3.8	10.7	23.9
1968		3.6	10.1	22.1
1969	1.30	3.5	10.0	21.4
1970		4.9	13.7	25.0
1971		5.6	15.1	28.8
1972		5.6	14.2	31.0
1973		4.9	12.3	27.0
1974	1.60	5.6	13.5	33.7
1975	1.80	8.5	18.3	38.1
1976	2.00	7.7	17.3	37.5
1977	2.20	7.0	15.0	39.2
1978	2.65	6.0	13.5	36.7
1979	2.90	6.8	13.9	34.2
1980	3.10	7.1	16.2	37.5
1981	3.35	7.7	17.9	40.7
1982		10.1	21.7	48.9
1983		9.9	20.2	48.8
1984		7.4	16.8	42.7
1985		7.2	16.5	41.0
1986		7.0	16.3	39.3
1987		6.2	15.5	34.4
1988		5.5	13.9	32.7
1989		5.3	13.7	31.9
1990	3.80	5.4	16.4	35.2
1991	4.25	6.3	18.1	49.8

Note: The minimum wage rates have been applied to increasingly larger segments of the working population, so the unemployment rates understate the effect of the minimum wage in decreasing the opportunities for first entrants to the labor force. Moreover, as the effect of inflation is to lower the real cost of the minimum wage, the unemployment rates of teenagers dropped between 1983 and 1989 by one third. Note the abrupt rise in unemployment as the minimum wage rose in 1990 and 1991.

in 1981, it was fixed at $3.35; more recently it was increased, in stages, to $4.25 per hour. In 1988 it was 13.4 times what it was originally. Economists have computed that because of inflation the minimum hourly rate, expressed in 1938 dollars, has been between $0.56 and $0.59 since 1974. The coverage of industries subject to minimum wage laws has been extended: between 1967 and 1974, approximately 75 percent of private, non-agricultural workers were covered; since 1974, approximately 83 percent have been subject to its mandate.

The Impact on the Young

The effect of the minimum wage and the increase in the percentage of industry that it covers have had a significant, deleterious impact on the young worker. Between 1948 and 1955 the unemployment rate for young males was about 6 or 7 percentage points higher than the general rate of unemployment and there was no significant difference between the unemployment rates of blacks and whites. After 1955, when the minimum wage was raised sharply, not only did the difference between the general unemployment rate and that of the young white male rise to 9 or 10 percentage points, but the unemployment rate of black teenagers rose even more sharply reaching a differential of between 15 and 20 percentage points as compared to the general rate of unemployment.

After the increase of 1968, the difference between white teenagers and the general rate went up to from 10 to 12 percentage points; black teen-age unemployment rose still more. Since 1973 the unemployment rate for black teenagers has been from 25 to 35 percentage points above the general rate.

Walter Williams (*Policy Review*, Fall 1977), said: "The minimum wage gives firms effective economic incentive to seek to hire only the most productive employees, which means that firms are less willing to hire and/or train the least productive employee which includes teenagers and particularly minority teenagers. By holding all else constant, such as worker productivity, the minimum wage law gives firms incentive to indulge whatever racial preference that they may hold."

The table on page 380, adapted from one published by Walter Williams and supplemented by data from various publications of the Bureau of Labor Statistics, compares the general unemployment rate of males and the corresponding unemployment, by race, of young men 16–17 years of age. These are the people who have minimal skills and experience. The table shows when the outcomes discussed occurred.

The principal supporters of the minimum wage have been the labor unions and corporations that compete with the employers of teenagers. The unions know that when the minimum wage rises the wages of their members rise to maintain the differential between skilled and unskilled workers. The corporations in favor of it understand that the costs of their competitors will disproportionately increase as compared to their own.

It is difficult to understand why a government, ostensibly based on principles of democracy, can pass and enforce legislation that reduces opportunities for the most economically vulnerable segment of the population: black teenagers and white teenagers. From the standpoint of morality and equity, any legislation that makes it harder for teenagers with little skill or experience to enter the labor market should be unacceptable. As we have shown, the minimum wage law not only discriminates against young and inexperienced workers, it discriminates particularly against black youngsters. Not only should the minimum wage not be raised, it should be abolished. Democratic government can do no less. □

THE FREEMAN
IDEAS ON LIBERTY

The Mushroom Wars

by Richard B. Coffman

Drive-by shootings, an abandoned car riddled with bullet holes, a man gunned down before he can pull his .45 caliber pistol. No, it is not gang warfare in an American inner city. These are the mushroom wars in the once peaceful forests of the Northwest.

Not so long ago mushroom picking was a somewhat quaint hobby of gentle folk who wandered the forests, enjoying an outing and picking a few mushrooms along the way. No more. These days the woods are full of aggressive pickers with mechanical trenchers. They dig up a mushroom field as fast as they can, then roar off to the next field in high-powered, four-wheel drive pick-ups.

The *Wall Street Journal* (May 11, 1993) reports that some pickers have made as much as $1,000 a day and that experts estimate about $50 million worth of mushrooms are coming out of the woods every year. But problems are developing. Pickers say their incomes are falling because of the fierce competition. Some mushroom sites have been so dug up and trampled down they may never be productive again, and the violence is heating up. Some pickers are staking out claims, and driving rivals off with gunfire. Forest wardens now wear flak jackets in the woods. Pickers have been robbed at gunpoint.

It should not be too surprising that all this sounds like the Wild West revisited. Many of the storied conflicts of the Old West had their source in the same problem which lies behind the mushroom wars. The problem is property rights. The mushroom fields of the Northwest are defined as common property, open to all comers. When valuable resources are free for the taking, takers will rush in. When valuable resources become private property through the "rule of capture," people will try to capture them as fast as possible. When a person has no rights to the property or its future resources, then there will be no conservation.

How the West Was Owned

The grazing lands of the West were originally common property. They were overstocked and overgrazed until the invention of barbed wire allowed the establishment of private property rights. The buffalo were hunted nearly to extinction because they too were common property. In early gold rushes the mining frontier outran the legal establishment, and claims were first established and protected by arms. Miners quickly recognized they were diverting too much time from the productive activity of gold mining into wasteful stealing of property and defending of property. They speedily organized into communities which defined private property rights, and stood ready to safeguard those rights. This allowed them to get on with the business of gold mining.

The mushroom grounds of the Northwest are found mainly on federal land. The government administers these lands as common property, just as public grazing land was

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administered as common property a hundred years ago. This caused no problems so long as there was little market demand for wild mushrooms. The small tribe of recreational pickers could pick to their heart's content without getting in one another's way, and without making a dent in the mushroom population. But now there is a big gourmet demand for wild mushrooms, not just in the United States, but in Europe and Japan as well. Prices have skyrocketed, and the mushroom rush is on.

Once mushrooms became a valuable resource, the familiar flaws of common property ownership came to the fore. Since the mushrooms were free for the taking, hordes of pickers rushed into the woods. If two pickers happened onto the same mushroom site, neither had a legal right to exclude the other. If they were peaceful folk they would compete through fast picking. Those who discovered mechanical trenchers could outpick those who worked by hand. Soon everyone invested in trenchers. Competition speeded up. Sites were quickly exploited once discovered. The picker who could get to the next site first had an advantage, hence the appearance on the scene of powerful, four-wheel-drive vehicles.

Of course, not all competition was peaceful. When competition takes place out of sight of the law there are always those willing to use violence to get an edge. Thus some mushroom claims are asserted through gunfire, just as were gold mining claims in the last century.

In high demand situations common property ownership wastes and degrades resources. There are too many mushroom pickers, using up too much time and effort to harvest the crop. The pickers have put too much investment into mechanical harvesters and fast trucks. Pickers harvest too fast, too completely, and too roughly, perhaps destroying mushroom sites in their haste.

None of this would happen if the mushroom grounds were private property. A profit-seeking private property owner would hold his costs down by picking systemically with smaller crews. There would be no need to rush from site to site, and thus no need for expensive transportation. Picking might well be done by hand, rather than with mechanical trenchers. Finally, the owner would want to leave mushroom sites in good condition so he could profit from harvesting them again and again in the future.

Unfortunately, it does not seem likely that the mushroom grounds will be converted to private property in the near future. Gold miners solved their common property problem by forming communities and establishing laws. But mushroom pickers are a footloose bunch who wander all over the West. They are not going to form communities. The open range was fenced in, creating private property. But the federal government is not going to allow privatization and fencing of mushroom grounds.

The government may try to regulate some aspects of mushroom harvesting to suppress undesirable behavior. A crackdown on gun play seems likely. Rich mushroom grounds might be allocated through a permit system to cut down on confrontations and overharvesting. Perhaps a ban on mechanical trenchers will be proposed. But most of these reforms will founder on enforcement difficulties. Infrequent patrols by forest bureaucrats are a poor substitute for the constant attention of a profit-seeking private owner.

Look for problems to continue in the mushroom grounds of the Northwest as long as the woods remain common property. □

THE FREEMAN
IDEAS ON LIBERTY

Richard Cobden's Triumphant Crusade for Free Trade and Peace

by Jim Powell

The nineteenth century was the most peaceful period in modern history. There weren't any general wars between the fall of Napoleon in 1815 and the outbreak of World War I in 1914. This extraordinary peace followed centuries of endless wars and preceded the colossal carnage of the twentieth century.

Peace prevailed, in large part, because non-intervention became the hallmark of foreign policy. Nations seldom tried to bully one another, and economic policy was a major reason why. There was unprecedented freedom of movement for people, goods, and capital. By reducing intervention in economic affairs, governments reduced the risks that economic disputes would escalate into political disputes. There wasn't much economic incentive for military conquest, because people on one side of a border could tap resources about as easily as people on the other side of a border. Trade expanded, strengthening the stake that nations had in the continued prosperity of one another as customers and suppliers. While free trade was never a guarantee of peace, it reduced the danger of war more than any public policy ever had.

In all this, one name towers above the rest: Richard Cobden, the straight-talking English textile entrepreneur who gave up his business to crusade during three crucial decades. He pursued the most successful political strategies for free trade. He articulated the moral case which proved decisive. His inspired speeches attracted thousands of people at a time and raised plenty of money. He traveled throughout Europe, the United States, North Africa, and the Near East, spreading the gospel of free trade to kings and commoners alike.

"He had no striking physical gifts," noted his principal biographer John Morley. "In his early days, he was slight in frame and build. He afterwards grew nearer to portliness. He had a large and powerful head, and the indescribable charm of a candid eye. His features were not of a commanding type; but they were illuminated and made attractive by the brightness of intelligence, of sympathy, and of earnestness. About the mouth there was a curiously winning mobility and play. His voice was clear, varied in its tones, sweet, and penetrating; but it had scarcely the compass, or the depth, or the many resources that have usually been found in orators who have drawn great multitudes of

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men to listen to them. Of nervous fire, indeed, he had abundance, though it was not the fire which flames up in the radiant colors of a strong imagination. It was rather the glow of a thoroughly convinced reason, of intellectual ingenuity, of argumentative keenness. It came from transparent honesty, thoroughly clear ideas, and a very definite purpose."

Cobden was born June 3, 1804, the fourth of 11 children, near Heyshott, Sussex, England. His father, William Cobden, was apparently an inept farmer, and he and his wife, Millicent Amber, proved unable to avoid bankruptcy. In 1819, Richard started working as a clerk at his uncle's textile warehouse, and he regularly sent money home. He became a traveling salesman, and a dozen years later launched his own textile warehouse business, specializing in calicos and muslins.

In 1833, Cobden made his first overseas business trip—to Paris. The next year, he traveled to France and Switzerland. Two years later, he spent more than a month in the eastern United States, very much impressed by the American spirit of enterprise. Soon afterwards, he traveled through Spain and the Mediterranean, observing how all kinds of people cooperate peacefully in markets.

Meanwhile, there was a growing political movement for free trade. The most obnoxious trade barriers were tariffs on "corn," as the English referred to grain. Such tariffs amounted to taxes on bread, a primary food for millions of poor people. In 1836, the Anti-Corn-Law Association was formed. Although its founders presented a strong logical case for free trade, they didn't get anywhere.

In 1836 or 1837, Cobden was asked by a man named John Bright to give a talk on education, and the two hit it off. Bright, born on November 16, 1811, was the son of a Rochdale cotton spinner. Like Cobden, his formal education ended with grammar school, but he pursued his love for English literature. As a Quaker whose ancestors had been imprisoned for their Nonconformist (non-Church of England) views, Bright developed a moral fervor about current affairs. He honed his speaking abilities in public squares, church meetings, and other gatherings.

The Anti-Corn Law Movement

Cobden and Bright helped focus free traders on three principal issues. First, they set an inspiring, radical objective—repealing the corn laws. Cobden convinced all supporters that every shilling of tariff inflicted misery on people. Modifying the tariffs, a position favored by compromise-minded chamber of commerce people, was out.

Second, free trade would capture the imagination of people if it became a moral issue. "It appears to me," Cobden wrote an Edinburgh publisher, "that a moral and even a religious spirit may be infused into that topic [free trade], and if agitated in the same manner that the question of slavery has been, it will be irresistible."

Third, success would require a national campaign coordinating anti-corn-law associations throughout England—the mission of the Anti-Corn-Law League, launched in March 1839. This, in turn, called for vigorous fund-raising. Cobden made arrangements to turn his calico printing and marketing business over to his partners.

Cobden hammered the corn laws for making people miserable. "He knew of a place," noted biographer Morley, "where a hundred wedding-rings had been pawned in a single week to provide bread; and of another place where men and women subsisted on boiled nettles, and dug up the decayed carcass of a cow rather than perish of hunger."

Increasingly, Cobden and Bright appeared together on the same platform, and they achieved far greater impact than either could alone. "Cobden always spoke first," explained Bright biographer George Macaulay Trevelyan, "disarming prejudice and exposing with clear economic arguments set off in homely illustration the wrongs that farmers and labourers, or manufacturers and operatives, suffered through the working of Protection. When the audience had thus been brought round into a sympathetic state of mind, then—to use Bright's own words—'I used to get up and do a little prize-fighting.'. . . his characteristic and vital contribution was the passion with which he reinforced reason, and the high tone of moral indignation and defiance which he infused into his listeners. And this was exactly where Cobden, the persuader, was necessarily weakest. Each supplied the defects of the other's qualities. The known friendship between them, the utter absence of rivalry and self-interest, the apostolic fervor that made these missionaries so unlike the common Whig and Tory politician. . . ." Cobden and Bright were on the road almost non-stop, often attracting crowds which numbered in the thousands.

While the free trade campaign was still a long way from its climax, Cobden married. His bride was Catherine Anne Williams, a charming Welsh woman who was one of his sister's friends. They went on a honeymoon through France, Switzerland, and Germany—the last time they saw much of each other in quite a while, as it turned out.

Cobden concluded he wasn't likely to succeed if he were only an outside agitator. He had to work within Parliament, too. After an unsuccessful bid, Cobden won an election in 1841. He exerted considerable influence because of his speaking ability and popular influence outside Parliament.

On September 10, 1841, Bright's wife, Elizabeth, died of tuberculosis. They had been married less than two years, and he was devastated. Three days later, his partner was by his side. "Mr. Cobden," recalled Bright, "called upon me as his friend, and addressed me, as you might suppose, with words of condolence. After a time he looked up and said, 'There are thousands of houses in England at this moment where wives, mothers, and children are dying of hunger. Now,' he said, 'when the first paroxysm of your grief is past, I would advise you to come with me, and we will never rest till the Corn Law is repealed.' I felt in my conscience that there was a work which somebody must do, and therefore I accepted his invitation, and from that time we never ceased to labour hard on behalf of the resolution which we had made."

By September 1845, as torrential rains swept across the British Isles, Cobden told Bright that he was worn out. They had been on the road almost non-stop for more than five years, addressing large crowds night after night. He wanted to quit. Bright replied: "your retirement would be tantamount to a dissolution of the League; its mainspring would be gone. I can in no degree take your place. As a second I can fight; but there are incapacities about me, of which I am fully conscious, which prevent my being more than second in such work as we have laboured in."

Meanwhile, rains continued, accelerating the spread of a potato blight which had recently ruined crops in the United States, Holland, and France. Signs of the blight appeared in England. Informed people worried about what might be going on in miserable Ireland where nearly everyone depended on potatoes to survive. Except for northeastern Ulster, Ireland had never gone through an industrial revolution, and Irish peasants were believed to be the poorest in Europe—even worse off than American black slaves. Millions of Irish peasants lived in mud huts without a scrap of furniture. Well, the potato crop rotted everywhere. Peasants began dying from famine and related epidemics of typhus, cholera, and other diseases. Eventually, over a million Irish perished, and hundreds of thousands more emigrated.

Tory Prime Minister Robert Peel reluctantly concluded that the only immediate solution was to abolish the corn laws and let starving Irish buy cheap imported food—even though this was likely to trigger a Tory rebellion which would end his political career. Peel announced his bill for total repeal of the corn laws, phased over a three-year period. It became law on June 26, 1846. He was ousted three days later.

Liberalized Trade

Repeal of the corn laws was just the beginning of trade liberalization. During the next three decades, England reduced the number of dutiable imports from 1,152 to 48—remaining items were mostly luxury items with low duties.

Although European countries retained their prohibitive tariffs, England prospered. Cheap food poured into the country, and workers shifted out of agriculture into manufacturing. Then as other countries industrialized, many workers shifted into services. England became the unquestioned leader of world shipping, commerce, insurance, and finance. From 1846 until the outbreak of World War I, England's industrial output soared 290 percent. Imports were up 701 percent, and exports 673 percent. Money wages in England increased about 59 percent for agricultural workers, 61 percent for industrial workers.

Cobden and his family spent a month resting in Wales, then toured Europe. "His reception," reported biographer Morley, "was everywhere that of a great discoverer in a science which interests the bulk of mankind much more keenly than any other, the science of wealth. He had persuaded the richest country in the world to revolutionize its commercial policy. People looked on him as a man who had found out a momentous secret."

Travel affirmed Cobden's humane, cosmopolitan world view. "I am not one who likes to laud the Anglo-Saxon race as being superior to all others in every quality," he wrote a friend, "for when we remember that we owe our religion to Asiatics, our literature, architecture, and fine arts greatly to the Greeks, our numeral signs to the Arabs, our civilization to the inhabitants of Italy, and much of our physical sciences and mechanical inventions to the Germans; when we recollect these things it ought to make us moderate in our exclusive pretensions."

The Crimean War

Soon after his return to England, Cobden was drawn back into public policy debates by the appointment of belligerent Lord Palmerston to the Foreign Office. In 1854, Palmerston plunged England into the Crimean War, purportedly to maintain the balance of power by saving the corrupt Turkish empire from grasping Russia which had just ravaged Hungary. Cobden and Bright stood virtually alone for non-intervention—and for setting England's colonies free. During the next parliamentary elections, in 1857, both were defeated.

The two-year war turned out to be a pointless bloodbath which cost the lives of some 25,000 English soldiers. It tarnished the reputation of generals and the prestige of England. The only star to emerge was Florence Nightingale. She organized efficient nursing services which dramatically reduced the death rate among wounded soldiers. Her valiant work inspired the Red Cross movement.

For several decades, English foreign policy returned to non-intervention as Cobden and Bright had advocated. England stayed out of the Franco-Austrian War, the American Civil War, the Danish War, the Franco-German War, and later wars between Turkey and Russia. By 1859, both Cobden and Bright had been re-elected to Parliament.

On July 21, 1859, Bright gave a speech in which he suggested that England could cut its military spending—much of which was to protect against a possible attack from France—and that both countries should liberalize their trade restrictions to help promote peace. Inspired by this idea, French government trade adviser Michel Chevalier urged Cobden to try converting the French emperor Louis Napoleon, since Cobden had been so successful converting England to free trade. Cobden consulted with English government officials and negotiated a commercial treaty which provided that England would end its tariffs on French goods and cut its tariffs on French wines 85 percent. France would convert its import bans to tariffs which would be reduced to less than 25 percent within five years. The initial term of the treaty would be for 10 years. By January 23, 1860, the treaty was signed by Louis Napoleon as he invoked his executive powers. Despite stubborn Tory opposition, Parliament approved the treaty.

It had a dynamic impact. Between 1862

and 1866, the French negotiated trade liberalization treaties with the Zollverein (German customs union), Italy, Belgium, the Netherlands, Switzerland, Spain, Portugal, Sweden, Norway, Papal States, and North German commercial cities. Most of these, in turn, liberalized trade with each other. Trade restrictions were reduced or eliminated on international waterways such as the Baltic and North Sea channel (1857), Danube (1857), Rhine (1861), Scheldt (1863), and Elbe (1870). Even Russia lowered tariffs somewhat, in 1857 and 1868. Because each treaty observed the "most favored nation" principle, it liberalized trade not only for the signatory nations, but for everyone else as well. Never before in European history had people been able to go about their daily business so freely.

On one occasion during his last years, Cobden strolled with a friend through St. Paul's Cathedral cemetery, burying ground for many of England's most famous heroes. The friend suggested Cobden might find an honored place there. Cobden replied: "I hope not. My spirit could not rest in peace among these men of war. No, no, cathedrals are not meant to contain the remains of such men as Bright and me."

Approaching his 61st birthday, Cobden suffered serious asthma attacks. Breathing became a deadly struggle. In a London lodging house, where he went to relax near the House of Commons, he died on Sunday, April 2, 1865. John Bright was among those by his side. "I have only to say that after twenty years of most intimate and almost brotherly friendship," Bright mourned, "I little knew how much I loved him until I had lost him." □

THE FREEMAN
IDEAS ON LIBERTY

If It Ain't Broke—Don't Regulate It

by Wayne T. Brough

In 1990 the Food and Drug Administration demanded the McCurdy Fish Co. of Lubec, Maine—the last U.S. smoked-herring company in the industry—to change its production process to reduce the dangers of botulism. The changes proved to be too costly and John McCurdy closed his doors, laying off all 22 workers. The FDA's rule came after 20 years in business and 54 million fillets. Not one case of botulism was ever reported against McCurdy and the FDA found no problems in their almost yearly inspections of McCurdy's fish.[1]

The federal government has regulations that affect almost every facet of daily life. Unfortunately, in cases such as the McCurdy Fish Co., regulations do not always benefit the public. Currently, the price tag for federal regulations is more than $500 billion per year—over $5,000 per household.[2] This is roughly equivalent to the typical family's federal income tax burden. Unlike the income tax, however, regulations are hidden taxes that do not receive the public scrutiny of the typical tax hike. Instead, businesses face higher costs of production, American companies have a tougher time competing in a global economy, and consumers pay more for goods and services. Proponents of regulation argue that federal regulations provide important safeguards that justify the costs of the regulatory burden.[3] If, in fact, federal regulations generated $500 billion in benefits each year, critics of regulation would be hard-pressed to make a case for reducing regulations. But what are the benefits—relative to the costs—of a hazardous waste clean-up that requires the dirt to be so clean that a child could eat one-half teaspoon a month for 70 years and not develop cancer?[4] And how can the benefits of hazardous waste clean-ups justify the costs of Superfund when 36 cents out of each of the $11 billion spent by the private sector through 1991 went to legal fees rather than to cleaning up waste sites?[5]

There are a number of legitimate concerns that can be raised when discussing federal regulations and regulators. But attempts to make government regulators more responsive to the public's concerns have generated staunch resistance among environmentalists and other public interest groups. Last year, these groups mounted a major campaign to defeat what they dubbed the "unholy trinity": requirements for cost-benefit analysis and risk assessment, stronger protections for private property rights, and restrictions on unfunded mandates imposed by the federal government on states and local communities.

In response to these concerns, Congress is considering an expansive regulatory re-

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form agenda. Perhaps the most important elements of regulatory reform are the use of cost-benefit analysis and risk assessment, tools that would require a careful assessment of the impact of federal regulation in order to eliminate unnecessary or even counterproductive regulations.

Cost-Benefit Analysis

Requiring federal agencies to assess the costs and benefits of regulations is not new.[6] President Ronald Reagan formalized the regulatory review process through Executive Order 12291, which gave the Office of Management and Budget the authority to review agency regulations to ensure that the benefits of regulations were commensurate to their costs. Simply put, the executive order provided guidelines to the federal agencies to ensure regulations met certain minimum standards. First, agencies were asked not to regulate unless they had sufficient information. Second, agencies were to choose the least expensive method for meeting a regulatory objective. Finally, agencies were not to regulate in those instances where the benefits of regulation did not exceed costs.

These guidelines for regulatory review had an immediate impact on the level of federal regulation. Direct measures of regulation are difficult to identify but a useful proxy is the number of pages in the *Federal Register*. The page count dropped from 87,012 pages in 1980 to 47,418 pages in 1986.[7] Efforts to rationalize the regulatory burden proved beneficial to consumers as well. Economic regulatory reforms enhanced consumer welfare substantially—in the transportation sector alone, consumer welfare increased by more than $30 billion.[8]

However, these trends reversed in 1986 as Congress mounted pressure for additional regulations and as agencies learned to "game" the system. Federal Register pages now have climbed to 69,688 pages—the highest level since 1980. In 1991, rules reviewed by OIRA had reached 2,523.[9] The price tag of final major rules—those costing more than $100 million, or those with significant impact—jumped more than 57 percent from 1991 to 1992.[10] Moreover, President Clinton, upon entering office, altered the regulatory review process in a way that provides agencies with more discretion; the review procedures have also changed so that fewer rules are sent to the Office of Management and Budget (OMB). At a time of expanding agency authority and weakened regulatory oversight, the Clinton administration released the *Regulatory Plan and Unified Agenda of Federal Regulations*, which identifies more than 4,300 rulemakings now underway at federal agencies.

Risk Assessment

In recent years, health, safety, and environmental regulations have constituted the bulk of growth in the regulatory burden. The Environmental Protection Agency's own estimates suggest that environmental regulations alone will cost more than $160 billion annually by the year 2000.[11] Risk assessments have been in use by a number of agencies, from the EPA to the Department of Defense. However, the analysis is uneven at best, and important assumptions often lie hidden in the assessment. Currently, many risk assessments use extremely conservative assumptions that provide only an upper bound estimate of risk. In one case, the exposure level at the heart of a regulation is based on a resident that is "assumed to live 200 meters from an industrial source of toxic air pollution breathing maximum predicted outdoor concentrations of a single chemical for 70 years, 24 hours per day."[12] This sketch of a hypothetical individual is hardly a description of the average person.

In addition to providing better information for cost-benefit analysis, risk assessment is an important tool for ensuring that scarce resources are not misallocated. We do not live in a zero-risk society; all human endeavors involve risk. Costly regulations that provide trivial reductions in risk divert resources away from more imminent dangers. Consider, for example, a hazardous materials listing requirement for a wood preservative. OMB has estimated that this regulation will divert one statistical death at a price of $5.7 trillion.[13] Avoiding such excessive regulations would allow consumers to address more significant risks they face in their daily lives.

It is important to remember that in a world of limited resources excessive spending on trivial risks may expose the public to new risks in other areas. Such "risk-risk" comparisons must be taken into account when determining the impact of regulations. For example, a regulation requiring parents to use a child safety seat for young children when flying may have the unintended effect of increasing risks to the public. The child safety seat requires families to purchase an extra ticket, causing more people to opt for driving—a far riskier activity than flying.

Another important factor to consider is the relationship between health and wealth. In general, wealthier people live longer and enjoy a higher quality of life because they have the resources necessary to purchase health care, more nutritious foods, and so forth. The costs imposed by regulations can reduce income and employment, leading to lower standards of living that could offset any potential benefits from the regulation. In fact, Peter Huber has stated that, "For a 45-year-old man working in manufacturing, a 15 percent increase in income has about the same risk reducing value as eliminating all hazards—every one of them—from his workplace."[14] A number of academic studies have confirmed this relationship between health and wealth.[15] Costly regulations that do not address significant risks can have adverse effects on overall public health by reducing income and diverting resources from more important uses.

Why Reform Is Needed

Reducing regulation makes good sense. Consider the example of Superfund. Originally established as a $1.6 billion trust fund to clean up toxic waste sites, the Superfund program now makes up 25 percent of the EPA's $6 billion budget. The typical cleanup currently costs $25 million, and based on current expenditures, the total costs of the program over the next 30 years will exceed $150 billion, on top of any legal fees involved.[16] Unfortunately, many of the sites targeted by the EPA for cleanup do not pose great threats to the community. Analysis that exaggerates the risks by up to 10,000 times is used to identify future Superfund sites. Worst-case scenarios are used, such as the child eating dirt for 70 years. Consequently, much of the risk identified by the EPA is imaginary, based on assumptions of fictitious, "maximum exposed individuals" (that is, the dirt-eaters). One study of 77 Superfund sites found that 92 percent of the cancer risk identified by the EPA was future risk that was dependent on the agency's assumptions about future behavior and yes, eating dirt.[17]

To counter the "better safe than sorry" arguments, it is important to emphasize that each cleanup has an average price tag of $25 million. As it stands, EPA uses conservative assumptions even in those instances where the possibility of human exposure is remote. The result, as Keith Schneider has stated, is high cleanup costs that provide few benefits: "More than ten years ago the federal government adopted the view that when there is any doubt, it is better to take the prudent approach than do nothing. But a decade later, the economic costs of this policy are painfully clear while the benefits remain largely unmeasurable."[18]

Superfund is only one federal program. The federal government regulates everything from airline safety to pesticide use. More effective cost-benefit analysis and proper risk management will help avoid situations where costly regulations offer few benefits to the consumer. Sound science and objective information provide a more rational approach to regulation than a system driven by political pressure or media hype.

Conclusion

Protecting the environment and improving health and safety are not inexpensive. These activities place a significant burden on the American economy. The expansive role of federal regulators was not envisioned by the Founding Fathers and there are only limited institutional constraints on their activities. Government bureaucracies are not constrained by the incentives of the marketplace; regulators do not have the particular knowledge of time and place that is generated by market activities. A requirement to eliminate regulations that provide no net benefits introduces an element of accountability that restricts bureaucratic discretion. Regulatory reforms such as risk assessment or cost-benefit analysis are important first steps toward deregulation—and much-needed protection from unconstrained federal regulators. □

1. See, Brent Bowers, "FDA Regulatory Tide Swallows Up McCurdy Fish Co.," *Wall Street Journal,* May 18, 1993, p. B-2.

2. See Thomas Hopkins, "Costs of Federal Regulations," in *Regulatory Policy in the United States and Canada,* Rochester Institute of Technology, 1992.

3. The recent "Assault on Safety," by Public Citizen, Washington, D.C. (February 1995) provides a summary of this viewpoint.

4. James Lis and Melinda Warren, "Reforming Superfund," *Policy Study Number 118,* Center for the Study of American Business, February 1994.

5. "Fixing Superfund: Getting the Formula Right," *Research Brief,* RAND, Institute for Justice, Santa Monica, California (July 1994).

6. See the Office of Management and Budget, *Regulatory Program of the United States Government, April 1, 1988–March 31, 1989,* U.S. Government Printing Office, Washington, D.C. (1989) for a history of the regulatory review process.

7. Regulatory Information Service Center, Washington, D.C.

8. See Clifford Winston, "Economic Deregulation: Days of Reckoning for Microeconomists," *Journal of Economic Literature,* vol. 31 (September 1993), pp. 1263–1289.

9. Office of Management and Budget, *Regulatory Program of the United States Government, April 1, 1992—March 31, 1993,* U.S. Government Printing Office, Washington, D.C. (1993).

10. Office of Management and Budget, *Budget Baselines, Historical Data, and Alternatives for the Future,* U.S. Government Printing Office, Washington, D.C. (1993).

11. U.S. Environmental Protection Agency, *Environmental Investments: The Costs of a Clean Environment: A Summary,* December 1990, Washington, D.C.

12. Quoted in "A Historical Perspective on Risk Assessment in the Federal Government," Center for Risk Analysis, Harvard School of Public Health, March 1994.

13. Office of Management and Budget, *Regulatory Program of the United States Government, April 1, 1992–March 31, 1993,* U.S. Government Printing Office, Washington, D.C. (1993).

14. Quoted in Aaron Wildavsky, "Riskless Society," in *The Fortune Encyclopedia of Economics,* David Henderson, ed. (New York: Warner Books, 1993).

15. For a survey of the health-wealth literature, see, Office of Management and Budget, *Regulatory Program of the United States Government, April 1, 1992-March 31, 1993,* U.S. Government Printing Office, Washington, D.C. (1993).

16. James Lis and Melinda Warren, "Reforming Superfund," *op. cit.*

17. See James Hamilton and W. Kip Viscusi, "Human Health Risk Assessments for Superfund," paper prepared for New York University School of Law Conference on Reauthorizing Superfund, December 1994.

18. Keith Schneider, "How a Rebellion over Environmental Rules Grew from a Patch of Weeds," *New York Times,* March 24, 1993, p. 1.

THE FREEMAN
IDEAS ON LIBERTY

Freedom, Efficiency, and *The New York Post*

by Joseph S. Fulda

In a beautiful little article, "Entrepreneurs and Their Gifts," Jane Shaw, a Contributing Editor of this journal, makes the case that entrepreneurs, even when they don't succeed, give to the economy in which they invest. A few months later in "The Economics of Errant Entrepreneurs," Israel Kirzner, a distinguished professor of economics, replies to her article with a firm, but gentle, dissent.[1] The purpose of this article is to show why a libertarian of the Austrian School who admires Professor Kirzner's work nevertheless sides with Ms. Shaw.

Ms. Shaw tells the story of Bozeman, Montana, a small town with the variety of a small city: exotic seafood restaurants, a doll furniture store, a flower shop that sells African violets only, kitchen boutiques, upscale wine shops, and a surprisingly good bookstore. According to her research, one in seven of all businesses in the county changed hands—or just began—within the year. The people of Bozeman, she writes, "get more goods and services . . . than [they] deserve," for "as a result of all these eager entrepreneurs" consumers "don't pay the full cost of the goods and services [they] buy. Instead, the providers pay in the form of lost profits and lost fortunes. [T]he consumers are the beneficiaries." "Bozeman's experience suggests," she concludes, "that an endless succession of businesses can operate without profits—as long as there are romantic optimists to take up where the disillusioned leave off."

To this Professor Kirzner replies, "[T]here is only *one* benefit to society arising out of unprofitable entrepreneurship that deserves to be treated as a fundamental advantage. All other benefits, while we may indeed be grateful for them, are likely to be enjoyed at the expense of more serious disadvantages both to others and to ourselves." That one benefit, "the central social gain from losing entrepreneurial ventures," is enjoyed "not by individuals unusual enough to enjoy the output of those overoptimistic ventures, but by all members of society insofar as they stand to gain from *superior* entrepreneurial judgment—a quality standard enforced by the severe discipline imposed on errant entrepreneurs. . . ." And, he adds, Ms. Shaw's account fails to consider that an "unprofitable venture . . . has *harmed* society insofar as it is likely to mean that it has used valuable, scarce social resources to produce goods worth *less* than other goods that could have been alternatively produced." It is Professor Kirzner's use of "social," not his flawless economic analysis, that disturbs.

As the late Russell Kirk, a supporter of capitalism but much more a believer in faith and freedom rooted in faith, wrote "I have regarded with some suspicion many practitioners of the Dismal Science. I have found economists a blinkered breed, worshiping the false god, Efficiency."[2] No doubt Dr. Kirk meant many things by this, to some of which I would surely not assent, but among those meanings surely is that the moral and spiritual claims of freedom and by implication the free economy are more compelling than its empirical claim to being the most efficient way of providing for our needs. To this proposition, I wholeheartedly assent.

Entrepreneurs act, as George Gilder reminds us, on faith. Their faith is only partly

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in their ability to turn their investment into profits. It is also their faith in themselves and in their ability to make their respective dreams come true. And, if their faith in themselves should not be vindicated, we should offer praise for their having been so brave as to try despite the odds. And, those odds—two out of three small businesses fail within five years—are what make entrepreneurship an act of faith. Moreover, whatever resources are misallocated by the experiments of the entrepreneur are *his* to allocate, *his* to lose. It is uniquely American to allow everyman, no matter how high the odds of failure, to pursue the American dream in his own way. And, by implication, it is his right to decide when he has failed. If he is able to sustain losses for even five consecutive years and still maintains his faith in his dream, let us remember that few, indeed, are the enterprises that don't at first sustain losses. The experiment is over and the final judgment on the allocation or misallocation of resources is in only when the entrepreneur closes the doors to his business, through bankruptcy, abandonment, or, more frequently, as Jane Shaw writes, through change of ownership. "Where there's life there's hope" applies to businesses as to persons and an enterprise that one man would close after years of successive losses, another man with greater faith in himself might keep open long enough to see his losses subside, ultimately turning to ever-greater profits.

Let us take *The New York Post*, the only conservative daily in New York City. For years, the *Post* has been unprofitable and it has changed hands many times. No doubt the expertly argued commentary and the adroitly written editorials by Eric Breindel and the other members of the editorial board are, in Professor Kirzner's words, "catering to the tastes of a too-narrow group of consumers," but as one of their number I wouldn't have it any other way. Nor do I think that the successive owners of the *Post* are necessarily among the "entrepreneurial fools and romantic optimists" of Professor Kirzner's vision. Indeed, their vast holdings of successful enterprises shows that the former they are clearly not and, as for the latter, well, I don't know. True, each time the *Post* goes on the table, the new owner or prospective owner insists he will turn it around, but few in the small New York conservative camp believe them. They *are* acting, in part, out of altruism—or egoism, if you will; they want to own something they value and that they think is of social value, even if it means that they suffer losses year after year. But whether they are romantic optimists, altruists, or egoists is of no real interest to me: What interests me is the *Post* itself and ensuring that entrepreneurs have every bit as much freedom to pile up losses as to pile up profits.

Indeed, the argument for freedom *in se* over efficiency is morally imperative, if, as a Judeo-Christian society, we are to look with benevolence on all forms of voluntary charity. Isn't it better for the failing entrepreneur to be given an influx of new capital by a benevolent friend than to be simply told to close his business and take a charitable contribution in cash or in kind? Certainly, it is better for both the giver and the recipient, as *they* see it, and arguments that it is worse for society at large to have a lot of capital misallocated rather than a smaller sum go directly to charity presume that moral philosophy must follow economic science, when, in fact, it is the other way around. Let us be free to be both romantic optimists and charitable men. We need not worry that the free economy will not ensure efficiency because of such men, for as Professor Kirzner so rightly points out, one must *have* capital in order to invest it and the market will simply not allow unlimited optimism or charity. But where exactly those limits are is decided in freedom. Let us not worship the false god of efficiency. □

1. Jane S. Shaw, "Entrepreneurs and Their Gifts," *The Freeman*, April 1987, pp. 124–125; Israel M. Kirzner, "The Economics of Errant Entrepreneurs," *The Freeman*, August 1987, pp. 301–302. Both essays have been reprinted in *Free to Try* (Irvington-on-Hudson, N.Y.: The Foundation for Economic Education, 1995).

2. Quoted in *The New York Post*, June 1, 1994.

$4,000 A Month From Social Security?

"Social Security will remain nicely in balance for at least the next 20 years . . . If it ain't broke, don't tinker."
—Prof. Robert Kuttner,
Business Week, February 20, 1995

Professor Kuttner, the American Association of Retired Persons (AARP), and other apologists for the current Social Security system don't get it. The real issue is not whether the national pension program is solvent or not. It is not a question of whether to reduce Social Security payouts, defer retirements, assess a means test or raise FICA taxes again. Congress has attempted all of the above, and the system is still fundamentally unsound.

The real problem is simple: Social Security is a lousy retirement program and, as a result, imposes a huge drag on the U.S. economy and every other nation with a similar plan. FICA taxes cut deep into the pockets of every worker and every business. Payroll taxes have increased 17 times, from 2 percent of wages, up to a maximum of $60, in 1937, to 12.4 percent, up to a maximum $6,438.00 today. To cover future payouts beyond 2015, experts predict taxes will have to rise to 17 percent of gross income. When is this craziness going to stop?

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The tragic irony of Social Security is that it is a forced savings plan that doesn't contribute one dime to real savings. That's because Social Security is a pay-as-you-go system. Contributions are immediately paid out in benefits. FICA taxes go either to (a) pay current Social Security retirees, who use the money to pay bills, or (b) the Social Security Trust Fund, which invests entirely in T-bills, in other words, government spending. In short, payroll taxes are consumed, not saved. As Professor Joseph Stiglitz states, "the Social Security program is a tax program, not a savings account."

Social Security vs. Individual Retirement Accounts

Imagine what would happen if Social Security taxes were invested in Individual Retirement Accounts, so that wage earners could invest in stocks and bonds. In other words, what would be the effect if Social Security funds were invested in free-enterprise capitalism, rather than government transfer programs?

Such a study has just been completed by William G. Shipman, principal at State Street Global Advisors in Boston, Massachusetts. He analyzed two workers, one earning half the national average wage (approximately $12,600 in today's wages), and the other making the maximum covered earnings ($61,200 today). A low-income earner who retires this year will receive $551 a month from Social Security. But if he had been allowed to invest his contributions in conservative U.S. stocks over his working years, he would be receiving an annuity of $1,300 a month for the rest of his life, almost three times his Social Security income.

A high-income earner would do even better. If he retired today, he would receive $1,200 a month from Social Security. Had he invested the money in stocks, he would be receiving an annuity of $4,000 a month.[1] Now that's what I call retiring with dignity.

In sum, Social Security is a lousy retirement plan and a tragic waste of resources. This year approximately $350 billion will be paid into Social Security. In addition, the Social Security Trust Fund, held for future payouts, is valued at $436 billion and rising. Imagine if all that money had been invested in the capital markets. Imagine if the Social Security Trust Fund could be managed by Peter Lynch, Warren Buffett, or another top money manager and invested in the financial markets. (However, I do not favor government control of American companies. I'm simply demonstrating the profit potential when funds are invested rather than consumed.)

Chile Sets the Example

Wishful thinking is reality in a small nation south of us—Chile. Its Social Security system puts America to shame. In 1981, under the influence of free-market economists, Chile privatized its failing Social Security system and replaced it with private pension fund accounts for new workers. Middle-aged workers were given the option of using the new privatized pensions or remaining in the state system, while the government plans for existing retirees and those within a few years of retirement remained untouched.

The results have been astounding. Today 93 percent of the labor force is enrolled in 20 separate private pension funds. Annual real returns on pension investments averaged 13 percent from 1981 to 1993. Chile's private pension plan deepened the nation's capital market and stimulated economic growth. Its domestic savings rate has climbed to 26 percent of gross domestic product, and economic growth rate averaged 5.4 percent annually from 1984 to 1992.

Retirees still on the state pension system are being paid from general revenues, boosted by tax revenues from privatizations of state companies and the expanding economy.

In short, Chile provides a role model for a successful privatization of the U.S. Social Security system. Converting the pay-as-you-go system into a genuine savings program will dramatically increase capital formation and economic growth in the U.S.

Reform is Coming

Until recently, discussion of privatizing Social Security or highlighting the Chile model has been muted. I recently reviewed the 1995 editions of the top ten textbooks in college economics. Only one mentioned the possibility of privatizing Social Security, and none mentioned Chile's alternative.

Lately, however, resistance to reform has been crumbling. *Time* magazine ran a March 20th cover story, "The Case for Killing Social Security," and virtually endorsed the Chile model. Paul Craig Roberts wrote a favorable column about Chile and Social Security reform in the March 27, 1995, issue of *Business Week*. And now Senators Robert Kerrey and Alan Simpson are sponsoring a bill to allow workers to pay 2 percent less in payroll taxes if they invest it in their own IRAs. It's a beginning. House Speaker Newt Gingrich pledged to keep Social Security off limits this year, but for how long? As Lao-tzu says, "To resist change is like holding your breath—if you persist, you will die." □

1. William G. Shipman, "Retiring With Dignity: Social Security's Harmful Role, Capital Markets' Helpful Solution," Cato Institute Policy Analysis, forthcoming.

A REVIEWER REMEMBERED: John Chamberlain 1903–1995

John Chamberlain lived with the printed word most of his life. He was a reader from his earliest years and during his four years at Yale acquired a command of Western Civilization's literary treasures. John's fine literary sense developed early, along with a superb style.

John's first book was a history of the Progressive Era in the United States—roughly the four decades from 1880 to 1920. In 1912 Teddy Roosevelt ran for President on the Progressive Party Ticket. John's book entitled *Farewell to Reform* (1932) was based on extensive research, a critical use of original sources, and mature literary skill. This book was republished in 1958 and stands today as one of the essential books for understanding those critical years.

For several years during the 1930s John wrote the daily book review for *The New York Times*. There was rarely a time during this period, he has told us, when he did not have a book in his pocket. Even when he went to Yankee Stadium to watch a ball game he would read between innings! This would kill the ordinary man's love for books—or for baseball—but day after day John churned out his review and came to be regarded as one of America's most trusted book reviewers.

No one on the New York literary scene during the New Deal was unaffected by the left-wing slant of most intellectuals. If many of one's friends—intelligent, articulate, and well-meaning—inclined toward socialism and the Roosevelt regime, well perhaps there was something to it. So John was briefly involved, as he wrote later in his fine autobiography, *A Life With the Printed Word* (1982).

Then in 1937, John came across a just published book, *Our Enemy the State* by Albert Jay Nock. That book, John wrote later, "hit me between the eyes." He had never really been convinced that government had a messianic role to play in society and he began then, as he wrote in his second book, *American Stakes* (1940), to move sharply in the direction of classical liberalism.

John held positions on the editorial staff of *Fortune* (1936–1941) and *Life* (1941–1950), writing dozens of memorable articles.

John's *The Roots of Capitalism* (1959) explained simply in his elegant prose how the capitalistic economic system functions and how economic freedom encourages entrepreneurs and increases the well-being of all.

In the early 1960s, John wrote a series of articles for *Fortune* about various industrial firms and business tycoons. Writing these articles involved extensive independent research and in-depth interviews and led John to realize how much these able, far-seeing men had been maligned and falsely attacked by the ideologues of the left. These articles were published as John's story of American capitalism, *The Enterprising Americans* (1963, 1991).

In 1950 a small group of men—FEE Trustees mostly—established *The Freeman*, reviving the name that had been used by a periodical edited by Nock from 1920 to 1924. The editors were John Chamberlain, Suzanne La Follette, and Henry Hazlitt. John had a book review section in every issue and numerous articles, which were published in a 1991 book, *The Turnabout Years: America's Cultural Life, 1900–1950*. After the magazine was taken over by FEE in 1956, John continued his column, "A Reviewer's Notebook."

John Chamberlain was a very private person; modest and unassuming. He avoided the limelight, letting his printed words—multi millions of them—speak for themselves. And they continue to speak eloquently for this gentle man, genuine scholar, great stylist, and inspiring friend.

After a brief illness John died on April 9, 1995. He is survived by his wife, Ernestine, six children, 19 grandchildren, and three great-grandchildren. □

—Edmund A. Opitz

BOOKS

All the Trouble in the World: The Lighter Side of Overpopulation, Famine, Ecological Disaster, Ethnic Hatred, Plague, and Poverty

by P. J. O'Rourke

Atlantic Monthly Press • 1994 • 362 pages • $22.00 (from Laissez Faire books, $17.95)

Reviewed by William H. Peterson

Quiz time: name the libertarian wit who declared just before the unveiling of the Clinton universal health plan in 1993: "It hasn't even started yet, and already it's not working."

Give up? He's America's heir to the H. L. Mencken legacy of the art of spiking government pomposity and inherent interventionist ineptitude. In fact, P. J. O'Rourke *is* the Washington-based Cato Institute's Mencken Research Fellow as well as a contributing editor to *Rolling Stone* (where some of these pages first appeared) and the author of such best-selling works as *The Bachelor Home Companion*, *Parliament of Whores*, and *Give War a Chance*—works tickling the funnybones of otherwise grouchy, government-socked Americans and their peers overseas.

O'Rourke's skill in renouncing the armchair and on-line computer for global on-the-spot surveys of political pomposity is on display here as he sails forth into Somalia, the Amazon, Rio, ex-Yugoslavia, the Czech Republic, Bangladesh, Haiti, Vietnam, and the campus of Miami University in Ohio. Watch out, overweening *National Geographic* and supercilious *Smithsonian Magazine*, you're no match for the sharper eye and pen of O'Rourke.

Take his venture into Bangladesh, a nation of some 120 million hardy souls living on the cusp of poverty and still much dependent on jute, the country's largest hard-currency earner. The jute industry, "beneficiary" of subsidies from one of the least rich governments in the world, falls prey to versatile plastics across a highly competitive world. Mahbubur Rahman of the Dhaka Chamber of Commerce handed his business card to O'Rourke boasting it was made of jute paper. O'Rourke found it discolored, wrinkled, and lumpy. Mr. Rahman also boasted of the jute rug on his office floor. O'Rourke found it unsightly and coming apart.

But better days apparently lie ahead as Bangladesh goes in for privatization. State-owned plants that the Bangladesh government has wisely put up for sale, notes O'Rourke, include:

Osmania Glass Sheet Factory
Dhaka Match Factory
Bangladesh Diesel Plant
Dhaka Vegetable Oil Industries
Kohinoor Battery Manufacturing Co.
Bangladesh Insulator and Sanitary Ware Factory

These factories are hardly of Japanese quality, and O'Rourke says he'd like to shake the hand—well, meet, anyway—the brave investor who buys the rickety works of the Bangladesh Insulator and Sanitary Ware Factory.

Our intrepid traveler finds Vietnam, scene of battle from French forces in the 1940s-1950s to U.S. forces in the 1960s–1970s climaxed by massive American air strikes on Hanoi in 1973, now a scene of battle between Coca Cola and Pepsi-Cola. But it wasn't until 1990 when the Communists finally threw in the towel *vis-à-vis* socialism. O'Rourke: "They took price controls off everything, put privacy back into private property, and told everybody to go make a living. Faced with a choice between leading and following, the Vietnamese government got out of the way."

O'Rourke's visit to Miami University, his politically correct alma mater, is covered in his chapter, "Multiculturalism: Going from Bad to Diverse." He found the school now blessed with a Department of Diversity Affairs offering 21 courses and a degree in Black Studies, yet the percentage of African

Americans among undergraduates is but 2.6 percent.

As luck would have it O'Rourke arrived on the campus during "Hunger and Homelessness Week." He watched a group of Miami students celebrate the event by squatting around the campus in pouring rain and trying to hand out fliers so as to "make Miami students aware of the growing homeless situation in America." Said one wet coed: "It's weird how people just walk by and ignore us. You really get a look at the world through a completely different perspective." The perspective of an idle person engaged in moronic activity, says O'Rourke.

Another cultural beef of protesters at a student rally attended by our peripatetic author lies in the use of "Redskins" by Miami varsity sport teams, clearly a high-handed putdown of Native Americans. One coed dressed like the lady on the Land O' Lakes butter package condemned such injustices against Native Americans as "deportation, exploitation, enslavement, disenfranchisement, genocide—and, pausing for emphasis, added what she seemed to feel was the crowning outrage, 'assimilation'."

Sexual harassment turns out to be another hot issue. O'Rourke finds lack of logical consistency in a campus calendar called "The Women of Miami." It carried photos of a dozen bathing suit-clad coeds trying to look, to the best of their puppyish abilities, sexy. Controversy raged among students, some of whom said the photos demeaned women and others who were pretty sure the First Amendment protected medium-sized bikinis. What especially caught O'Rourke's attention was the "Public Service Message" surrounded by semi-spicy photos at the end of the calendar. It read:

> *Guys: When a woman says NO, she means NO! It takes a "Real Man" to respect the wishes of those around him. Be Safe, Be Smart, and Be Understood!*

P. J. O'Rourke ends his book on the note that he doesn't have any answers. But maybe he does, as he mentions things like property rights and the rule of law. Aside from cancer and the like, he observes most of our troubles are not from another planet but are *human* (i.e., man-made) troubles. Hence his suggestions: Be nice. Use common sense. Exercise self-responsibility.

Not bad. □

Dr. Peterson is Distinguished Lundy Professor of Business Philosophy Emeritus at Campbell University, North Carolina.

On Looking Into the Abyss: Untimely Thoughts on Culture and Society

by Gertrude Himmelfarb

Knopf • 1994 • 192 pages • $23.00

Reviewed by Peter J. Boettke

Gertrude Himmelfarb is Professor Emeritus of History at the Graduate School of the City University of New York and the author of numerous studies in intellectual history (such as her studies on Acton and Mill) and the history of Victorian England. She is a wonderful writer who takes her vocation seriously—both in terms of turning a phrase and in doing the dirty work of historical scholarship. *On Looking Into the Abyss* is her reflections on the state of our intellectual culture. It is not optimistic. Literary criticism has disregarded the books it is supposed to comment on, and instead concerns itself with "theory" as if that were more important. Philosophy has embraced nihilism and history has abandoned the footnote. Himmelfarb's message—one that should resonate with readers of *The Freeman*—is that ideas have consequences. Bad consequences in the political world, such as witnessed in the former Soviet Union or in Nazi Germany, are the result of bad ideas, not historical accident. Ideas matter and therefore we should all be serious in our dealings with ideas.

Sometimes Himmelfarb misses her target, other times she hits the nail right on the head. In reflecting on post-modernism, for example, she finds it too easy to discredit philosophical ideas because of the political association of the author, say, Martin

Heidegger or Paul de Man. Criticisms of their philosophical position are, of course, fair game, but to dismiss their work because of poor moral character on their behalf is another question. Himmelfarb and other critics would have to show how Heidegger's and de Man's scholarly work relates to their fascist affiliation. Maybe that can be demonstrated, but to my mind none of the critics have yet done so.

Himmelfarb is also weak, I think, in her examination of Mill's *On Liberty*. Certainly there is a tension in Mill, but to see in him a confusion between liberty and libertinism is perhaps stretching it. Readers of a conservative bent will find in Himmelfarb a great champion in their fight against the moral decline of our age and the intellectual bankruptcy of libertarianism. The good Mill, to her, is the one who reminds her of Tocqueville and Acton, the bad Mill sanctions the heroin-addict prostitute on the streets of New York. But, those who, like me, are much more comfortable with the libertarian position, and the liberal idea of tolerance for "experiments in living," will find that in her discussions of Mill, Himmelfarb is missing something fundamental about liberal virtues. Libertarianism does not mean libertinism (defined as the absence of responsibility), but libertarianism does mean absolute individual autonomy within those bounds of responsibility. We may not like how some choose to live their lives, but as long as responsibility for their choices lies with them and they do not invade my life, then they must be free . . . and this is a pre-condition for me to live the life I choose. As Albert Jay Nock emphasized in his "On Doing the Right Thing," the libertarian position must permit people to make mistakes in their choices of living not because it sanctions "immoral" behavior, but because it is only by permitting people to make their own choices and bear the consequence of those choices that "moral" living even has an opportunity to emerge as a norm.

On the other hand, with regard to the disappearance of the footnote in historical scholarship or in her critique of post-modern history, Himmelfarb is brilliant. She is a practitioner of the "old" school of historical scholarship, and shuns the kind of social history often championed in scholarly circles today. The historian should be able to locate heroes and villains in the past and record their deeds. A constant theme in this volume is how the Holocaust, for example, becomes trivial under the influence of some of these trends in our current intellectual culture.

Certainly developments in philosophy and literature have questioned modernity and presented us with an interesting abyss to stare into. But Himmelfarb argues that we need not jump in. Our current generation, however, has already done so. At this point, Himmelfarb can no longer help. She has nothing to say once someone has fallen into the abyss; she offers no way out. Her strong suit is warning us not to jump in. Once in the abyss, what can get you out except some blind faith concerning moral reasoning? Scholarship, and the intellectual culture in general, necessitate "good reasons," not moral posturing. We are already in the post-modern moment. Appeals to modernity or even pre-modernity (like Alan Bloom gave us) are not going to get us anywhere. Classical liberal intellectuals at this time must engage the post-modernists. They must challenge the value of abandoning standards of historical and philosophical argument, champion the idea of liberal virtues and cosmopolitanism, and demonstrate the consequentialist grounds for these positions.

On Looking Into the Abyss is a very good book written by a serious thinker reflecting on the state of her culture. Himmelfarb offers the reader many insights. Her emphasis on the role of ideas in society is delightful, and her championing of the standards of scholarship is admirable. This is a book that readers of *The Freeman* will find of great benefit. Despite my reservations about the social-conservative political implications of Himmelfarb's reflections on our intellectual culture, I highly recommend her book. □

Dr. Boettke teaches economics at New York University.

Inflation is Theft

The Foundation for Economic Education

1994 • 197 pages • $14.95 paperback

Reviewed by Steven Horwitz

This collection brings together a number of different papers previously published in *The Freeman* over the last 25 years or so, with a new introduction by Hans Sennholz. Overall this is a strong collection of essays, particularly suitable for students or the economically-inclined general reader. What is most remarkable about the essays is both how many common themes they touch upon and how the controversial issues they discuss continue to be at the heart of debates among classical liberal monetary theorists today.

A clear message of the book is that one cannot separate inflationary monetary policies from profligate fiscal policy. As with counterfeiting, the lure of inflation is that the inflator can acquire real resources at virtually zero cost. It does this not only directly, but also by reducing the value of the government's massive debt. For political actors seeking votes, or governments seeking power, inflation is a far more palatable way than taxation to pay for new programs or military adventures. A running theme in several essays is that inflation's effects are far more subtle than, but just as injurious as taxation's.

Another clear theme that emerges from this volume is the need to reform not just monetary institutions but fiscal ones as well to combat inflation. Any policies that limit government expenditures and/or government debt will reduce the temptation to inflate.

Throughout the book one comes across critiques of popular definitions of inflation. Clarence Carson's essay "Built-In Pressures to Inflation" begins by nicely clarifying these issues. Many people define inflation as "an increase in the general level of prices." This view errs in treating one of inflation's likely *effects* as its defining characteristic, and thus ignores other factors that might cause the level of prices to rise (or fall) that are not rightly seen as inflation. As numerous contributors (especially Robert Higgs and Bettina Bien Greaves) point out, inflation is, as Milton Friedman phrased it, "always and everywhere a monetary phenomenon." Any definition of inflation must make reference to the money supply.

Several authors also point out that increases in the money supply need not always lead to increases in the price level. For example, an increase in productivity or in the demand for money, exerts downward pressure on prices.

The definition of inflation remains controversial among free market economists. The late Murray Rothbard long defined inflation as *any* increase in the monetary commodity, apparently irrespective of any change in demand. Others, such as George Selgin most recently, have defined inflation as an *excess* supply of money, allowing for increases in the quantity of money that are necessary to keep pace with demand. Mises, incidentally, held to the *latter* view in *The Theory of Money and Credit* as is made clear in the second endnote to J. H. Peters' essay that begins the book. The ambiguities that prompted this ongoing debate are clearly evident in the various *Freeman* articles collected here.

Another important insight consistently present in this book is that the true costs of inflation are much more than any obvious rise in the price level. Several authors emphasize how an excess supply of money affects some sectors of the economy before others, and in so doing causes not only economically unjustified redistributions of wealth, but also changes in the relative prices of various consumer and producer goods. These changes in relative prices alter the structure of production as capital and labor are shuffled into new combinations in different lines of production. These shifts are ultimately unjustified because, as the inflation ebbs, the new demand for those goods will fall off, leaving the owners of retooled capital and retrained labor stuck with the now less useful assets. This waste is the major cost of inflation.

More generally, the havoc that inflation plays with the signaling function of prices leads to increased entrepreneurial error, increased uncertainty about the future, and the temptation to use the political process as a means of increasing one's wealth. Any reader of this book will come away with a real appreciation for these costs and the corresponding dangers of inflation.

Only a few of the authors offer any specific recommendations for policy changes that would reduce inflation. What virtually all seem to agree on is that we must somehow end the government's discretionary power over the production of money. For some this means a return to the gold standard, for others it means ending fractional reserve banking, for still others it seems to mean opening up the production of money (including paper) to private entrepreneurs/banks. All of these options sounded truly utopian when written in the '60s and '70s. However, with the exception of ending fractional reserve banking, these proposals are now seen as legitimate options among a growing number of professional economists. That these free market ideas are now taken seriously is the ultimate intellectual vindication for the authors represented in this collection.

One other interesting aspect of this book is how accurate many of the authors were with respect to the direction the U.S. economy would take in the '70s and '80s. Although no one foresaw the growth of the '80s, nor the apparent resurgence of free market thought at the policy level in the '90s, several authors saw the inflation of the '70s and the problems that would arise from trying to eliminate it in the early '80s. Ignored at the time, these arguments take on a fresh relevance when viewed with hindsight.

Inflation is Theft is a nice place to start to get a handle on the basics of why inflation occurs and what problems it causes. As budget deficits persist, as politicians of all stripes continue to try to please voters by promising them the moon, and as the current administration appears to want to make the U.S. the world's policeman, the temptation to resort to inflationary finance is ever-present. To avoid falling for its siren-like charm, we need to understand the nature of the beast. □

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In Defense of Advertising: Arguments from Reason, Ethical Egoism, and Laissez-Faire Capitalism

by Jerry Kirkpatrick

Quorum Books, Westport, Conn. • 1994 • 192 pages • $45.00

Reviewed by Mark Thornton

As an economist, I was hesitant to review a book about marketing written from a philosophical perspective. However, advertising is fundamental to economic activity and I agree fully with the author that advertising must be understood as a "rational, moral, productive, and above all *benevolent* institution of laissez-faire capitalism."

Jerry Kirkpatrick defends advertising by employing the philosophical contributions of Ayn Rand and the economic theories of Ludwig von Mises. Facts, figures, case studies, and quotations spice up what is otherwise a theoretical attack against the critics and opponents of advertising.

I found myself chuckling at the book's beginning description of various criticisms of advertising in which virtually all the evils in society are directly traceable to advertising. While amusing, these views are all too pervasive. The very latest antagonist to emerge is Earl Shorris, a former advertising executive-turned-fiction writer and muckraker. In his latest book, *A Nation of Salesmen: The Tyranny of the Market and the Subversion of Culture*, Mr. Shorris blames advertising for the destruction of such things as our world, our humanity, our nobility, our reason, and our minds.

Mr. Kirkpatrick's philosophical defense

of advertising is explicitly objectivist or Randian. While I am no expert in this area, his presentation is clear and seems correct in all fundamental aspects. I only question how far into objectivism one needs or wants to go in order to make a defense of advertising? For example, while I might agree with both the author and Ludwig von Mises on the underlying relationship between early Christianity and capitalism, I question the wisdom of raising this issue where it can neither help make his point nor provide an opportunity for full and fair exploration of the issue.

The author provides a convincing discussion on the charge of subliminal advertising in the marketplace. He also addresses the charge that persuasive advertising "creates" needs. The natural controls on deceptive advertising are also presented as an effective counterargument to the critics of advertising. He concludes that honesty sells and that fraud is the only thing that should be against the law.

The author combines his knowledge of marketing with Randian philosophy and Misesian economics to create a truly powerful and compelling case *for* advertising. The general reader will benefit from the author's ability to distill the criticisms of advertising and his responses to them to their most fundamental form while the specialist in marketing, economics, and philosophy will gain a working knowledge of the other disciplines as they relate to advertising.

There is at least one downside of mixing Austrian economics and Randian philosophy—the possible confusion of the terms objective and subjective. Objectivism is a subjective field in which all relevant values are held to be objective while economics is supposed to be an objective study in which all relevant values are considered subjective. I am almost certain that the next generation of libertarians would appreciate a less muddled assembly of terminology.

The author has a clearer notion of the economics of advertising than many economists. His accurate presentation of economics and the methods and views of schools of economic thought is more than adequate. If one is interested in a more in-depth examination of the economics of advertising, *Advertising and the Market Process* by Robert Ekelund and David Saurman should be consulted. However, for those who seek to engage the accusers of capitalism, *In Defense of Advertising* is worthwhile reading. □

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Liberty Against Power: Essays by Roy A. Childs, Jr.

edited by Joan Kennedy Taylor

San Francisco: Fox & Wilkes • 1994 • 290 pages • $24.95 cloth; $14.95 paperback

Reviewed by Doug Bandow

Little in life is more tragic than the shooting stars, the brilliant lights who illuminate the truth and brighten people's lives, only to flame out before the history books take note. Roy A. Childs, Jr., was one such phenomenon. A leading libertarian writer, editor, and activist, Roy was also a good friend and tough intellectual sparring partner to the famous, like Milton Friedman, and a generous mentor to the obscure, like any number of college students.

Alas, Roy's heart gave out in May 1992, saddening his many friends and admirers. It also seemed likely to deny him credit for helping to revive classical liberalism in the age of the welfare state. Although his words had boomed forth at a multitude of conferences, seminars, and speeches, and leaped off the pages of *Libertarian Review*, *Inquiry*, movement newsletters, and mainstream newspapers, he never wrote a book. Thus, we lacked this most important kind of permanent record of his prodigious thinking.

But no longer. Joan Kennedy Taylor, Roy's close friend and a former editor of *Libertarian Review*, has collected some of his best writings and speeches in a new volume, *Liberty Against Power*. The book makes for a wonderful read. It also reinforces the sense of loss that so many of us felt at Roy's passing. If only his unbounded passion for freedom were still burning. If only he had been alive to spotlight the hypocrisy and mendacity of the Clinton administration over the last two years. If only he were here to direct his penetrating wit and relentlessly logical analysis against today's newly ascendant Republicans. If only . . .

At least we now have *Liberty Against Power*. It ranges across the philosophical and policy waterfront, demonstrating Roy's extraordinary learning, despite his never having finished college. The lead article is the book's title essay, setting the philosophical tone for not only this volume, but Roy's life. Over the last century, he observes, "we have seen a massive growth in state power at the expense of what Albert Jay Nock called 'social power'." To what result? "Honesty calls upon us to proclaim that power is everywhere impotent in the face" of today's problems. And that he does eloquently and often.

In another prescient essay, written two decades ago, Roy complains about the lack of debate over basic principle, at least regarding any "issues or policies beyond those which fit cozily into power's framework." His alternative? Liberty. Freedom to life, conscience, and property. Freedom to think and speak. To worship God and live in peace. Particularly noteworthy is Roy's unabashed willingness to make moral arguments. This argument on principle runs throughout *Liberty Against Power*. In a prize-winning essay presented at the Mont Pelerin Society, Roy emphasizes the importance of defending the morality of capitalism. Market economies long ago won the "bathtub" test by providing better bathtubs, but, in Roy's view, that doesn't provide a sufficiently solid ground for the market's defense. Warns Roy: "If wider philosophical issues are ignored, then we run the risk of seeing not only liberty disintegrate before our eyes, but the very foundations of civilization itself. And from that, recovery may not even be possible."

Other essays criticize Ayn Rand's and Robert Nozick's defenses of limited government. Interestingly, Roy moved away from anarchism near the end of his life, but he never finished his attack on "anarchist illusions," included in *Liberty Against Power*. Other insightful chapters include a critique of the New Right, which has at times eschewed not only social tolerance but also market economics; the role of business in promoting regulation, rather than laissez-faire; and the relationship between property rights and civil liberties.

His speech on the latter topic, printed for the first time in *Liberty Against Power*, is particularly illuminating. Ultimately, Roy argues, many contentious civil liberties issues—crying "fire" in a crowded theater, for instance—should be resolved on the basis of property rights. Roy resolutely defends people's right to discriminate "because they have a right to their property and their self-ownership." And Roy, who was grossly overweight, did not let personal interest get in the way of principle: before his death he appeared on the program *20/20* arguing against proposals to penalize discrimination on the basis of weight.

However, Roy was not a starry-eyed, ivory-tower philosopher. Among the best essays in *Liberty Against Power* are his writings on current policy. Even before the Reagan and Bush administrations escalated the war on drugs, Roy wrote "Crime in the Cities: The Drug Connection." Although now 14 years old, the article remains a path-breaker, demonstrating, through rigorous analysis and research, how it is drug prohibition, not drug use, that fuels the crime wave enveloping cities across America.

Similarly impressive are his analyses of foreign policy—El Salvador and Iran, for instance, as well as America's expansive alliance network around the globe. He wants the United States to "abandon the foreign policy which has brought us to the state where Americans are vilified and damned and held hostage" abroad, and instead return to a noninterventionist stance, when we "once again become a beacon of hope and liberty for all the people of the world."

Liberty Against Power contains much more. Roy assesses Ayn Rand's role in the libertarian movement. He reviews books on welfare and pays tribute to novelist Kay Nolte Smith. He reviews his much-loved classical music. Through all of these he reveals himself to be consistently interesting, knowledgeable, and opinionated; reading each additional essay reinforces the sense of sadness at his passing.

Roy Childs was a treasure to all who knew him. But his life has benefited, and continues to benefit, many more people than just those who had the pleasure of meeting him. The publication of *Liberty Against Power* will create a permanent record of his ideas and work, thereby helping to provide him, in death, the recognition that he richly deserved when he was alive. In this way, *Liberty Against Power* is a fitting tribute to someone who gave so much for so long to so many. □

Mr. Bandow is a Senior Fellow at the Cato Institute and the author of The Politics of Envy: Statism as Theology *(Transaction).*

Liberalism, Conservatism, and Catholicism: An Evaluation of Contemporary American Political Ideologies in Light of Catholic Social Teaching

by Stephen M. Krason

Central Bureau, Catholic Central Verein of America, 3835 Westminster Place, St. Louis, MO 63108 • 1994 • 347 pages • $15.00 paperback

Reviewed by John Attarian

With politics increasingly polarized and penetrating more and more facets of life, it becomes important for American Catholics to know which doctrines and parties they can support while remaining faithful to Church teaching. Professor Stephen Krason of Franciscan University of Steubenville has produced an excellent guide for the perplexed.

After defining liberalism and conservatism and distinguishing between the New Deal, anti-Communist, "old liberalism" of 1945–1960 and the more radical, activist post-1960 "new liberalism," Krason gives a detailed, useful presentation of papal teachings, with special attention to economics. He makes clear the popes' endorsement of private property and enterprise; their view that both employers and workers have rights and obligations; their emphatic rejection of Communism, socialism, and egalitarianism; and their insistence that the state can neither leave society, especially the needy, to laissez-faire competition, nor tax its citizens excessively. Most of the book is a thorough and scrupulously fair sifting of the ideologies. Krason assesses their philosophies by presenting their views on five core issues—the purposes of government; God, religion, and the natural law as the basis of the political order; freedom; equality; and Communism—and comparing them to Church teaching. He does likewise for specific policy proposals in economics; social welfare; agriculture; the environment; civil liberties and civil rights; education; foreign policy; defense; and disarmament.

Since conservatism has diverse perspectives, he assesses the positions of cultural conservatives (e.g., Russell Kirk), fusionists (e.g., Frank Meyer), economic libertarians (e.g., Milton Friedman, Mises, Hayek, and Wilhelm Roepke), neoconservatives (e.g., Irving Kristol), the new right, and active political conservatives such as Barry Goldwater. Overall, conservatism has "substantial correspondence" with Church teachings, especially on Communism, freedom, and the role of God, religion, and natural law. The greatest divergence is over government's role: "conservatism does not seem to see the state's full role in shaping the common good, it does not accept the full range of the state's domestic social welfare role, it does not concede to the state a sufficiently large prerogative in the economic realm, and it is not aware enough of the international obligations of states growing out of the virtue of charity."

This indictment neglects conservatism's

rightful suspicion of government power and opposition to tyranny, especially in economics, where political decisions have proven poor substitutes for market ones. And what if the state is captured by a mistaken or even evil ideology? Better a minimal state respecting freedom, dignity, and Christian values than an activist state seeking to "shape the common good" by a vision hostile to them. Overall, Krason finds conservatism closest to the Church, with old liberalism a close second and new liberalism far behind.

"In the final analysis, the crucial reason why conservatism is closest to the Church is because it best upholds the natural law and is most supportive of religion." New liberalism is farthest from the Church "because it has become so secularized and has gone far in the direction of rejecting the natural law, especially in the area of sexual morality."

Since conservatism shares some of liberalism's core beliefs, such as "excessive" individualism and the value and possibility of progress, it shares in its deviations from Church teaching. But the main reason why both ideologies deviate, he rightly argues, is "their common origin in early modern political philosophy, and more generally in the thought which has characterized Western culture since the dawn of modernity." This new thought was "a secular one—in ways, *rampantly* secular—and one which changed radically the notion of natural law" (his italics) from something moral to something like a law of physics.

In light of *Centesimus Annus,* the Pope's 1991 economic encyclical, covered in an appendix, the ideologies retain their rankings. One might argue that given the encyclical's strong endorsement of a morally conscious free economy, conservatism's standing *vis-à-vis* Church teaching is much improved. Capitalism recognizes certain realities inherent in Creation better than any other system: scarcity, the need for productive work to sustain human life, and the self-interested aspect of human nature.

Meticulous, thorough, and impeccably scholarly, *Liberalism, Conservatism and Catholicism* is a superb reference work for Catholics seeking to navigate among political viewpoints, and for others interested in papal teachings and in how well (or poorly) those viewpoints measure up. □

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Civil Wrongs: What Went Wrong With Affirmative Action

by Steven Yates

ICS Press: San Francisco • 1994 • 256 pages • $22.95

Reviewed by Llewellyn H. Rockwell, Jr.

"Sensitive" is the word people use to describe political rows over civil rights, an issue that mixes economics, social policy, and race. We know what we're *supposed* to think: the "civil-rights struggle" was the most heroic political movement in American history. We are not, however, supposed to notice its catastrophic results: race relations are worse than ever, businesses are less free, labor markets are locked up, the academy is sinking into mediocrity, crime is rampant, and the central government is even more brutal in thwarting liberty and community autonomy.

Having dispensed with traditional standards of merit, civil-rights laws have created a separate class of people, whose "prosperity" is government induced, whose "merit" is a fabrication of bureaucrats, and whose "rights" always seem to come at the expense of everyone else's.

Thank goodness that none of these issues is too sensitive for Steven Yates, a courageous young philosopher influenced by Ludwig von Mises. Lucidly and forcefully, he writes of a confused and statist America, where being born into a victim group is worth more politically and economically than a good education, a strong will, and sheer talent.

Appropriately, Mr. Yates concentrates

on a serious injustice of modern life: the central government's policy of mandatory discrimination against white males. There are only two options an employer, for example, faces when considering two applicants of different races. Hire the white and face the prospect of lawsuits, fines, and public humiliation. Hire the black and face none of that. Which will be the norm?

The macroeconomic result of this policy, defended as remedial of the sins of the past, is an inefficient use of labor and intellectual resources. It's also immoral and socially destructive, and not only in the business world. In the university, it has reached poisonous bloom.

Free speech and free inquiry are today barred on campus in a whole range of areas, and even dorm assignments are politicized. Incompetents are hired for prestigious professorships, while bright young scholars are forced into one temporary position after another. Perhaps the most serious casualties are the good scholars with real credentials, who drop out of the academy because they can no longer tolerate the injustice.

Mr. Yates gives us a useful legal and political history of affirmative action and quotas. Especially valuable is his material on campus race hatred. Whites typically view black achievement as tainted even when it isn't (for who's to know?), and white achievement calls down official discrimination. When major universities employ editors to rewrite the Ph.D. dissertations of the racially privileged, an inevitable result is increased envy against the productive.

Because of affirmative action, the academy exalts what Mr. Yates calls "antischolarship," a substructure of campus life in which affirmative-action professors teach affirmative-action students about the glories of affirmative action. For students and faculty outside the substructure, intimidation is the norm.

A graduate teaching assistant at a major university was told by his superiors in the economics department to "give every minority a B." Otherwise, even bad students could appeal and cause him endless trouble. A professor at a midwestern college discovered that some of his students had copied their term papers straight out of the encyclopedia. The academic dean told him it would be "racist" to flunk them. Most professors—being risk averse—don't have to be told. They know, and accept it without protest. But the entire process is in no one's interests, except those who would destroy all standards, the academy, and even civilization itself.

Affirmative action and quotas do not stand alone. They stem necessarily from the concept of civil rights. By forbidding actions based on certain categories of racial and sexual motivation, civil-rights legislation pretends to peer into the hearts of men. Yet even our government—the biggest, richest, most powerful in history—can't read minds. The result is that bureaucrats ferret out what Richard Epstein has called the "forbidden grounds" by counting numbers, which is where quotas come from.

Despite his heroic attack on affirmative action, Mr. Yates has yet to come around entirely to this understanding. Like the right to housing or medical care, civil rights must trample on the freedoms of association, contract, and even speech. As Michael Oakeshott has pointed out, these are what distinguish the free man from the slave. Civil rights laws even enshrine involuntary servitude, as when restaurant owners are forced to wait on people they don't want to serve.

We must seek to end not only state-mandated affirmative action but also anti-discrimination and public accommodation laws. There is no valid theoretical distinction between private property and commercial property, despite the attempt of Beltway intellectuals to manufacture one. It is all private, and private individuals ought to be able to own and control it. Steven Yates's thrilling defense of liberty can lead nowhere else. □

Mr. Rockwell is President of the Ludwig von Mises Institute in Auburn, Alabama.

Princess Navina Visits Mandaat

by Count Nef (pseudonym for James L. Payne)

Sandpoint, Idaho: Lytton Publishing • 1994 • 55 pages • $8.95 paperback

Reviewed by Robert Batemarco

We Americans have grown accustomed to a large measure of government control over our persons and property. Such serious intrusions on our liberties as zoning laws, public schooling, and government regulation of food and drugs are so taken for granted that to question their beneficence is to risk being read out of the public debate. In such circumstances, camouflaging such doubts through fiction may be the only effective way of getting people to drop their unquestioned assumptions and get them to think the unthinkable.

James Payne's satirical *Princess Navina* series is an attempt to do this. *Princess Navina Visits Mandaat*, the second book in this series, describes a country in which progress is measured by the weight of legislation passed. Some of this excess tonnage calls for mandatory attendance at religious services, inspection of every piece of meat served in restaurants, and special permits to walk on the street. So pervasive is the need for permits in Mandaat that the title character is heard to lament, "All these permits. Permits to turn on the water, permits to turn off the water, permits to open the door, permits to close the door. Why there's even a permit to pick up coins off the floor if they should happen to fall!"

This is a work of imagination but not, unfortunately, of fantasy. The difference between Mandaat and the United States in the 1990s is of degree, not of kind. In Mandaat, an anonymous functionary justifies his regime's policies on the grounds of "how stupid and selfish human beings can be when left free to act on their own." In the United States, FDA chief David Kessler echoes, "If members of our society were empowered to make their own decisions . . . then the whole rationale for the [FDA] would cease to exist," in defending his regulatory turf. The leaders of both countries are all too eager to enact laws which, while counterproductive, make them and their subjects feel better. As Mandaat's chief apologist so bluntly puts it: "The passage of laws has almost nothing to do with making things better. The real purpose of legislation is reassurance."

In Mandaat, reassuring legislation has been passed to the point of driving virtually all activity underground. Princess Navina discovers this to be the case quite literally, as she comes into contact with Mandaat's resistance movement. Called "nibblelaries," they seek to subvert Mandaat's regulatory strait-jacket not through a futile frontal assault, but by "nibbling" at the laws until they become unenforceable.

Payne's allegorical treatment of the perils of over-regulation and the mindset behind it can be read in about a half hour. That admirable brevity, along with Diana Schupell Reid's charming illustrations, makes it suitable for children. Those lucky enough to read it or have it read to them will be instructed as well as amused. □

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THE FREEMAN

IDEAS ON LIBERTY

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THE FREEMAN
IDEAS ON LIBERTY

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PERSPECTIVE

Liberty and Individual Potential

Man wants liberty to become the man he wants to become. He does so precisely because he does not know what man he will want to become in time. . . . Man does not want liberty in order to maximize his utility, or that of the society of which he is a part. *He wants liberty to become the man he wants to become.*

—James M. Buchanan
"Natural and Artifactual Man"
What Should Economists Do?
(Liberty Press, 1979)

Freedom and Responsibility

In a free society, individuals should have the right to make choices, even if their choices might harm them. With freedom comes responsibility, and if we turn our responsibility over to the government, we turn our freedom over at the same time.

—Randall G. Holcombe
Public Policy and the Quality of Life
(Greenwood Press, 1995)

Theory into Practice

We can successfully ride [a bicycle] without knowing how we do it. Moreover, we can hold a totally erroneous theory about bicycle balancing without getting into any trouble, unless we try to design the bicycle in accordance with our faulty theory. That is when we will get into trouble. In the economy, we can enrich one another without knowing how we do it. And we can maintain completely fallacious views of how any economy works without creating any great difficulties for anyone. But if our practical success generates excessive confidence in our erroneous theory, and we try to use that theory to improve the operation of the system, we can do a great deal of damage. When we put faulty theories about bicycle riding into practice, we are instantly refuted. Few of us are either stubborn or stupid enough to persist in a faulty theory that is skinning our elbows or bruising our bottoms. We admit our ignorance. There is nothing similar, however, to correct faulty theories that are applied to the reconstruction of economic systems. The links between causes and effects are too numerous and too difficult to trace.

—PAUL HEYNE
"Why Johnny So Rarely Learns Any Economics," in Richard M. Ebeling, Ed., *Economic Education: What Should We Learn About the Free Market?* (Hillsdale College Press, 1994).

Competition and Cooperation

Now what the critics of economic competition overlook is that—when it is conducted under a good system of laws and a high standard of morals—it is itself a form of economic cooperation. . . . General Motors and Ford are not cooperating directly with each other; but each is trying to cooperate with the consumer, with the potential car buyer. Each is trying to convince him that it can offer him a better car than its competitor, or as good a car at a lower price. Each is "compelling" the other—or, to state it more accurately, each is stimulating the other—to reduce its production costs and to improve its cars. Each, in other words, is "compelling" the other to cooperate more effectively with the buying public. And so, *indirectly,—triangularly*, so to speak—General Motors and Ford cooperate. Each makes the other more efficient.

—HENRY HAZLITT
The Foundations of Morality

The New Manifest Destiny

Traditionally, the nation-state provided two major benefits, both of which tended to increase with the state's territory . . . physical protection against external enemies and an extensive internal market. . . . But the first . . . is becoming less important with the spread of democratic forms of government, because democracies are highly disinclined to make war on their neighbors; and the second is becoming less important with the growth of international trade and commerce—some of it due to the liberalizing actions of governments, some of it due to the emergence of technologies resistant to government control, all of it tending to make the economic benefits of extended markets available without regard to the geographic size of the individual state.

—CHRISTOPHER DEMUTH
President of the American Enterprise Institute. *The American Enterprise*, Vol. 6, March/April 1995.

THE FREEMAN
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The Trouble with Keynes

by Russell Shannon

> "*In the long run* we are all dead. Economists set themselves too easy, too useless a task if in tempestuous seasons they can only tell us that when the storm is long past the ocean is flat again."
> —*John Maynard Keynes* (1923)[1]

Keynes' remark about the inevitability of death is now famous. It is, however, a statement not of defeat but of denial. Rather than indulge in resignation and gloom, Keynes urges action. The market economy, he believes, may at least occasionally require some judicious nudging. If we can temper the impact of economic malaise, why wait?

At first glance, this position seems reasonable. Why *not* use human intelligence to alleviate problems? After all, isn't that what we do with medicine? Then why not let the doctors of economics prescribe remedies appropriate for our economic ills? Did not the founder of modern economics, Adam Smith, suggest a strong dose of laissez faire?

There are, however, at least two distinct problems with Keynes' activist approach. First is the question of whether or not we can rely on the political system to act in the recommended way. In light of Keynes' comments on other occasions, his optimism on this issue is both uncharacteristic and unwarranted.

Yet if we put this critical matter aside, another equally urgent issue emerges. To resolve today's problems, might we not create or exacerbate future problems? If we indulge in a drunken spree tonight, don't we risk a considerable probability of awakening tomorrow to a wretched hangover? In economists' stark terms, we must ask ourselves if the benefits will outweigh the costs. Let us consider each of these matters in turn.

The Proclivities of Politicians

As to the role of the state in economic matters, Keynes repeatedly expressed disillusion with, and even disdain for, laissez faire. In his most influential work, *The General Theory of Employment, Interest and Money*, he plainly stated that he favored "a somewhat comprehensive socialization of investment" as "the only means of securing an approximation to full employment."[2]

That remark is not unique. In an essay published in the *Yale Review* in 1933, Keynes turned his back on economists' traditional enthusiasm for free trade: "let goods be homespun," Keynes wrote, "whenever it is reasonably and conveniently possible."[3] Here, too, he suggested that the path to economic prosperity is paved by government intervention.

Just how extensive Keynes wished this political involvement to be is a matter of question. He expressly repudiated widespread government ownership of industry. No question, he wrote in his essay "The

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End of Laissez-faire," is "so really unimportant, so irrelevant . . . as the Nationalization of the Railways."[4] And in the *General Theory*, he asserted that "it is not the ownership of the instruments of production which it is important for the State to assume."[5]

But Keynes did espouse active involvement of government policy makers in economic matters. He held to what his early biographer Roy Harrod referred to as the "presuppositions of Harvey Road"—a reference to his childhood home as the son of a Cambridge don in England. "Reform," says Harrod, "was to be achieved primarily and principally by the discussion of intelligent people."[6] Thus Keynes offered suggestions to make financial credit and job information more abundant.[7]

Trust Not in Politicians

Yet these proposals had to be implemented through the political process, and Keynes had abundant experience to warn him against heavy reliance on politicians. After all, he attained prominence with the publication of *The Economic Consequences of the Peace*, which denounced the arrangements political leaders had made in the Versailles Treaty after the First World War. In this book, Keynes excoriated Woodrow Wilson for acceding to the imposition of terms so harsh on Germany that, he predicted, the entire European economy would suffer. Wilson was, to Keynes, a "blind and deaf Don Quixote."[8]

Keynes' comments on Britain's leader, Lloyd George—"this goat-footed bard, this half-human visitor to our age from the hag-ridden magic and enchanted woods of Celtic antiquity"[9]—were so strong that Keynes deleted them from the final manuscript. (They were published over a decade later.)

Nor are these the only instances when Keynes expressed dislike of politicians. In 1911, following a trip to Ireland, he wrote to his friend Duncan Grant, "You have not, I suppose, ever mixed with politicians at close quarters. They are *awful*. I think some of them must have been dregs anyhow, but I have discovered, what previously I didn't believe possible, that politicians behave in private life and say exactly the same things as they do in public. Their stupidity is inhuman. . . . [Most of them have] minds and opinions as deplorable as their characters."[10]

When Great Britain returned to the gold standard following World War I, Keynes objected to the harm wrought by the overvaluation of the pound. He referred to statements made by the Chancellor of the Exchequer, Winston Churchill, as "featherbrained."[11] And during the Great Depression of the 1930s, Keynes was constantly frustrated that President Franklin Roosevelt was not getting his message, even going to the extent of sending an open letter to him via the *New York Times*.[12] In fact, Herbert Stein, President Nixon's economic adviser, points out that it was not until well into Roosevelt's second term, and following additional personal letters addressed from Keynes, that Roosevelt finally accepted the Keynesian prescription of running *deliberate* budget deficits to alleviate the Depression.[13]

One might argue, then, that the policy proposals that Keynes does make fall far short of state socialism because his faith in the political system was so limited. Reducing interest rates to promote business investment and running federal budget deficits were, after all, rather simple tasks requiring no great deal of intelligence. But even then, matters can go awry.

The Myopia of Meddling

Let us suppose that Keynes' fantasy is realized, so that we do get in responsible positions knowledgeable and caring people who seek to ameliorate economic problems. What can we expect? If they refuse to sit back and wait for the economy to work out its long-run adjustments, what measures might they take, and with what effects?

For example, consider Keynes' proposal in the *Yale Review* that we reduce our dependence on foreign imports. If the government imposes tariffs and quotas to protect domestic industries from foreign competition, what will happen?

In the short run, we might expect a boost to our economy, as consumers switch from the now more-expensive imported products to domestic ones. More jobs will be available for workers in these firms, so the unemployment rate will fall.

But to see only these effects is to suffer from acute myopia. Henry Hazlitt, one of Keynes' harshest and most outspoken critics,[14] diagnoses this myopia in his small but significant book, *Economics in One Lesson.* Hazlitt emphasizes that *"The art of economics consists of looking not merely at the immediate but at the longer effects of any act or policy; it consists in tracing the consequences of that policy not merely for one group but for all groups."*[15] Hazlitt followed up this point in his larger work, *The Foundations of Morality*, where he addresses the importance of developing rules that produce desirable *long-run* outcomes.[16]

Of course, when the United States adopted more restrictive trade policies in the Smoot-Hawley Act of 1930, other nations retaliated. This game of tit-for-tat destroyed the benefits we hoped to gain from higher trade barriers.[17] But such policies may backfire even in the absence of retaliation.

If we reduce our purchases of foreign goods, what happens to the people in foreign countries who formerly used dollars to buy from us? Having fewer dollars, they will likely import fewer American goods, so our export industries will suffer job losses, which will offset or even cancel the gains in our import-competing industries. Further, if we restrict imports of raw materials or semi-finished products, such as steel, then domestic firms that use these inputs, such as the automobile industry, will find themselves at a competitive disadvantage with the foreign rivals who can still buy supplies at lower prices. So, Ford will lose sales to Nissan, and GM will be hurt by BMW.

And what about our poor? Keynes worried about them, but restricting imports of "cheap" products will be especially devastating to the poverty-stricken.

For another example, take Keynes' suggestion that credit be made more abundant in order to stimulate investment and generate "multiplier" effects on the economy. In times of great recession, such a program might obviously serve us well. But we run the risk that monetary expansion will be excessive, either in amount or duration, thereby provoking inflation and a need to reverse course, which will *create* unemployment. As Milton Friedman and Anna Schwartz have documented, the monetary authorities may behave in perverse ways, as they did during the Great Depression of the 1930s, starving the economy.[18]

Efforts to use compensatory budget policies, running deficits during recessions and surpluses during periods of excessive activity, have also foundered on the reefs of political reality. The tax cuts of the early 1960s were almost impossible to reverse when the sluggish economy became overheated during the Vietnam War. Replacing the rule of an annually balanced federal budget with the Keynesian version which recommends balancing over the course of the business cycle has led to such persistent deficits that, in the 1990s, we may resort to a constitutional mandate to restore the old rule of fiscal integrity.

To take one final example of the short-run versus long-run dilemma, consider welfare. Leaving children undernourished and ill-educated will likely create long-run problems of dependence and crime which society would surely like to avoid. But payments to parents of children in such a plight encourages the production of more such children. Relieving parents of the need to provide for their families can also set an example which their children may emulate. Here we exchange one long-run problem for another, yet in our sympathy for the youth of today, we risk increasing the population of such wretched people in years to come.

In the 1920s and 1930s, when Keynes wrote, capitalistic countries passed through an era of malaise. Dramatic experiments in the Soviet Union and elsewhere had the allure of novelty. Keynes denounced Stalin's system at the end of his *Yale Review* essay, but he did not eschew experiments.

Now, following the collapse of Communism and the retreat from socialistic policies in many nations, the superiority of the market seems to be more widely accepted. The recent attempt to establish a system of comprehensive health care in the United States indicates, however, that the activist impulse is not dead.

In Alfred Hitchcock's witty movie, *The Trouble with Harry*, a man is found dead, lying in the woods on a bright New England autumn day. During the course of the film, there is much concern about how Harry got into his present state, and what to do with him. Eventually, he gets a proper burial, and the people are able to go about their normal lives.

Keynes, of course, has been dead for almost 50 years. During his life, and since, his writings did much to stimulate creative and useful thought among economists. In some ways, the discipline is richer for his insights. But his preference for political activism and short-run policies is a questionable and even a dangerous legacy. For them a decent burial seems overdue. □

1. John Maynard Keynes, *Monetary Reform* (New York: Harcourt, Brace, 1924), p. 88. English edition published in 1923.
2. John Maynard Keynes, *The General Theory of Employment, Interest and Money* (New York: Harcourt, Brace, 1936), p. 378.
3. John Maynard Keynes, "National Self-Sufficiency," *Yale Review*, 22 (June, 1933), p. 758.
4. John Maynard Keynes, "The End of Laissez-faire," in Keynes, *Essays in Persuasion* (New York: W. W. Norton, 1963), p. 316. This essay was first published in 1926.
5. Keynes, *General Theory*, p. 378.
6. R. F. Harrod, *The Life of John Maynard Keynes* (New York: St. Martin's Press, 1963), p. 3. On this matter, see also James M. Buchanan and Richard E. Wagner, *Democracy in Deficit: The Political Legacy of Lord Keynes* (New York: Academic Press, 1977), pp. 78ff.
7. Keynes, "The End of Laissez-faire," p. 318.
8. John Maynard Keynes, *The Economic Consequences of the Peace* (New York: Harcourt, Brace and Howe, 1920), p. 41.
9. John Maynard Keynes, "Mr. Lloyd George: A Fragment," in Keynes, *Essays in Biography* (New York: W. W. Norton, 1963), p. 35. This fragment was first published in 1933.
10. Harrod, *The Life of John Maynard Keynes*, pp. 157–58.
11. John Maynard Keynes, "The Economic Consequences of Mr. Churchill," in Keynes, *Essays in Persuasion*, p. 246. First published in 1925.
12. *New York Times*, December 31, 1933, Sec. 8, p. 2XX. When Keynes met Roosevelt at the White House in 1934, Roosevelt's Secretary of Labor had the impression that the two men were mutually unimpressed. See Frances Perkins, *The Roosevelt I Knew* (New York: Colophon Books, Harper and Row, 1964), p. 225.
13. Herbert Stein, *The Fiscal Revolution in America* (Chicago: University of Chicago Press, 1969), pp. 108ff.
14. See Henry Hazlitt, *The Failure of the "New Economics": An Analysis of the Keynesian Fallacies* (Princeton: D. Van Nostrand, 1959 [Foundation for Economic Education, 1995]).
15. Henry Hazlitt, *Economics in One Lesson* (New York: MacFadden Books, 1961), p. 12. First published in 1946.
16. Henry Hazlitt, *The Foundations of Morality* (Los Angeles: Nash Publishing, 1972), pp. viii and Chapter 7. First published in 1964; republished by the Foundation for Economic Education, 1994.
17. See Jude Wanniski, *The Way the World Works* (New York: Simon and Schuster, 1978), Chapter 7. Wanniski argues that the New York Stock Exchange reflected the adverse anticipation of the impact of Smoot-Hawley.
18. See "The Great Contraction" in Milton Friedman and Anna Jacobson Schwartz, *A Monetary History of the United States, 1867-1960* (Princeton: Princeton University Press, 1963), Chapter 7.

THE FREEMAN
IDEAS ON LIBERTY

Macroeconomics Reconsidered

by Kyle S. Swan

Mark Skousen's reconstruction in *The Freeman* of the debate between the Austrian and Monetarist schools on the trade cycle challenges the economics profession. In recent "Economics on Trial" columns, Skousen hands down the verdict to modern economics: *put capital back into your macroeconomics*. John Maynard Keynes, of course, took capital out of macroeconomics, masking with crude aggregates the micro foundation of the productive process. However, in the Austrian school, capital never left. Austrians consistently recognize the necessity of capital theory, especially one emphasizing the role of time. And capital and time are central to a proper understanding of the trade cycle.

The standard story of capital theory begins by defining capital as the total stock of productive wealth (identified in mainstream models as k and reckoned as a monetary value). Capital is increased by saving, and the greater is the stock of capital, the greater is output. An economy's rate of economic growth depends upon k. The marginal productivity of capital is reflected in the interest rate; capital generates interest. In this mechanical system where k is (assumed to be) automatically productive, saving necessarily generates growth. Consequently, planning for the future occurs only when individuals make conscious decisions to save.

In his debate with the American economist John Bates Clark, the Austrian Eugen von Böhm-Bawerk countered these mechanical theories by emphasizing the importance of time. Capital is the form multiperiod plans take as these plans materialize. Essentially the same debate was repeated years later between Frank Knight of the Chicago school and F.A. Hayek.

Knight, who taught Milton Friedman, described capital as a self-perpetuating fund—as a stock generating a continual flow of output in perpetuity. Like the Energizer bunny, it keeps going and going and going. . . . Ownership of capital assures a steady income. This interest income can be saved in order that a capital good may be replaced when its durability wanes. In this sense, capital reproduces itself and provides for its own maintenance.

Austrians have a very different view of production. For Austrians, production using capital is a process of converting higher-order goods (e.g., wheat) into lower-order goods (e.g., bread) to satisfy consumer demands. In the broadest sense, the economic process refines and utilizes nature's resources for the fulfillment of individual goals. Something is important and attains goods-character only if it is perceived to contribute to the satisfaction of consumer demands. The production process, therefore, depends on the purposeful decision-making and planning of entrepreneurs and investors seeking profits by using resources and other inputs to better satisfy consumer wants. Knight's vision of automatic capital maintenance ignores the very *raison d'être* of production: individual planning and de-

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cision-making to satisfy consumer demands. Also, Knight ignores the central question of economics in his capital theory: how does complex plan coordination take place, especially through time?

Knight saw no analytic advantage in emphasizing time or multi-period planning. If you have the shirt on your back, seven shirts at the laundry, and seven at home, it takes no time at all to get clean shirts. You go to the laundry with seven dirty shirts, hand them over, and immediately get seven clean shirts. If you have the productive stock (15 shirts), there is no need to plan and time is irrelevant. If the average period of production is calculated, the economic process is synchronized. There is simultaneous production and consumption. In forestry, loggers synchronize cutting and planting. Real time is zero. The forest is a permanent source of wood.

The Importance of Time

Austrians resist this notion of capital as an aggregate stock of productive wealth, always emphasizing the importance of time. Something is not capital in virtue of its physical characteristics, but because of its economic functions; i.e., the degree to which people perceive their dependence on command of it for the satisfaction of their goals. It isn't the case that a person expects seven clean shirts at the laundry merely because he brings in seven dirty shirts. Rather, a person takes seven dirty shirts to the laundry in order that he may get them back clean in a week's time. Logging companies plant trees expecting that they will grow and be cut down many years later. Here, capital retains its subjective character. Rather than a stock of things, capital is a manifestation of human production plans. Output does not flow automatically as in Knight's example of fruit from trees. Individuals' plans initiate and drive a process taking place in real time and subject not only to imperfect foresight, but to human error as well.

Furthermore, the conception of an aggregate stock of *k* ignores the process by which value is imputed at different stages of completion. Hidden in these aggregates are the purposes and plans of millions of people. An aggregate of purposes and plans makes no sense.

But the claims of the standard neoclassical approach must be addressed at even a deeper level. Austrians who simply mock and dismiss mainstream capital theory as "breakfast-cereal theories of capital" (*Special K*) miss an important point. Mainstream economists are not naive. They recognize that it takes a week for shirts to be cleaned. Mainstream economists are not mystics who believe that capital is a magical substance that *just is* productive. Rather, they maintain that there is no *analytic* advantage in emphasizing multi-period planning; that it is unnecessary to focus on this aspect. Time, in this view, is analytically unimportant. Why insist on emphasizing multi-period planning if doing so further complicates or even invalidates neoclassical modeling and adds nothing to the analysis?

Thus, to effectively respond, Austrians must expose the costs of ignoring time and individual plans and preferences. They must show that the mainstream practice generates error or oversight, while the Austrian "lens" brings relevant features of economic reality into fuller or sharper focus.

Consider the Austrian trade-cycle theory. The capital combination at any time reflects the plans and preferences of individuals. Given current prices, expectations of future prices, and the interest rate, businesses arrange their capital resources in ways that hopefully will meet with the most favorable response from consumers. However, if the central bank lowers the interest rate below the natural rate by increasing the money supply or lowering the discount rate, this move sets in motion a self-reversing process where the boom turns into the inevitable bust.

Here's how. At first, production schedules are guided toward longer-term projects in response to the false price signals created by central-bank money creation. (Lower market interest rates falsely promise a more generous supply of funds for capital investment in the future.) Projects are undertaken today with the expectation that complementary capital goods will be available when needed tomorrow. However, these longer-term projects do not reflect the true preferences of consumers who, it turns out, don't save as much of their incomes as would be necessary to keep the interest rate as low as it was driven by the central bank. The entire structure of production is distorted as central bank policy directs resources away from projects consumers find more valuable toward projects of less value. The complementary goods of longer-term projects that businesses have undertaken will be unavailable. Therefore, not all of these projects will be completed. Businesses, finally seeing the handwriting on the wall, must halt, regroup, recoup, and liquidate as the correction phase begins.

This explanation of the trade cycle hinges on several key factors tied intimately to capital theory. First, production takes time. In non-instantaneous production, error is costly. The longer the malinvestment, the greater the necessary correction. Second, capital goods are heterogeneous and are often appropriate for only a small range of uses. If a business overinvests or malinvests in one period, it cannot easily divest or change production or investment projects in the next. Third, capital goods have a limited range of competing uses, and production plans often necessitate complementary goods for their fulfillment. Because resources are scarce, many projects must fail when false signals draw complementary goods away.

A theory of capital that ignores time and hides the relevant information in crude homogeneous aggregates can't very well explain the trade cycle. The Austrian emphasis on the time structure of production based on individual purposes and plans enriches the story of boom-bust cycles. It should be no surprise that Milton Friedman does not see any significant correlation between an inflation and a recession. His capital theory does not allow him to see the process at the micro level that makes the link.

However, work towards this kind of recognition has only barely begun as evidenced by many of the experts quoted by Dr. Skousen. Moreover, Skousen's charge to rethink capital theory is a big challenge. Capital theory within the Austrian paradigm is probably the least developed area. Hayek's *Pure Theory of Capital* (1941) and Ludwig Lachmann's *Capital and Its Structure* (1956) are the only modern comprehensive studies of the subject.[1] If we agree that capital is key to understanding phenomena such as the trade cycle, we must devote more effort towards formulating a defensible capital theory. □

1. A few excellent article-length treatments of Austrian capital theory exist. See Roger W. Garrison, "Time and Money: The Universals of Macroeconomic Theorizing," *Journal of Macroeconomics*, Vol. 6 (Spring 1984), pp. 197–213, and Garrison, "A Subjectivist Theory of a Capital-using Economy," in Gerald P. O'Driscoll, Jr., and Mario J. Rizzo, *The Economics of Time and Ignorance* (New York: Basil Blackwell, 1985), pp. 160–187.

THE FREEMAN
IDEAS ON LIBERTY

Cholecystectomy, How Is It Made?

by Leonard A. Metildi

In the spirit of Leonard Read's essay on the pencil—how no one knows how pencils are made—it is interesting to investigate a surgical operation (a cholecystectomy—removal of the gall bladder) to show that no one knows how *it* is made. As the pencil is a relatively simple item, yet its manufacture and distribution are so hopelessly complex that a centralized economy could not begin to duplicate the market's efficient performance of these functions, medical surgery is likewise so complex that no central-planning authority could ever ensure that it is readily available at reasonable prices.

A few simplifying assumptions are useful:

1. The clinical case is straightforward and simple—the patient is otherwise healthy with single organ system involvement.
2. The diagnostic workup is done efficiently.
3. The operation and the post-operative course are uneventful.
4. The standard surgical instruments (forceps, scissors, knife handles, needle holders, etc.) are made by the same manufacturer.

A 50-year-old male with symptoms of gallbladder disease is the patient. His medical history is fine and he is on no medications. To confirm the diagnosis, the surgeon obtains an ultrasound of the gallbladder (done on a Accuson 128 with a Matrix video imager using conduction medium by Parker). Surgery is scheduled. For the preoperative laboratory work, the patient has an EKG (Hewlett-Packard), chest x-ray (GE and Kodak), complete blood count (Coulter T890), chemistry profile 18 (Kodak Ektachem), and a urine analysis (Ames Multistix).

The patient is admitted to the hospital on the morning of surgery. An Imed pump is used to start an intravenous of Ringer's lactate (solution, polyvinyl bag, and tubing from Abbott, catheter from B-D Corporation, alcohol pads from Kendall). The patient is given a shot of subcutaneous heparin from Elkins-Sinn, a dose of Kefzol from E. I. Lilly, syringe and needle from B-D, and anti-embolic stockings from Kendall are put on. In the operating room, the patient is placed on a Skytron Elite 6001 table and given several medicines (sodium pentothal-Abbott, fentanyl-Janssen, succinyl choline-Abbott, pavulon-Gensia) as well as oxygen by mask from a Narkomed 2 anesthesia machine manufactured by North American Drager. (The mask is from Bay State Anesthesia.) He is then endotracheally intubated using a Welch Allyn laryngoscope, a Mallenckrodt Critical Care endotracheal tube, a tongue blade from General Medical Corporation, and an oral airway from Sun Medical Inc. The patient is then given oxygen and nitrous oxide from MG Industries, and isoflurane from Anaquest.

An open cholecystectomy with an intra-

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operative cystic duct cholangiogram is performed using the following items:

1. Bard Parker scalpel blade
2. Surgical instruments from V. Meuller
3. Silk suture from Ethicon
4. Vicryl suture from Ethicon
5. Skin staples from Richard Allen
6. Ray-tec sponges from Kendall
7. Laparotomy pads from Medical Action
8. Saline irrigation from Abbott
9. Syringes from B-D
10. Valley Labs Electrocautery unit
11. Contrast material from Winthrop
12. Kodak x-ray film
13. General Electric portable x-ray machine
14. Cholangiocatheter from Duvall
15. Dressing sponges from General Medical Corporation
16. Tape from 3M Corporation
17. Operating lights from Angieneaux
18. Betadine surgical scrub from Purdue Frederick
19. Hebiclens from Stuart
20. Scrub brushes from Bectin-Dickensen
21. Surgical gowns, caps, laparotomy sheets from Kimberly Clark
22. Face masks from General Medical Corporation

An anesthesiologist monitors the patient using the following equipment:

1. EKG monitor by Datascope
2. Oxygen saturation monitor by Datascope
3. Carbon dioxide monitor by BOC Health Care
4. Blood pressure monitor by Datascope.

During the two-day hospital stay following surgery, no other lab work or blood drawing is needed. The patient's pain is relieved with shots of demerol from Elkins-Sinn and vistaril from Lyophomed. Later, he gets oral pain medication (percocet from Roxanne). The patient's skin staples are removed. (The staple remover is from Superior Healthcare Group, Inc.) Steri-strips from 3M are applied to the wound using tincture of benzoin from Humco on the day of discharge.

Were the operation done laparoscopically, as most are today, the complexity of the equipment used would have been much greater: CO_2 insufflator, 10-mm straight laparoscope, video camera, televisions, light cables, operating trocars, suction irrigation system, sequential compression stockings, grasping instruments, dissecting instruments, cholangiocatheter, Foley catheter, nasogastric tube, and electrocautery instruments. The patient would then be discharged within 24 hours.

Of course, the engineering behind the design and manufacture of each of these instruments is impossible to document—and this account ignores the multitudinous equipment and chemicals used to sterilize and package the instruments. Questions about the origin of all of the raw materials used to make the equipment and components of the instruments, as well as the machinery needed to mine and manufacture these materials, are even more complex.

In addition, consider the companies that have sold the supplies to the hospital. Think of all the engineers, assembly-line personnel, salesmen, marketing representatives, and distributors employed by these companies. Think of the men and women who invent, design, manufacture, and also create software for the CT scanners and MR machines that are used daily to improve the diagnosis and treatment of disorders, frequently rendering unnecessary costly open surgery with its attendant morbidity and mortality.

Americans spend what they do on health care because they have the wealth to satisfy the public's demand for high-quality medical and surgical specialty care. Third-world countries may have the demand for health care as well as for food, clothing, housing, and consumer goods, but they do not have the supply. Americans *could* spend on a per-capita basis no more on health care than is spent by citizens of poor countries; that is, Americans could choose to purchase *only* first aid and comfort care. But is this really what the public wants? To think that one is going to get high quality general and specialized medical care whenever one needs it without having well-paid doctors, nurses, technicians, paramedics, scrub techs, is delusional.

The only way to control costs and reduce waste from costly and medically unnecessary or low-yield tests and treatments, is not to regulate from above, but to put the patient in charge. Have the patient spend his own money and the physician/patient relationship will be instantly restored. The patient will demand to know the relative risks, costs, and benefits for any proposed test or treatment. The *patient* will then decide to proceed or not. Physicians will moderate their fees to attract patients.

Patients today aren't very sensitive to costs because the typical patient pays only 15 cents of every dollar spent on his health care. However, millions of patients footing their own medical bills would more efficiently determine which medical goods and services are available and in what qualities and locations. Whatever one's economic philosophy, recent history shows that the rationing achieved by market forces is far more benign than that achieved by government or bureaucrats, no matter how noble the intentions.

What does a cholecystectomy cost today? I break it down into physicians' fees and hospital costs. I will not discuss hospital reimbursement and Diagnosis Related Groups, nor Medicare or Medicaid prices. First, the physicians' fees: surgeon open—$1,500, laparoscopic—$2,000; assistant open—$375, laparoscopic—$500; anesthesiologist—$800 for 1.5 hours. Hospital charges: operating and post-anesthesia recovery room charges—$1,550; room charges open—$975, laparoscopic—$375; medicines used—$10; gowns, masks, etc.—$42; disposable equipment for laparoscopic surgery—$473; lab costs—$480; dressings and syringe costs—$5. Thus, the cost for open cholecystectomy with a six-week recovery time is $5,737; the cost for laparoscopic cholecystectomy with a two-week recovery time is $6,235.

Which is the preferred procedure and for whom? If government pays for it, then the government will ultimately decide whether or not the patient has this surgery and, if so, which kind he will have. Minimizing costs, government will likely choose open cholecystectomy. However, if the patient pays for his own surgery, then the markedly less invasive but marginally more expensive laparoscopic cholecystectomy will most likely be chosen. The operative word here is choice, i.e., the patient's. Is the extra cost worth it to this 50-year-old to get back to work and all normal activity with minimal post-operative discomfort? Only he can answer the question.

The reader should ask: how are bureaucrats and administrators to decide who makes the supplies and equipment, and how much of each item, used for this operation? Expand the query to include all areas of medicine and surgery today and one can see that it can't be done in any way other than through the market. Only through the pricing mechanism of free markets can the necessary information be speedily transmitted everywhere so that proper decisions can be made by the manufacturers, suppliers, and users of the goods and services used in modern medicine and surgery, just as only through the pricing mechanism can pencils be manufactured and distributed in the proper quantity and at the proper price.

Market forces could best be employed in the health-care field by doing the following: (1) enacting medical savings accounts combined with catastrophic insurance coverage; (2) allowing tax deductions for individual insurance premiums in order to separate medical insurance from employment, thus making it personal and portable; (3) allowing choice so that individuals could choose among HMO's, employer-based insurance, medical savings accounts, and fee-for-service with and without managed care. In short, the best reform is to free market forces so that the pricing mechanism can work.

There seems to be no shortage of arrogance from those who think that they can direct everyone's actions, that they know what is best for the population as a whole, that they can singlehandedly solve "health care problems" by deciding what will and will not be available, and that simply by forcing 50 percent of all medical students into primary care, quality and access will be improved.

Such simplistic solutions are, of course, woefully misguided. I sincerely hope that the reader pauses to reflect on the complexity of medicine and surgery, and on how these services are best handled by the interplay of voluntary choices of affected individuals within a free market. □

THE FREEMAN
IDEAS ON LIBERTY

A Sales Pitch for Laissez-Faire Health Care

by Daniel B. Klein

What would it mean to establish liberty of property, consent, and contract in the area of health care?

It would mean the repeal of FDA drug-approval requirements, prescription laws, drug-development regulations, and restrictions on the dissemination of information. It would mean the repeal of state and local regulations in the following areas: medical schools and hospitals, occupational licensure, diagnosis and referral, the employment of doctors by for-profit firms, nonphysician ownership of medical firms, the use of brand names, the operation of multiple branch offices, the location of health-care facilities, and marketing practices. For prepaid health plans and hospitals, it would mean the repeal of regulations on benefit packages, enrollment requirements, rate setting, and facility expansion.[1]

Here I speculate on the desirable features of such a regime.

Education and Training of Practitioners: Private and public institutions would issue degrees, certificates, and other credentials to candidates meeting their requirements. Many training programs would be intensive programs for specific skills. Training would expand and diversify drastically, perhaps even reaching down to basic training for lay people. The profile of practitioners would thus expand. It would permit practitioners the flexibility to adapt their human capital to the opportunities of time and place. Costs to the consumer would drop considerably. To make sense of this blossoming of health services, people would rely on knower-intermediaries, information disclosures, brand names, and so on.

Drug Development and Availability: Costs would plummet, timeliness would improve and the profile of drugs would expand. Strong safety and quality incentives would flow from the umbrella of the pharmaceutical brand name and the tort system. Knower-institutions—perfectly analogous to Underwriters' Laboratories—would develop to certify safety. Doctors and pharmacists, acting as knowers and middlemen, would use their expert knowledge of drugs in advising the consumer.

The market would serve as an experimentation process—sometimes people would be killed by unsafe drugs (and companies would pay dearly), but such consequences belong to a benign process. There is a saying for people who frequently use air travel: If I never miss a plane I know I'm spending too much time in airports. At present, the FDA is the Chauffeur whose pre-eminent incentive is to get the passenger to the airport on time. The consequence is that it gets us to the airport three days before the flight, and charges us dearly for the ride. The deaths of 100 children from Sulfanilamide in 1938 pale when compared with the annual death toll from the FDA's curtailment of drug availability. One study catalogues 192 generic and 1,535 brand-name tested drugs available abroad but not approved for sale in the United States.[2] How many thousands of deaths per year does such delay cause? Sam Kazman of the Competitive Enterprise Institute estimates that the FDA delay of just two drugs, misoprostol (which reduces gastric ulcers) and streptokinase (which dissolves blood clots in heart-attack victims), has caused thousands of deaths.[3]

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Information and the Active Patient: Drug information would be improved by freedom to self-disclose in labeling and advertising. At present, consumer access to medical information is expanding, in the forms of health-care literature, medical libraries, on-line information services like Internet, referral services like Prologue, and services like The Health Resource, which generates for a fee thick packets of medical literature to customers specifying a diagnosis.[4] In a freer market consumers would have easier access to opportune and pointed knowledge.

Commercialization: Brand-name and franchised clinics, medical groups, hospitals, and insurance plans would flourish. Milton Friedman prophesied in 1962: "[T]hey could organize medical care efficiently, combining medical men [and women] of different degrees of skill and training, using technicians with limited training for tasks for which they were suited, and reserving highly skilled and competent specialists for the tasks they alone could perform."[5] Consumers would obtain at low cost gatekeeper diagnosis, referral, and second-opinion. Friedman's early vision of "department stores of medicine" would be proven prophetic.

Medical Groups and Insurance: Currently, medical groups employ utilization review and peer monitoring to police quality. Intermediaries (such as employers, membership organizations, and so on) serve as middlemen and agents, shopping over medical plans, helping large sets of ignorant consumers discriminate between better and worse health care. In a regime of freedom *and enforcement* of contract, health plans and insurers could write better patient-enrollment contracts and patient-performance contracts. They could mitigate member-selection problems by using more refined screening and pricing techniques. Perhaps firms would emerge to research, compile, and verify individuals' medical histories. Health plans and insurers could mitigate moral-hazard problems by requiring flu shots, check-ups, and other programs to promote prevention and early treatment.

Independent Knower Organizations: Data banks, consumer information bureaus, referral services, reporting literature, drug-testing facilities, and auditing firms would evolve more swiftly. Local organizations would emerge to rate health-care providers through undercover monitoring, patient interviews, or treatment reviews. Such a service might be supported by patients, analogous to *Consumer Reports*, or by physicians, analogous to Underwriters' Laboratories or Moody's. Consumers would reward those organizations that help them assess credentials and discriminate among the array of available health services.

Lay Awareness: There would be medical education without sacerdotal restraints. Basic medicine could be part of the high school curriculum. All manner of health-care education and training could be offered in community colleges and private institutes. Entrepreneurs have already developed medical software that responds to a list of symptoms with possible diagnoses and treatments.[6] This program is based on data that are more extensive, more accurate, and more current than any doctor could hope to command. Informal courses might teach lay people how to use such programs. People would have better information to assess their needs and opportunities, and they would have the power to self-medicate.

In 1963, the famed economist Kenneth Arrow could write: "It is the general social consensus, clearly, that the *laissez-faire* solution for medicine is intolerable."[7] Nowadays there is no such general social consensus. □

1. Paul J. Feldstein, *Health Care Economics*, 4th ed., Albany: Delman Pub., 1993, p. 321.
2. Kenneth Anderson and Lois Anderson, eds., *Orphan Drugs* (Los Angeles: The Body Press), 1987.
3. James Bovard, "Double-Crossing to Safety," *The American Spectator*, January 1995, pp. 24–29.
4. Brigid McMenamin, "An Educated Consumer Is Her Best Patient," *Forbes*, June 21, 1993, p. 118.
5. Milton Friedman, *Capitalism and Freedom* (Chicago: University of Chicago Press, 1962).
6. Stephen S. Hyde, "The Last Priesthood: The Coming Revolution in Medical Care Delivery," *Regulation*, Fall 1992, pp. 70–74.
7. Kenneth J. Arrow, "Uncertainty and the Welfare Economics of Medical Care," *American Economic Review*, 53, December 1963, p. 967.

Block Grants Are Not the Answer

If you want something done in your community, would it ever occur to you to send a check to Washington, D.C., first, so that the federal bureaucracy could take a cut before sending back the rest?

Welcome to the new world of "block grants"—the latest fashion that has Congress and state legislatures buzzing. The motivation is commendable: reduce federal micromanagement and allow states to innovate by giving them large dollops of federal money with few strings attached. In place of failed, one-size-fits-all programs run rigidly by Washington, the states would function as 50 "laboratories," generating new approaches that would work better because states are closer to the people. Congress, before the year is out, may reorganize and consolidate many federal programs this way—from welfare to crime control.

The block grant idea per se is not really new, but now the Congress is moving toward implementing it in a massive way. Less than 20 percent of the $200 billion Washington sends back to the states now goes in the form of block grants, and all of that went for operating or capital expenses for local or regional projects. The congressional leadership now wants to take the next step and convert "entitlement" programs into block grants. These are programs whose spending requirements are determined not by some fixed appropriation the Congress decides it wants to make, but by the "needs" of those whom the law says are "entitled" to the cash. Welfare-state proponents argue that without an automatic entitlement written into the law, the amount the federal government sends to the states may prove insufficient to meet the "needs" of all the people who qualify for the programs.

The states respond by saying, "Give us the money without all the expensive and ridiculous mandates and rules and we'll make enough savings to do at least as good a job for even less money." All other things equal, they're probably right, but that's not the end of the story.

If less federal meddling in how programs are locally run is the primary objective of the block-grant approach, it may be easy to achieve at the start but difficult to sustain. As the old saying goes, "He who pays the piper calls the tune." Congress will always be tempted to add conditions and clarifications each time appropriations bills containing block grants come up. It is not hard to imagine state and local officials complaining, a few years from now, "Where did all these strings come from?"

The truth is that block grants would do little to address the inherent flaws in our current system of multi-layered bureaucratic structures. Laundering the people's money through two or three levels of government is a make-work scheme for administrators. One study showed that, of the

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$226 billion spent by federal, state, and local governments on welfare in 1990, only 35 cents of every dollar ever made it into the hands of the poor. On the farm, that's called *feeding the sparrows through the horses.*

Furthermore, block grants would actually reduce the accountability of government because they separate the raiser of the tax revenue (the federal government) from the spender of it (state and local governments). If something goes awry, Washington will blame the states for not spending the money wisely, and the states will blame Washington for not providing enough money to do the job. Taxpayers and users of government services will be left wondering who is responsible for what.

It is generally true that because states and municipalities are closer to the people than the federal government, they are more accountable and responsive to individual citizens and local concerns—as long as they are spending local money. Not even the most diligent of local politicians, however, will spend money from Washington as carefully as they spend what they are accountable for raising themselves.

Some of us in Michigan learned that lesson years ago. In the late 1980s, one township with no downtown accepted federal block grant funds earmarked for "downtown revitalization." The money went for a parking lot at the township hall. The same officials accepted another block grant to construct "barrier-free improvements" on the same site, but used the money not to assist the handicapped so much as to enhance their own work environments. Fifteen of the 23 block-grant programs enacted by Congress since 1966 are still on the books, shoveling out $35 billion yearly and raising plenty of questions about their wisdom in the process. What makes Washington think that federal welfare for state and local governments can work any better than federal welfare for individuals?

In the 1980s, Congress debated a less half-hearted reform known as "turnbacks." Under that idea, the federal government turns back to state and local governments both the spending responsibility for programs now run from Washington *and* the revenue sources, too. Instead of "We'll raise it and you spend it," with turnbacks Washington says, "*You* raise it and *you* spend it."

Economist Dean Stansel of the Cato Institute points out, for example, that the Reagan administration once proposed ending federal responsibility for highways and repealing federal gasoline taxes, giving states the option of raising their own gas taxes. It wasn't enacted, but if it had been, states like mine would not be sending nearly twice as much gas tax money to Washington as it gets back each year.

Of course, even the turnback idea assumes from the start that transferring a program from one government to another—federal to state, primarily—is the ultimate reform. We ought to be raising more fundamental questions with regard to everything the federal government does: Is this a legitimate function of *any* government? Why should this activity be coercively funded at all? Would it be more in accord with the principles of individual liberty and sound economics to leave this activity to the willing participation of free people who choose to conduct it on their own?

If Congress is serious about putting an end to the billion-dollar paper blizzard that afflicts federal programs, and restoring accountability to our system of government, block grants are *not* the answer. Firing the federal middleman *is*. Once we do that, let's give a lot of thought to why we would want a state or local middleman before we authorize any level of government to take our money. □

THE FREEMAN
IDEAS ON LIBERTY

Is Environmental Pollution the Principal Environmental Problem?

by Hugh Macaulay

Ever since Rachel Carson published *Silent Spring* in 1962, Americans have been actively concerned about environmental pollution. Congress has enacted laws requiring clean water and clean air, and the Environmental Protection Agency has been established to enforce these laws. Activist environmental groups, such as the Sierra Club and the Natural Resources Defense Council, were organized to prevent pollution and to ensure that laws prohibiting it are vigorously enforced. To accuse someone of polluting the environment is akin to a charge of racism; each is considered a sin against society.

When the push for purity began soon after Miss Carson's book was published, the field was dominated by biologists and engineers who saw the problem as simply measuring impurities and then devising ways to remove them. A few economists argued that a better solution would be to charge for the emission of impurities and then allow the polluters either to decide best how to eliminate the emissions or to pay for any impurities they discharged into the environment. Early environmentalists argued that charging for emissions was merely paying to inflict injury on innocent parties and was immoral.

The environmentalists have largely prevailed. With cleanliness next to godliness, who could support dirty water, unclean air, or any variation on these themes? Consequently, the Federal Water Pollution Control Act Amendments of 1972 required a zero level of waste discharged into the nation's waterways by 1984, and the Clean Air Act of 1970 forbade the discharge of any emission that would cause harm to citizens. Further, in many cases, the government prescribed just *how* these requirements would be met, such as by mandating scrubbers on the smokestacks of electric utility power plants.

We are likely, however, to see the situation differently and to arrive at a more efficient and acceptable solution if we think of environmental pollution as an economic problem. Economics deals with scarce resources and how we may best use them. Water and air quality are scarce resources with many parties wanting to use them in different and mutually exclusive ways. Some people want to use these assets to carry away the smoke from their fires, the exhaust from their cars, the carbon dioxide from their breathing, the sewage from their homes, and the discharges from their factories, while other persons want to breathe fresher air, see more distant mountains on more days, and swim and fish in streams and

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lakes. The problem is not one of pollution but of who will be able to use the environment in his preferred way. Choosing among alternative uses of the environment, not pollution of the environment, is the principal environmental problem.

We gain considerable insight by casting the problem in terms of another natural asset with conflicting desirable uses: land. Many people want to use land as a site for their homes, gardens, parks, and hiking trails, while others seek places for their factories, hospitals, schools, and garbage dumps. Each of these uses competes with every other use. We solve the problem by asking each demander how much he will pay for his preferred use. Each particular site of land goes to that user whose offer exceeds those of other bidders. The decision is not made on the political popularity of a particular use but on the basis of its greater value to one user than to any other potential user.

Ardent environmentalists, and many citizens less concerned with environmental questions, continue to see pollution as the principal problem and will argue that the aim is to prevent emissions and discharges that are inimical to the good health of the population. Clean air and water have been concerns of the Public Health Service since early in this century, and it has effectively reduced water-borne pathogens and fatal air conditions such as that in Donora, Pennsylvania, in 1948. Public health is no longer seriously threatened by environmental quality. Still we have been concerned with the consequences of red dye no. 2, Chilean grapes, Alar on apples, acid rain, and asbestos in ceiling tiles, none of which can be characterized as a health problem, either public or private, of any consequence.

Clean, Cleaner, or Cleanest?

The question of environmental cleanliness raises an important economic principle. All economic decisions are made at the margin. Thus, the proper question is not whether we shall have *clean* air, but whether or not we shall have *cleaner* air. We practice this principle of marginalism in our daily decisions. Each of us wants a clean home. The real question is whether we should have our home cleaned more thoroughly, or perhaps relax our standards. Will an additional visit by a home-cleaning service each week or month be worth its cost? Because few of us use such a service daily, most of us have decided that additional cleanliness in the home is less valuable than the other things we could buy with the money daily home cleaning would cost. For a more recognizable case, we would all like our garage floors to be clean, but not to the extent that we could eat food placed on the floor. We do not seek perfection in our other public expenditures on national defense, education, crime prevention, public welfare, or highways. Nor should we seek perfection in the environment.

There is another economic lesson in deciding on how to use the environment. We know that the more of any good we produce, the more costly are additional units. Producing additional wheat requires more land, labor, and capital than was required to produce earlier bushels. Stated differently, we would have to give up more corn, soybeans, shirts, and parking lots for each additional bushel of wheat produced. The things we give up for more wheat may be more valuable than the added wheat we get.

The Law of Diminishing Marginal Utility also tells us that as we get more wheat, shirts, television sets, or anything else, the less valuable another one of any of these things is to us. Sometimes at restaurants we do not eat all the food on our plates; another bite of the food has now fallen below zero in value and is, literally, garbage. Once the water in our homes is clean enough to drink, there is little benefit from having it distilled. Our steam irons may prefer distilled water, but the human body finds the improvement of zero benefit.

The two forces just described give us our supply and demand curves and tell us that there is a point beyond which it is not worth producing more of a good. This principle is also true of environmental purity: we can have air and water that are wastefully clean. For most of us, common examples in other goods, such as watches, cars, and haircuts, are Rolex, Rolls Royce, and Mr. Clinton's clipping on the Los Angeles airport tarmac. These are all good products, indeed very good products, but most of us do not buy them because the extra quality is not worth the extra cost. Walter Williams astutely observes that while we love genuine diamonds of superior clarity, we more often choose to buy costume jewelry. We should apply this jewel of wisdom to our purchases of environmental quality as well. There is a best level of environmental cleanliness, and it is not perfect purity.

The most important question in determining environmental quality involves the price we pay for the use we enjoy. Environmentalists have taken 25 years to agree that emissions charges should be levied on polluters. Many environmentalists, however, argue that the charge should be set so high that there would be no emissions at all. This is not the price that most economists have in mind.

A system of charges on polluters has several advantages. Polluters are willing to pay because they benefit from their use of the environment. They will reduce emissions because each unit they discharge is costly to them. They will reduce these emissions in the most economical way, thus lowering the costs of greater cleanliness. There is less ill will and animosity toward government and environmentalists because polluters face a price for a service they use rather than an arbitrary and inflexible standard of purity imposed by politicians.

If we ask who uses the environment, rather than who pollutes it, we must recognize that those who desire a cleaner environment are also users, no less than are polluters. Environmentalists want to enjoy cleanliness, as much as those who buy air filters for their homes, bottled water for their tables, and yard services to make their lawns more attractive. In hundreds of ways every day we pay for greater cleanliness of our homes, cars, stores, and parks. The environment is no different. Those who want a cleaner environment should pay for the additional cleanliness they get, use, and enjoy.

As it did for the polluters, a system of charges on users enjoying greater cleanliness promises many advantages. If those desiring increased purity must pay for this benefit, they will conserve on their demand for it. Their love of purity and their moral superiority in publicly pressing for it would pale as it does for additional units of every other good they buy. Second, lovers of purity may find more efficient substitutes for environmental cleanliness. Community and private swimming pools may be much cheaper than making every stream swimmable. Third, environmental activists could devote more time to producing saleable goods desired by others so they could earn money to buy a cleaner environment. They would then spend less time lobbying politicians, organizing demonstrations, and supporting political pressure groups, none of which activities produces goods being bought by others. We have no assurance, and we have many reasons to doubt, that these activities result in environmental improvements that are worth their costs. Adam Smith's invisible hand again will guide us to a society with more goods, including environmental cleanliness, that people value highly. The lobbyist's visible foot, extended to the politician, results in fewer goods that, also, are of questionable value.

We earlier noted that land is also an environmental resource. If we treated land as we now treat air and water, we would price all land at zero and invite homeowners to take all they want. Any land left over would be allocated, or sold for a user charge, to business firms, but each firm would be restricted in the amount it received. Buildings and factories erected on the land would be designed by government to minimize land use. These buildings would be small in area and tall in height. We might produce steel in a factory occupying only one hundred square feet at ground level but rising forty-two stories. The cost might be exorbitant, but it would provide cleaner land—meaning more land without the impurity of factories—for use by homesite lovers.

The lesson is clear. The environment is a scarce, natural asset. Markets have been used for centuries to allocate scarce assets and they can be used to allocate the use of the environment as well. The public-good nature of environmental purity is similar to that confronting providers of lighthouses, television programs, music rights, church services, fireworks displays, and hundreds of other goods. If we apply market principles to environmental quality we can have a more efficiently used environment and citizens who are happier with the uses they voluntarily pay for and enjoy.[1] Free markets can be extended to this new area to bless the population with the same benefits delivered in more common applications. We need only see that the problem is not the pollution of the environment, but the use of the environment. □

1. For a more detailed discussion, see Hugh H. Macaulay and Bruce Yandle, *Environmental Use and the Market* (Lexington: Mass.: Lexington Books, 1977).

THE FREEMAN
IDEAS ON LIBERTY

The Greening of the Cross

by E. Calvin Beisner

Lately thousands of people across America, including me, have received a mailing asking us to become members of The Christian Society of the Green Cross, a new organization addressing ecological problems. People should think hard before joining or donating.

The recruitment/fundraising letter tries to establish the need for the organization by making claims about ecological crises. The claims are, without exception, subject to serious doubt.

• "Since 1945, Americans have consumed more of the world's resources than have all previous generations who have ever lived on the planet put together. *We have used more than our fair share*" (emphasis original). Here's a new twist on an old complaint. Ordinarily we are told that Americans use "more than our fair share" of the world's resources because we use more per capita than people in other countries. Now it is because we use more than our ancestors used. In either case, the argument is a classic *non sequitur.*

Americans do use more of some resources per capita than people in most other countries. And we do use more per capita than people of the past. But we also produce more resources per capita than people in most other countries and than people of the past. And, indeed, we consume no more than we produce. The long-term downward real price trends (for a truly representative example, inflation-adjusted copper prices

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fell by about 70 percent, and its price divided by wages by about 99 percent, from 1801 to 1990) of extractive raw materials (mineral, plant, and animal) show that our consumption of resources neither is outpaced by our production of them nor interferes with the ability of others to consume or produce them. In this case, the empirical claim (a misleading one at that) is logically irrelevant to the moral charge based on it.

• "Every day Americans turn 9 square miles of rural land over to development." Precisely what this means is difficult to guess, since—depending on who uses the term—"development" might mean making anything from a housing tract to a park. Furthermore, such raw numbers become significant only when set in a larger context.

The United States comprise 3,536,338 square miles of land, of which about 97 percent is undeveloped ("developed" land being defined by the U.S. Bureau of the Census as including urban and built-up areas in units of ten acres or greater, plus rural transportation). The conversion of 9 square miles of rural land each day therefore translates into 3,285 square miles per year. At that rate, total undeveloped land would be reduced by only about 9 percent—to about 88 percent of total land—in a hundred years.

Actually, the Green Cross's land-conversion figure is probably low. From 1960 to 1990 the conversion rate was about double what the Green Cross claims as the present trend. But there is good reason to expect that as U.S. population stabilizes and continues to become more concentrated in cities the conversion rate will fall yet more. Also, from 1960 to 1990, during the same period as the rapid conversion to developed land, the National Wildlife Refuge system meanwhile grew from about 15 million acres in 1960 to about 95 million acres in 1988; the National Parks system from about 20 million to about 70 million acres; and total public recreation lands from about 225 million to about 375 million acres. Certainly the data do not indicate a crisis of land conversion.

• "Every year, our agricultural practices waste over 1,000,000 acres of topsoil through erosion." We cannot know what the Green Cross means by "wasting" an "acre" of topsoil. Taken literally, their statement implies that every year erosion eliminates about a million acres of usable agricultural land. But that is certainly not true.

Probably this clumsily worded claim is meant to convey information about an amount of topsoil lost per year through erosion from all acres under cultivation. But it fails to communicate because topsoil is not measured in simple acres but in tons or cubic feet. (An acre of topsoil 1/16-inch thick, after all, is considerably less by weight and volume than an acre of topsoil 5-inches thick.) Nor does this statement tell us whether this is *gross* or *net* loss.

The latter distinction is crucial. Because of routine erosion-control measures, on almost all cropland in the United States new topsoil formation (from the combination of plant fiber decay and breakdown of deeper, denser soil and rocks) roughly matches loss from erosion, yielding almost no annual net change in topsoil. This is consistent with the fact that over the last 50 years higher and higher percentages of U.S. cropland have met the "prime" grade according to the U.S. Soil Conservation Service and with rising yields per acre. It should be no surprise. After all, soil is the farmers' most important resource; it is to be expected that they would use that resource wisely.

• "As there are more people, there is less farmland on which to grow food." The implication is that there is a cause and effect relation between the first and second halves of this sentence, but in fact there is not. American farmers plant fewer acres not because there are fewer acres available to plant but because agricultural production is so high that prices won't support cultivating more acres. While harvested U.S. cropland declined by 11 percent from 1978 through 1987, total crop production rose by about 25 percent. Thus, total yield rose by about 40 percent.

• "We are using up our [agricultural] resources in a way that cannot continue." Rising yields, declining losses from erosion, and rising quality of our nation's agricultural soils indicate precisely the opposite.

• "Within the lifetime of a child born in this decade, virtually all of the world's petroleum will be burned." The same sort of predictions have been made about running out of oil for nearly a century, and always they have proved false. They are contradicted by (a) falling long-term real prices of petroleum (down about 70 percent from 1870 to 1990) and (b) rising world oil reserves (up from about 100 billion barrels in 1943 to about 10 trillion barrels in 1989).

• "Still common minerals will be exhausted [in a lifetime], such as copper, tin, zinc, lead and nickel." But as for petroleum, so also here falling long-term real prices and rising reserves indicate the opposite. Despite intervening consumption, known reserves of copper rose by 179 percent from 1950 to 1970; of tin, by 10 percent; and of lead by 115 percent. I don't have handy access to figures for nickel, or to more recent figures for any of the minerals named, but I am confident, on historical and theoretical grounds, that we face no reasonable prospect of exhausting any of these minerals.

• "Water is increasingly tainted with chemicals." But in fact, the vast majority of these chemicals are harmless, and the percentage of the world's people with access to safe water has risen dramatically in the last century and continues to rise with increasing speed.

• "Over 60 percent of the world's great forests have been cut." Yes, and 100 percent of last year's wheat crop was cut in a single year! Yet next year there will be a whole new crop. Forests and wheat are analogous; the principal difference is that trees grow larger and more slowly. What the Green Cross alarmists don't mention is that total world forested area and total growing board feet of wood both are greater now than they were 50 years ago—and on the increase. And as plantation forestry increasingly replaces harvesting natural forests, pressure on natural forests will decline even more.

• "Atmospheric levels of heat-trapping carbon dioxide are 26 percent higher than pre-industrial concentrations and continue to climb; the results will be higher temperatures." Perhaps (data for the past are debatable), perhaps (data for the future are not yet in and projections differ widely), and perhaps (climatologists differ in their estimates of how much and whether global average temperatures will rise based on various assumptions of carbon dioxide increase).

But the letter does not mention (a) that roughly two-thirds of the *apparent* .45 degree C. increase in global average temperatures between 1880 and 1990 was attributable to natural causes, (b) that almost all of the total increase occurred before 1940, i.e., before the sharpest increases in carbon dioxide, indicating that there is not a direct correlation between carbon dioxide and temperature, and (c) that the most recent and refined models predict that most temperature increase will occur in the winter and at night, yielding little or no detrimental effect on ice caps, sea levels, and agriculture, and at the same time yielding slightly longer growing seasons, better agricultural yields with less water consumption (from higher carbon dioxide concentrations, crucial to photosynthesis and water retention), and less need for heating in winter.

• "The ozone shield in the upper atmosphere is thinning. . . ." There is a slight downward trend in stratospheric ozone concentrations for the period 1957–1992, but it is not known whether that trend is down from historically *normal* levels or from historically *high* levels. We simply *don't know*, and not knowing is not grounds for taking any particular action. (Data don't go back earlier than the 1950s, and 40 years is statistically insignificant as a sample of a dynamic system that is thousands or tens of thousands—let alone millions or billions—of years old.)

• ". . . the result is increases in skin cancers." No reliable data back this claim. Furthermore, the skin cancer associated with increased ultraviolet B exposure (resulting from ozone depletion) is mostly nonmalignant, and the increased cancer risk associated with the worst-case ozone depletion scenarios is about equivalent with the increased risk involved in moving 60 miles nearer the equator or a thousand feet higher in elevation—a risk so small as not to figure in the vast majority of decisions about where to live.

• "Entire species of plants and animals are vanishing." Perhaps, but the most thorough attempt at a worldwide study of field data on extinction rates—*Tropical Deforestation and Species Extinction*, edited by T. C. Whitmore and J. A. Sayer (London and New York: Chapman & Hall, 1992), commissioned by the International Union for the Conservation of Nature and by no means skewed by an anti-environmentalist bias—generated this general reckoning (in the foreword) by IUCN Director-General Martin Holdgate:

> The coastal forests of Brazil have been reduced in area as severely as any tropical forest type in the world. According to calculation, this should have led to considerable species loss. Yet no known species of its old, largely endemic, fauna can be regarded as extinct. Genetic erosion has undoubtedly taken place, and the reduced, remnant populations may be much more vulnerable to future change, but the study illustrates the need for very careful field documentation to compare with calculation in this and other situations.

Repeatedly the book's many authors state that, expectations to the contrary, field evidence for extinctions in recent decades is slight to non-existent.

None of the above implies either that Christians have no stewardship responsibility for the earth or that real problems don't exist. There *are* real problems, and Christians *do* have responsibility. But the assignment of stewardship over the earth was given in the Garden of Eden; claims of crisis, true or bogus, are unnecessary to remind Christians of that calling. And when an organization cries "Wolf!" too frequently, it loses credibility. □

THE FREEMAN
IDEAS ON LIBERTY

The Rise of Market-Based Management

by Jerry Ellig and Wayne Gable

> "Survival is very uncertain in an environment filled with risk, the unexpected, and competition. Therefore, a company must have the commitment of the minds of all of its employees to survive. . . . We know that the intelligence of a few technocrats—even very bright ones—has become totally inadequate to face these challenges."
> —*Konosuke Matsushita*[1]

Imagine a history class in the year 2095—perhaps some kind of "virtual class." The instructor is comparing two basic kinds of organizations prevalent 100 years earlier. One involved hundreds of millions of people; the other usually involved hundreds of thousands at most. One had no specific purpose; the other had a specific mission. One had no official "management"; the other had a president, profit centers, and lots of managers. One had no bank accounts, no owners, no legal identity—it was called a "society." The other had all of these things—it was called a corporation.

Despite these major differences, the two shared some similarities. Both were made up of people who wanted to live and work together in harmony to accomplish their individual goals. In both, the people had to coordinate their actions to accomplish their goals.

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Experts constantly debated how to improve these two types of organizations. For society, the twentieth century produced two alternative models: the hierarchical, authority-driven command model, and the decentralized, self-organizing free enterprise model. By 1995, the command model had failed miserably in every society that tried it. For the corporation, the command model dominated management thinking for most of the century. But by 1995, the command model had failed in business too. By the end of the century, corporations organized according to the command model were recognized as suffering from many of the same problems as command-based societies. But where would business leaders look for a new paradigm?

We believe history will show that a growing number of executives looked to the free market system for new management insights. Centrally planned economies collapsed because they failed to use the knowledge that is dispersed in the heads of many individuals and often hard to communicate to the central planners. Centrally planned business firms face a similar fate, for similar reasons. Just as socialism lost the allegiance of most of its citizens, so too have "command-and-control" management principles lost the allegiance of many executives. Companies both at home and abroad are searching for a new management paradigm to replace the old view based on hierarchy, top-down planning, and the giving of orders.

Over the years, a growing number of businesses have shifted to organizational forms and management methods based on the principles of a free society and market economy. This emerging management approach, which we call "Market-Based Management," promises to outperform older management paradigms for the same reasons that free economies have outperformed planned economies: it makes better use of the knowledge that is dispersed among many people in the organization.

The Old Paradigm: Scientific Management and Central Planning

For years, American business was dominated by a central-planning paradigm credited to Frederick Taylor.[2] Taylor argued that management is a science that can be taught. In search of higher productivity, Taylor advocated systematic study to improve upon the best prevailing production practices of his day. Aided by time-and-motion studies, managers would ascertain the best way to perform each task, select the best people for each task, and teach them the one best way. Taylor laudably sought to increase business productivity so that both wages and profits would rise. Thus, he sought to replace labor-management confrontation with a harmony of interests founded on greater productivity.

In Taylor's view, managerial direction was key to enhancing productivity, because manual laborers were generally incapable of understanding the best way of doing their jobs. In a discussion of handling pig iron, for example, Taylor noted,

> This work is so crude and elementary in its nature that the writer firmly believes that it would be possible to train an intelligent gorilla so as to become a more efficient pig-iron handler than any man can be. Yet it will be shown that the science of handling pig iron is so great and amounts to so much that it is impossible for the man who is best suited to this type of work to understand the principles of this science, or even to work in accordance with those principles without the aid of a man better educated than he is.[3]

This situation was not unique to pig-iron handling; "in almost all of the mechanic arts the science which underlies each workman's act is so great and amounts to so much that the workman who is best suited actually to do the work is incapable (either through lack of education or through insufficient mental capacity) of understanding this science."[4] Taylor's methods generated significant productivity increases when applied to uneducated workers doing repetitive tasks. But followers tried to develop his ideas into a universal approach to be used in contexts quite different from the ones Taylor originally studied. A school of thought, "Scientific Management," emphasized that management's job is to give orders, while labor should follow these orders. This worldview has shaped labor-management relations for most of the twentieth century.

Advocates of Scientific Socialism also cited Scientific Management in support of their grand vision for society. In the Soviet Union, both Lenin and Trotsky admired Scientific Management and thought it was one of the important features of capitalism that socialists should imitate. In their view, centralized planning of the entire economy was just a logical extension of centralized planning within the factory.[5]

In democratic countries, advocates of greater government planning also seized on Scientific Management in support of their views. Rexford Tugwell, a prominent adviser to Franklin D. Roosevelt, declared that the greatest economic event of the nineteenth century occurred when Taylor first timed some shovelers in a steel plant so that he could instruct them how to do their job more efficiently. Tugwell and many other New Deal intellectuals believed that

Scientific Management "would, in the hands of the state, provide the tools for the renovation of the economy at the practical organizational level, for the overall rationalization so long awaited to repair the damage done by an unplanned business order."[6]

In 1932, H.S. Person, managing director of the Taylor Society in New York, endorsed the employment of Scientific Management to plan society as efficiently as industrialists planned factories. Taylorism, he believed, ushered in a "surplus economy" of material abundance. The Great Depression occurred because industrialized nations had not yet adopted the appropriate social-management techniques. Policymakers needed to enunciate a social objective of "production for measured demand at the least social cost" and institute conscious organization to accomplish the objectives.[7]

Though motivated by humanitarian concern, Scientific Management possessed a major blind spot: it ignored the importance of dispersed and tacit knowledge. In an organization of any significant size, authoritarian managers can be little more effective than central economic planners, because they lack the requisite knowledge. Much relevant knowledge is dispersed in the heads of many people in the organization, and much of it cannot be communicated to a central point for processing. Firms built on the central-planning model suffer from the same "fatal conceit" that afflicts centrally planned economies.[8]

The Reckoning

Given the commonalities between Scientific Management and central planning, it is no surprise that authoritarian firms encountered trouble when challenged by rivals using management methods more consistent with the principles of a free society:

• In the automobile industry, American companies found themselves out-competed by Japanese companies during the 1970s and early 1980s. The principal reason was that quality improvement methods pioneered by Japanese firms required them to reorganize the workplace in ways that let workers and work teams use their local knowledge to improve production processes.[9]

• In the steel industry, large integrated steel mills lost enormous ground in the 1980s to "mini-mills" like Nucor Corporation, based in Charlotte, North Carolina. Nucor rewards its teams of plant workers with weekly performance-based bonuses, and workers apply their own tacit knowledge to get more output from production machinery than even the machinery's manufacturer thought was possible.

• In the oil industry, Wichita-based Koch Industries grew into a $24 billion company while many major oil companies experienced massive layoffs. The firm's chairman and CEO, Charles Koch, leads a company-wide effort to apply the insights of Ludwig von Mises, Friedrich Hayek, and other free-market scholars to all aspects of the firm's business.[10]

For 50 years, management researchers have criticized Scientific Management, proposing alternatives under such varied names as "human relations," "Theory Y," "Theory Z," and even "Liberation Management."[11] Market-Based Management proposes a new, alternative model thoroughly grounded in the principles of a free market and free society. To some extent, market-based management is consistent with earlier critiques, but it also adds a new, systemic approach that allows managers to identify the concepts and tools most consistent with market principles.

Elements of Market-Based Management

Several key elements account for the superior quality of life in a free society, and analogous elements exist inside organizations. The accompanying table identifies significant elements contributing to the health of both market economies and organizations.

• **Comparative Advantage and the Firm's Mission System**

In 1776, Adam Smith argued that the fundamental factor explaining economic prosperity is an advanced division of labor.

Six Key Systems in Market Economies and Organizations

Market Economy	Organization
Specialization through comparative advantage	Mission system
Rules of just conduct	Values and culture
Property rights	Roles and responsibilities
Price system	Internal markets
Market incentives	Compensation and motivation
Free flow of ideas	Generation and use of knowledge

Many economists have elaborated this theme into the theory of comparative advantage, which demonstrates how each individual can expand the wealth of society by specializing in activities in which he can create the most value at the lowest sacrifice of alternative products or services. F.A. Hayek added another dimension by emphasizing the division of knowledge: every individual is an expert on something, and overall prosperity depends crucially on each person's ability to make the decisions that he alone has the best knowledge to make.[12]

The organizational equivalent of specialization by comparative advantage is the "mission system." This system includes strategic planning—an understanding of how the firm's core competencies allow it to create value, and at what cost. But the mission system also includes a dissemination of this understanding to every individual in the organization, such that every person knows how his actions advance the mission of the organization. Like specialization in a market economy, the mission system creates situations allowing individuals to simultaneously serve society while serving themselves.

Koch Industries is one company working to implement a strong mission system. Various business units develop their own missions that are broadly consistent with the overall corporate mission. Individual employees are also expected to develop personal missions linking their own knowledge, skills, and aspirations with the mission of their business. In this sense, the mission is less an inspirational device than a compass guiding thousands of employees' independent decisions. The compass metaphor is especially apt, because the mission does not *direct* people to do specific things; rather, it helps them orient their activities to those of everyone else in the organization.

- **Rules of Just Conduct, Values, and Culture**

Investment, production, and exchange do not occur in a vacuum. A society's "rules of just conduct" that define acceptable and unacceptable behavior exercise a powerful influence on economic activity.[13] Where plunder is practiced and lying goes unpunished, people have strong incentives to refrain from productive activity and long-term commitments. On the other hand, if a society's formal and informal rules are grounded in respect for the individual, they unleash tremendous creative forces. Values that promote prosperity—in societies and in organizations—include respect for personal dignity and property, intellectual honesty, humility, openness to new ideas, and the freedom to question established practices.

These values may sound like "motherhood and apple pie," but the real challenge is implementing them in practice. A Brazilian-based company called Semco provides some examples of management's respect for spontaneous order. The company abolished time clocks and official work hours in its plants. Instead, groups of employees set their own work hours, based on their own preferences. When group members need to be in the plant at the same time, they all show up, even though no manager tells them to do so. Work groups are measured on the amount they produce, rather than the hours they work. The company's principal owner, Ricardo Semler, argues that adults manage to coordinate their activities outside the workplace without managerial supervision, so spontaneous coordination of work hours and other matters in the workplace should be no big surprise.[14]

- **Property Rights, Roles, and Responsibilities**

In a free market, property rights play a key role in both mobilizing knowledge and providing incentives. Private property divides control over resources into distinct spheres, within which individuals can use their own knowledge and judgment. Those who find better ways of using their property to serve consumers tend to earn profits, gain control over resources, and hence make more significant decisions as time passes. Those with poor judgment tend to lose control of their property and, hence, lose the ability to make decisions about the use of resources.

Companies too can employ these principles in thinking about roles, responsibilities, and authorities. In many companies, a person's ability to make decisions depends on his position on a hierarchical organizational chart, length of service, corporate politics, or pure luck. In a market-based firm, one's ability to hire, fire, spend money, and manage assets depends on a past track record, much as a homeowner's ability to borrow money depends on a credit record.

Tamko Roofing Products, based in Joplin, Missouri, puts these principles into practice when it decides who can spend how much money. The company has never used budgets to plan how much will be spent or what it will be spent on. As Ethelmae Humphreys, the company's CEO, puts it, "If we need to spend money, we spend it. If we don't, we don't." Managers and employees throughout the organization have spending authorities that allow them to exercise wide discretion about corporate purchases. As successful people take on new responsibilities, they may well receive new levels of spending authority needed to do the job.

- **The Price System and Internal Markets**

The term "market-based management" often conjures up the image of employees charging other employees prices for products and services inside the firm. And indeed, an internal price system is one critical element of market-based management.

Private property rights give individuals the opportunity to exercise their own judgment, and the price system helps ensure that one individual's independent decisions are coordinated with those made by millions of other people. The informational benefits of prices in markets are well known, but the benefits of pricing inside the firm are often less fully appreciated. In reality, many parts of large business firms operate much like bureaucracies: top management provides resources for services like accounting, public affairs, and information services, and these departments are then sent forth to do good for the company. Since the internal customers for these services pay no prices, the results are predictable: shortages, queuing, and growing overhead as top management shovels more money into enterprises that are effectively giving away their services.

A wide variety of companies have decided to change this system by making internal customers pay prices for the "overhead" services they formerly consumed for free. Companies using internal prices for corporate services include Bell Atlantic, Koch Industries, Clark Equipment, Weyerhaeuser, and Pump Systems. These companies range from small to large, and they span a wide range of industries. Companies adopting internal pricing cite several benefits, including reduced overhead expenses, closer relationships between internal customers and suppliers, and continuous "rightsizing" as voluntary transactions reveal which corporate services can be better acquired on the outside market.[15]

- **Market Incentives and Motivation**

Entrepreneurs earn profits by thinking up new ways to create value for others. No one orders them to be creative; they simply find that they can make themselves better off by making their customers better off as well.

In business, though, employees frequently get raises and promotions for following orders, building political skills, attaining a specific rank, or simply hanging around for a long time. Some of this occurs because of union contracts, but such incentives are also widespread in managerial compensation schemes. As one corporate executive noted, "There must be better reasons for giving raises than the fact that the earth went all the way around the sun again."

Nucor Corporation has found a better way. At Nucor, substantial employee bonuses, paid weekly, are tied to production results that specific teams of employees can directly affect. Higher output leads to higher bonuses, and bonuses can easily exceed a worker's base pay. As a result, workers show up for work early to ask the previous shift how the equipment is running. They take extra care in maintenance and discourage each other from taking unnecessary sick days. In short, the incentives of Nucor's work teams are so well aligned with the corporate mission that little "management" of employees is required.[16]

- **Free Flow Ideas and the Use of Knowledge**

Freedom of action and freedom of exchange are critical elements of a market economy, and so is freedom of speech. Prices summarize a great deal of information, but because real-world markets are disequilibrium markets, prices do not summarize everything entrepreneurs and customers need to know. As a result, individuals need the freedom to exchange ideas, debate new suggestions, and advertise their products and services to potential customers.

Most corporations today espouse these ideals, but many would do well to ask themselves questions like the following.

- Do operating units supply detailed operating data to headquarters?
- Are employees directed because they lack access to information they need to make business decisions?
- Are accounting systems designed for management control instead of furnishing information to operating personnel?
- Do performance evaluations include only the views of the boss, instead of information from all of an employee's major "customers"?

An organization that can answer "yes" to these questions is fundamentally channeling information to the decisionmakers at the top of a pyramid, instead of letting employees make decisions based on their own local knowledge.

Concluding Comments

The failure of command-based societies provided one of the most powerful lessons of the twentieth century. The downfall of Soviet central planning confirmed the flaws in the command paradigm. The striking differences in living standards between West and East Germany, or mainland China and Hong Kong, should persuade any skeptic that socialism's failure was not due to unique aspects of Russian history or culture. Instead, the blame rests with fundamental flaws in the command approach—an approach that bears striking similarities to the dominant corporate management paradigm of the twentieth century.

Human experience has shown that market economies produce prosperity through the interaction of specialization, rules of just conduct, private property, the price system, incentives, and open communication. Given the size of many business organizations, it seems logical to adapt free market principles to improve management practice.

The idea of market-based management is part prediction and part prescription. The prediction is that firms will become more market-based to compete in the global economy. The prescription is that firms can shorten their learning process by applying lessons already learned in free societies. □

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THE FREEMAN
IDEAS ON LIBERTY

The Economic Safety Net (a parable)

by Jes Beard

Once upon a time, far, far away, people lived in a village on an island where life was difficult. But the people were good and worked hard and the village grew. The people called their island "Economy" and they were happy.

On one side of the island of Economy was a big lagoon. The lagoon had warm, crystal clear blue water and beautiful beaches, but the lagoon also was home to dangerous sharks. And the beach had quicksand that could swallow a person clean away, so fast they could not be pulled out before they vanished, never to be seen again. Because everyone on Economy knew of the sharks and the quicksand, almost no one went to the lagoon. They stayed away even though it was the most beautiful place on the island, where the sun was always bright and the birds gave their songs in wondrous and enchanting voices.

At first, life in the village of Economy was so hard almost no one ever had time to do anything but work, and no one thought about the lagoon. When they did think about the lagoon they always thought about how dangerous the sharks and quicksand were and stayed away. People saved and planted crops and made buildings where they could work better. Life became easier, but only a little.

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By and by, the people in the village came to have enough food and shelter that they did not need to work unceasingly. Sometimes one of the foolish young men of Economy went to the lagoon, never to be seen again. Each time it happened, perhaps once or twice a year, people of Economy would be sad and would cry about their loss. Then they warned their young again of the dangers of the lagoon.

And it came to pass that the village had a great leader who promised to make life better and safer for all on the island. The great leader said Economy was too rich and too strong to let young men be lost to the lagoon. He had a plan to stop it from happening.

He would cover the quicksand holes with safety nets to catch anyone who strayed upon the quicksand. Parents would still tell their children to avoid the lagoon, of course, but the great leader's nets would save the foolish who did not listen. He called his plan the Economic Safety Net.

The people applauded the plan. They said that it proved the great leader's greatness. Everyone said it was good to save foolish young men who went to the lagoon.

In the following years, his Economic Safety Net caught many young men before they slipped into the quicksand. But each year, young men became less afraid of the lagoon because of the efforts to keep them safe. And each year more and more young men went to the lagoon. For the first time, after the Economic Safety Net, some young women also strayed from the village to enjoy the beauty of the lagoon.

As more young people visited the lagoon, more also slipped into uncovered quicksand. This happened even though the great leader forever increased areas of the beach covered by the Economic Safety Net.

The great leader said Economy could not let this happen. He promised to cover the whole beach with a new safety net to protect everyone, but he said parents should still remind children of the lagoon's dangers.

The next year, after the great leader's new Economic Safety Net was in place, ever more curious young men and women went to the lagoon. For the first time some parents also went there. All who saw the lagoon were amazed by its beauty and wanted to return.

But the new safety net was imperfect. As ever more people went to the lagoon, still greater numbers disappeared into the quicksand. Some people slipped right through the safety net, though the net still made the beach safer than ever before. Some people felt so safe they went to the very edge of the lagoon's water. From the water's edge, some found the crystal clear blue water so beautiful they felt they had to go in.

Once in the water, the sharks often ate the people.

The great leader could not tolerate shark attacks. He called on the village of Economy to protect everyone from quicksand and sharks.

The great leader said Economy could do more to protect those going to the lagoon. He said he would make the whole lagoon safe. The people needed to give him more money for stronger nets. The biggest and strongest men of the village also needed to stop their village work so they could be special lifeguards at the lagoon. The special lifeguards would fight off sharks that attack villagers going into the water.

Some villagers didn't like the new plan. They said it cost too much. The biggest and strongest men of the village did not want to give up their work to be lifeguards. They said their families needed them on their farms and in their shops.

But the great leader said he was disappointed that people of Economy wanted to put a price tag on lives. He said that if his plan saved only one person it was worthwhile, and he convinced his people that no price was too great to save even one life.

The great leader moved on with his plan, assuring all villagers that together they could make the lagoon safer.

The biggest and strongest men of the village trained to fight the sharks, and Economy spent great sums to improve the Economic Safety Net.

Then the great leader said the improved safety net would save more villagers than ever, both from quicksand and sharks. He repeated his warning that people should avoid the lagoon. But those who did go would be safer than anyone had thought possible.

Now ever greater numbers of villagers than before went to the lagoon. The great leader's Economic Safety Net saved many, but with the large crowds now at the lagoon ever more still slipped away into the quicksand. The lifeguards also saved countless villagers, but the sharks grew fat both from villagers swimming in the crystal blue water and from lifeguards.

By now hard times returned to the village. More and more shops and fields lay idle because those who worked in them did not come back from the lagoon. Other shops and fields lay idle as the biggest and strongest men who had been working in them worked instead as lifeguards.

Years had passed since the great leader started the safety net. He was now weak and old. From his sickbed he said the village now had but two choices.

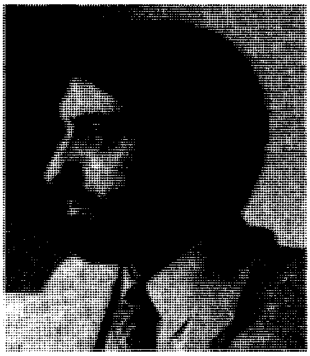
The great leader said Economy was close to completing his dream of a real Economic Safety Net. He said Economy could make the island safe by fully protecting everyone from the terrible dangers of the lagoon. Economy just needed to cover the beach more completely with yet heavier nets. Economy also needed more men as lifeguards and needed to pay for better lifeguard training for fighting the sharks. The safety net would then make the water safe if Economy built special shark-fighting boats for the lifeguards. The lifeguards could use the boats to lower wooden shark-protection cages around swimmers in danger. The great leader said his long years at building safety nets showed only that Economy merely had not done enough to keep villagers safe. If Economy only again redoubled its efforts the Economic Safety Net would work.

The other choice was to give up efforts to make the lagoon safe. The great leader insisted that it was simply too cruel for the good people of Economy to let those going to the lagoon fend for themselves with no Economic Safety Net.

By now many villagers said all of the great leader's safety-net efforts were useless. Some even said the safety net was actually bad. They said more people were lost now to the lagoon than ever before, more than when the village of Economy did nothing at all to make the lagoon safe. Critics said Economy should return to doing nothing. They said it was better to have no safety net. With no safety net, they would tell their young that the beauty of the lagoon might be tempting, but that it hid terrible dangers from which there is no protection.

The great leader was now near death, but said Economy had changed since the simple days of the past and could not possibly return. He said too many people now went to the lagoon to end the Economic Safety Net.

With that the great leader died, and the people were left to decide between the two options. □



Beyond the Pale

Those of us who cherish freedom may disagree about many things, yet still consider ourselves allies. But if our positive philosophy of individual rights and liberty is to survive, we must distance ourselves from anyone whose aim is to undermine the rule of law upon which rights and liberty depend.

In the early 1970s, I joined several organizations whose avowed purpose was to limit taxation and halt governmental violations of individual rights. One day, the leader of one of the groups leaned forward in a gleefully conspiratorial manner, and confided: "My goal is to make people cynical about government."

I was disturbed by his negative focus. Cynicism, I knew, was a destructive emotion; mere "anti-governmentalism" was an empty substitute for a positive political philosophy and constructive agenda. I understood even then that *hostility toward government* was not the same thing as *defending individual rights*.

If anyone still needs to have that lesson driven home, let him consider the atrocity in Oklahoma City last April 19th. That horrifying event constitutes the dead end of cynical, mindless anti-governmentalism.

When evidence mounted that the Oklahoma killers were homegrown, most of us were stunned. How could Americans do this to fellow Americans? we wondered.

We have since learned something about the suspects, their associates, their sympathizers—and their motives. We have learned that the prime suspects are alienated loners and losers—socially marginalized and rootless men, with thwarted personal ambitions and spoiled private lives.

Philosopher Eric Hoffer once described these sorts as perfect candidates to become fanatical, nihilistic "True Believers": individuals who, unable to fulfill constructive roles in society, are drawn to hate groups, anti-social cults, and revolutionary crusades. As Hoffer explained it, such "causes" provide them with excuses for their personal frustrations and failings. Self-hatred can then be projected outward. Certain groups, or society and its institutions, become their scapegoats; tortuous socio-political rationalizations are concocted to fuel their fantasies of "revenge."

These misfits thrill to the grandiose delusion that social institutions, such as government agencies, have specially targeted them for destruction. This not only explains their own failures; it also inflates their sense of importance, while simultaneously granting them permission to strike back in "self-defense." Lost in nihilistic fantasies, such malcontents—like their left-wing precursors of the 1960s—fancy themselves as "soldiers" at war with American society. That is why they can target innocent citizens without qualm . . . why one suspect gave officials only his name, rank, and serial number.

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Hoffer's explanation is not only consistent with what we know of those arrested, but also with the statements of their excuse-making sympathizers. Within days of the blast—and despite mounting evidence against the native-born suspects—leaders of one private militia group speculated publicly that the real perpetrators were "the Japanese." Not to be outdone, others voiced suspicions that the killers were actually sinister U.S. government *agents provocateurs*, who had blown up their own government building solely to provoke a public backlash against private gun ownership and militia groups.

Some commentators, instead of condemning the bombing as pure murder, felt obliged to couple muted criticisms of the atrocity with excuse-making for the perpetrators. While mumbling perfunctory condolences to the families of the slaughtered and injured, they also suggested that the perpetrators were probably just decent, patriotic Americans, provoked to act in *self-defense* against a "tyrannical" federal government. The mass murders in Oklahoma City, they explained, were intended to avenge alleged *governmental* "mass murders" during the 1993 Waco, Texas, tragedy, and the 1992 shootout with the Randall Weaver family in Ruby Ridge, Idaho.

The gist of their "explanation"? Government interventions and improprieties were somehow *driving* otherwise upright citizens to desperate acts of violent reprisal.

What, ultimately, is the difference between the "left-wing" argument that common criminals are "driven" to steal and kill due to past social or economic repression, and this "right-wing" argument—that the Oklahoma terrorists were "driven" to bomb a day-care center due to past governmental oppression?

I confess that any subtle distinctions between these two camps continue to elude me. Call me simplistic; but as I see it, the only results in both cases are the bloodied bodies of innocents. Even if innocent children in Waco, Texas, had been deliberately murdered (which they weren't), how could that atrocity be set right by the murder of additional innocent children in Oklahoma City, or anywhere else? Need it be pointed out that one does not avenge the violation of individual rights by violating individual rights?

The cowardly Oklahoma bombing demonstrates the utter bankruptcy of a purely negative, "anti-governmental" focus. Whether motivated and rationalized by cynicism, hatred, paranoia, philosophical anarchism, or conspiracy theories, attacking government *per se* only undermines the rule of law—and is thus a *carte blanche* for the arbitrary, *private* initiation of force.

Exaggeration? In the aftermath of the bombing, one talk show host felt obliged to instruct his listeners in the fine points of how to shoot federal agents during raids. Another, attributing the Oklahoma blast to "CIA contractors," told an audience that "what they won't allow us at the ballot box can be won at the bullet box." Meanwhile, a militia group out West has been threatening to hang any judges or other public officials who fail to uphold the Constitution—as they interpret it.

Does anyone really believe that individual rights would be more scrupulously observed by such self-appointed vigilantes than by the officials they denounce? (Personally, given a choice, I'll gladly take my chances with the BATF.)

Our nation's Founders were not anti-intellectual opponents of government as such. Through our Constitution, they in fact *established* one with the positive aim of preserving and protecting individual rights. That's because they understood the vital connection between *individual rights* and *the rule of law*. Undermine the latter, and you jeopardize the former.

We in America do not live under pure laissez-faire; far from it. But we also do not live under tyranny. To contend otherwise trivializes the full horror of real tyranny. Here, we can write, speak, and vote freely. Regulated we are, but not enslaved.

As long as we have the freedom to address imperfections, even evils, in our political system with ballots, there is *no* justification for resorting to bullets. And there is *never* any justification for deliberately violating the rights of the innocent—nor in excusing the violators. Such is beyond the pale. □

THE FREEMAN
IDEAS ON LIBERTY

Special Interests and the Internment of Japanese-Americans During World War II

by Steven B. Caudill and Melody Hill

On February 19, 1942, President Franklin Roosevelt signed Executive Order 9066, approving the en masse relocation of Japanese and Japanese-American citizens from the West Coast into the interior of the country. The order was signed amid the hysteria following the Japanese attack on Pearl Harbor. The reason given at the time for the evacuation was concern about espionage, or so-called "fifth-column," activities of Japanese and Japanese-Americans on the Coast. But according to the government's own intelligence service, this concern over espionage was misplaced. That is, concern for national security was not the true reason for interning Japanese and Japanese-Americans during World War II. Instead, this internment was motivated by nothing other than interest-group politics.

When war erupted in Europe, FDR placed J. Edgar Hoover's FBI in charge of the nation's internal security. Before the attack on Pearl, the FBI and Naval Intelligence maintained lists of alien suspects. Though the lists contained 250 to 300 suspects, only 40 or 50 were considered real threats.[1] Within two days of the attack on Pearl, all of the suspects and many others were detained. The FBI contended that these measures adequately controlled any threat of espionage, and that the relocation of Japanese and Japanese-Americans was unnecessary.[2] As additional evidence that security was not the reason for the internment, note that no mass detainment of people of Japanese ancestry occurred in Hawaii, which is closer to Japan and home to many Japanese and Japanese-Americans. In Hawaii, only suspect Japanese individuals were incarcerated. If espionage was not the reason for the evacuation in California, what was the reason? The answer: special-interest groups seeking protection from the competition of Japanese and Japanese-Americans residing on the West Coast. Labor unions and farmers wanted the Japanese out of California and off the land long before the attack on Pearl. World War II and the bombing of Pearl Harbor provided a handy opportunity for these groups to complete a task that they started several years earlier.

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N O T E S F R O M

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Degenerate Democracy

When all the mysticism is stripped away, the people who comprise the government (the legislators, administrators, judges, and policemen), are guided by human interests, desires, beliefs, notions, and prejudices, just like other people. They have neither superhuman wisdom nor extraordinary virtue. Nevertheless, they are expected to render an important service: to protect the life and property of each and every individual. They are to restrain wrongdoers, meet force with force, and punish peace-breakers. Toward that end, they are entrusted with the necessary instruments of coercion: the armed forces, police, and prisons.

Governments may be democratic or totalitarian, pluralistic or monistic, republican or monarchical. The form springs from the common notions of human behavior in society. Belief in a propensity to strife and conflict as a normal condition of human existence gives rise to authoritarian government. If social life consists of unending conflict, of war of all against all, society is in need of an authoritarian government as the best means of regulating the conditions of conflict. In contrast, belief in a harmony of interest of all members of society tends to give rise to limited government that merely seeks to restrain the peace-breakers.

No matter what the origin of government may be, the democratic form renders an important service that is lacking in all others forms. It provides a procedure by which individuals acquire power and are removed from power. Democratic government makes lawmakers dependent on the people's wishes, and thereby facilitates peaceful changes if conflict should occur. Changes are subject to majority rule. Yet, rule by "simple majority" differs from "constitutional democracy" that recognizes certain individual rights and gives them some form of constitutional protection, thereby placing limitations on the whims and wishes of the majority.

Majority rule inevitably raises the question of the scope and extent of majority power. Should the vote of a simple majority always prevail over the opposition? The advocates of majoritarianism readily answer in the affirmative; any other rule, they argue, enables a minority to frustrate the majority and thus, in a sense, rule and prevail over it. Requirement of more than a simple majority, they maintain, places undesirable obstacles in the way of government.

The opponents of unlimited majority power are quick to reply that Congressional representatives may not express the will of the majority of their constituents; guided by their own interests, they may not vote the wishes of the majority, but rather their own and those of their supporters. They may represent the interests of the largest bloc of voters who may actually constitute a minority of the population, or they may not even know the majority opinion because few voters may bother to form an opinion, which is probably true in most issues confronting legislators.

Strict majoritarianism tends to destroy the conditions of its own existence wherever the majority routinely violates the basic rights of individuals. It may suppress the basic freedom of expression and association, deny the minority any consideration and weight, deprive it of the right to participate in the political process, and refuse it fair treatment and "due process." It may even relegate minorities to inferior positions in political, social, and economic life, assign numerous duties and liabilities, and extract from them an inordinate share of their income and wealth. In possession of all the powers of coercion, majoritarian government may blithely ignore and defy the moral laws that proscribe all forms of harm to any and all individuals.

Social peace and harmony can be preserved only if all members of society are free to participate in democratic institutions and are treated equally before the law. Yet, many champions of majoritarianism never tire of criticizing this political and legal equality for being inadequate; they would extend the scope of equality to economic life through "fairer" distribution of income and wealth. They would forcibly reduce economic inequality, although their efforts would necessitate the use of much coercion and violence. After all, people differ in capacity, skill, strength, industry, and health, which necessarily results in unequal income and wealth. Individual inequality, in fact, is a great advantage to both the individual and society, bringing forth man's division of labor and social cooperation. To enforce equality is to deny human nature and work evil on everyone including those it is supposed to benefit.

A policy designed to enforce economic equality opens the doors for demagoguery and politics at its worst. It invites expedient politicians to stir up the resentment of the poor against the rich so that they may elect the demagogues to positions of power and largess. It appeals to envy and covetousness, and elevates demagoguery to an important device of democratic politics. In the end, politics is likely to become an art of promises, evasions, and systematic pursuit of expedience, making the body politic the primary source of social conflict and strife. All democratic societies have foundered on the rocks of moral decay and domestic strife.

Envy is more irreconcilable than hate. It is the most corroding of all political vices and also a great power in our land. The friends of freedom are content to be envied, but envy not.

Hans Sennholz

Hans F. Sennholz

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The Historical Backdrop to Japanese Internment

The story of the internment is really the story of immigration in California. A pattern was repeated, first with Chinese immigrants and later, Japanese immigrants. The state of California, through various laws, initially made it difficult for immigrants to enter the state and then, if they managed to enter, unattractive to remain. The main difference between the Japanese and the Chinese in California was the strong Japanese desire to own land. This difference led to special land-use legislation aimed at the Japanese.

Between 1850 and 1882, over 280,000 Chinese entered California.[3] The influx of Chinese occurred because the enormous growth in the California economy required a cheap labor source and the Chinese provided a solution. The Chinese were welcomed at first, but by 1869 the railroad opened up California to the eastern half of the United States, and a recession was beginning. Organized labor argued that the Chinese were no longer needed and lobbied for an end to Chinese immigration. As early as 1875, California enacted legislation halting Chinese immigration into California (though this statute was later declared unconstitutional by the U.S. Supreme Court). California and organized labor then turned to Washington for help. Their efforts were rewarded when, on May 6, 1882, the first Chinese Exclusion Act went into effect. This act eliminated the immigration of Chinese laborers for a period of 10 years; it also barred the Chinese from becoming naturalized citizens. The agitation leading up to the Chinese Exclusion Act made it clear to many that something drastic regarding Chinese immigration was about to occur, and even before passage of the Act, labor recruiters began visiting Japan to find replacements for the lost Chinese.[4]

The first large numbers of Japanese laborers who came to the U.S. territory were contract laborers. In 1884 and 1885 several hundred contract workers landed in Hawaii, which at the time was a protectorate of the United States. Californians were concerned that the Japanese might leave Hawaii for California. Consequently, on February 26, 1885, the U.S. Congress enacted a bill to "prohibit the importation and migration of foreigners and aliens under contract or agreement to perform labor in the United States, its territories, and the District of Columbia."

California on its own took steps making Japanese immigration difficult. The Congressional Act of August 3, 1882, imposed a head tax of fifty cents on all immigrants. Soon afterward labor union leaders turned their attention to the "Japanese problem." In 1905 the Asiatic Exclusion League was formed. Initially this group consisted mostly of union leaders and workers, but support eventually was widespread:

> On the second Sunday in May, 1905, delegates from sixty-seven local and nearby labor organizations met to form what became the Asiatic Exclusion League. From the day of the League's formation on May 14, 1905, until after the end of World War II, there was in California, an organized anti-Japanese movement that would eventually draw support from all segments of the state's population. In the beginning, the organized movement was an extension of San Francisco labor unions. The most prominent labor leaders attending the initial meeting of the league were Patrick Henry McCarthy, head of the Building Trades Council of San Francisco, and Andrew Furuseth and Walter MacArthur, both of the Sailor's Union. A satellite of McCarthy, Olaf Tveitmore, was named its president. All four of these men were immigrants from Europe.[5]

Immigration Restrictions

In an effort to reduce tensions, Japan attempted to voluntarily restrict immigration to the United States. In 1900 the Japanese government stopped issuing passports for laborers headed for the United States, but continued to allow immigration to Hawaii. In California there was again concern that Japanese would enter through Hawaii. Consequently, the Asiatic Exclusion League prompted the legislatures of other Pacific Coast states to adopt resolutions restricting Japanese immigration from Hawaii. In light of this agitation, the Japanese government started to limit immigration to Hawaii, and in April 1905 Japan temporarily suspended all immigration.

Other legislation was designed to make life in California unattractive to Japanese-Americans. In April 1905 the union-dominated San Francisco Board of Education submitted a plan to the board of supervisors to segregate Japanese public-school children. On October 11, 1906, with part of the city still in ruins from the earthquake, the board of education passed the segregation order. The move outraged Japan, and the U.S. government attempted to intervene. A compromise was reached and the problem was resolved with the passage of the Immigration Act of 1907. The Act listed 20 different classes of workers, collectively called contract labor, who were prevented from immigrating. The provisions of this legislation succeeded in keeping Japanese laborers from entering the United States through a third country or territory.

The next political issue was direct immigration. Restrictions on direct immigration of Japanese were achieved through the "Gentleman's Agreement" of 1908. Japan agreed to limit immigration to "relatives," "former residents," and "settled agriculturalists." The term "settled agriculturalists" is defined to mean "a person who had invested capital in the enterprise, and whose share in its proceeds, if it is carried on in partnership, will be in proportion to the amount of his investment."

The Gentleman's Agreement achieved an immediate decline in immigration. Soon, departures exceeded arrivals. This changed in 1913 when large numbers of "picture brides" immigrated. The number of Japanese entering the country slowed to a trickle. Efforts now focused on legislation making life in California unattractive to Japanese-Americans. A large part of this effort was aimed at land-ownership restrictions.

During the 1909 legislative session in California, at least 17 anti-Japanese bills were introduced, and the 1913 session was flooded by more than 30 anti-Japanese measures. Most proposals dealt with the holding of agricultural land. Out of this session emerged the Heney-Webb Alien Land Law of 1913, tying land ownership to citizenship. This statute also provided that aliens ineligible for citizenship could lease land for no more than three years. State Attorney General Webb, co-sponsor, was not shy about its intent, stating,

> It is unimportant and foreign to the question, whether a particular race is inferior. The single and simple question is, is the race desirable. . . . It [the law] seeks to limit their presence by curtailing their privileges which they may enjoy here: for they will not come in large numbers and long abide with us if they may not acquire land. And it [the Act] seeks to limit the numbers who will come by limiting the opportunities for their activity when they arrive.[6]

The 1913 Act prohibited aliens from acquiring, possessing, enjoying, transmitting, and inheriting real property. Japanese-Americans began to put land titles in the names of their U.S.-born children who were citizens and thus entitled to hold property.

In 1919, state senator J. M. Inman introduced an alien-land law designed to plug this loophole. The heart of the new act was that it was now illegal for an alien to provide funds to purchase land if the title was held in the name of another person and if the intent was to avoid the law. The act also prohibited leasing any land to persons ineligible for citizenship. The measure was placed on the ballot in the general election of 1920 in the form of an initiative. On November 2, 1920, the measure passed by a vote of 668,483 to 222,086.

Still, white Californians were unsatisfied. They hoped to put an end to all Japanese immigration (as they had done earlier with the Chinese). That goal was achieved when on May 15, 1924, a bill that became known as the Japanese Exclusion Act of 1924 passed the House of Representatives.

Despite this anti-Japanese legislation, the growth of the Japanese involvement in agriculture during this period was impressive. By 1940 Japanese farmers produced at least 90 percent of snap beans, celery, peppers, and strawberries. Japanese farmers also produced 50 to 90 percent of artichokes, celery, cucumbers, fall peas, spinach, and tomatoes for canning, and 25 to 50 percent of the asparagus, cabbage, cantaloupes, carrots, lettuce, onions, and watermelons.[7]

Agitation Increases

It is not surprising that when the attack on Pearl Harbor heightened agitation against the Japanese-Americans, the Caucasian farmers of California were eager for internment as well as for the land held by the Japanese. Austin Anson, the managing secretary of the Grower-Shipper Vegetable Association, a farm organization, is quoted as saying:

> We're charged with wanting to get rid of the Japs for selfish reasons. We might as well be honest. We do. It's a question of whether the white man lives on the Pacific Coast or the brown men. They came to this valley to work, and they stayed to take over. They offer higher land prices and higher rents than the white man can pay for land. They undersell the white man in the markets. They can do this because they raise their own labor. They work their women and children while the white farmer has to pay wages for his help. If all the Japs were removed tomorrow, we'd never miss them in two weeks, because the white farmers can take over and produce everything the Jap grows. And we don't want them back when the war ends, either.[8]

The fact that Japanese farmers were not welcomed back after the war contradicts the security arguments given for the evacuation. Security concerns certainly did not exist *after* the war. It is quite clear that some viewed the situation in California immediately following the attack on Pearl Harbor as a unique opportunity to get rid of competitors. In May 1942, O. L. Scott, another member of the Grower-Shipper Vegetable Association wrote to Congressman Anderson:

> If it were not for the "white-skinned Japs" in this country there wouldn't be any Japanese question. What can you suggest I do and thousands of Californians be led to do, that may make it possible to get rid of all Japs, sending them back to Japan either before or after the war is won. I am convinced that if it is not done or at least the action completed before the war is over, it will be impossible to get rid of them. . . . The Japanese cannot be assimilated as the white race [and] we must do everything we can to stop them now as we have a golden opportunity now and may never have it again.[9]

As a consequence of the evacuation, farms owned by Japanese-Americans were sold for a few cents on the dollar to Caucasian farmers. One estimate of the value of Japanese farmland in 1940 was over $72 million. After the war, internees were paid only a small fraction of the value of their losses. Attempting to remedy this situation, the government passed a bill in 1988 that did two things. First, the government apologized to Japanese-Americans for the internment, also admitting that the relocation was not justified for security reasons. Second, the bill provided that each of the 60,000 internees or their descendants be paid a lump sum of $20,000. Perhaps these funds should have come not from the taxpayers of this country at large, but from the farmers who benefited directly from the land and crops taken from the Japanese-Americans in 1942. □

1. See Roger Daniels, *The Decision to Relocate the Japanese Americans* (Philadelphia: Lippincott, Co., 1975).
2. See also Roger Daniels, *The Decision to Relocate the Japanese Americans.*
3. See Frank Chuman, *The Bamboo People: The Law and Japanese-Americans* (Del Mar, Calif.: Publisher's Inc., 1976).
4. See also Frank Chuman, *The Bamboo People.*
5. See Roger Daniels, *The Politics of Prejudice* (London: Cambridge University Press, 1961).
6. See also Frank Chuman, *The Bamboo People.*
7. See Theodore Salutos, "The Immigrant in Pacific Coast Agriculture, 1880-1940," *Agricultural History* 49 (January 1975), p. 192.
8. See Morton Grodzins, *Americans Betrayed* (Chicago: University of Chicago Press, 1949).
9. See also Morton Grodzins, *Americans Betrayed*, p. 20.

THE FREEMAN
IDEAS ON LIBERTY

Peace for Europe?

by William J. Watkins, Jr.

Since the end of the Second World War, there has been much discussion about European integration. What began as the European Coal and Steel Community (ECSC) in 1951 developed into the European Union (EU) with the ratification of the Maastricht Treaty in 1992. Unfortunately, the trend thus far has been toward centralization, but there is one more opportunity to restore the balance between the member nations and the ever expanding bureaucracy in the EU's capital, Brussels.

The year 1996 will witness an intergovernmental conference on the future of the EU and problems arising with the Maastricht treaty's one-size-fits-all remedies. If Europe is to develop a system that operates smoothly and secures the peace, next year offers perhaps the last chance to settle major constitutional issues.

Since the early post-war discussions about integration, Europe's explicit goal has been to bind Germany's future and prosperity to peace on the Continent. Hans-Dietrich Genscher, Germany's former foreign minister, called the EU's structure "a living model for a peaceful European order, with Franco-German cooperation as its centrepiece."[1] In light of the results of Prussian militarism in this century, it is understandable why France and the Benelux nations (Belgium, the Netherlands, and Luxembourg) are pushing for a stronger union in which they hope Germany will be content and contained. However, their centralizing efforts could generate the very conflict they seek to avoid as diverse peoples are forced together in unnatural political arrangements.

Mr. Watkins is an assistant editor for The Freeman.

Voices from Past

The threat of centralization and socialism to peace in Europe is not new. The guns of the Axis and Allies had hardly fallen silent before European socialists were holding conclaves in London and Paris regarding integration to promote "a socialist Europe which is economically and politically independent."[2] Little did these intellectuals realize that Europe once *was* economically integrated (though protective tariffs did cause stress) by a shared metallic monetary standard before World War I. This early integration emerged naturally "without super-plans, super-planners, super-bureaucracies, super-conferences, and without a super-state and 'High Authority.'"[3]

In the end, Europe's economic integration was "destroyed by an economic foreign policy which had its roots . . . in . . . collectivist-inflationary policy . . . that sailed under the flag of 'planned economy,' 'full employment,' 'cheap money,' and deficit spending."[4]

Some things seem never to change. Though there is much talk of free markets in Europe today, many of the same old collectivist policies of the welfare state remain in place. For instance, in EU countries, each 100 workers now labor to support 40 pensioners. By 2004 each 100 workers will support an additional 10 pensioners on top of the current 40.[5]

Unfortunately for Europe, the technocrats in Brussels, see "No discernible association . . . between either the level or growth of social spending in member states, on the one hand, and their trade performance, employment or unemployment, on the other." [6] This attitude explains why one-tenth of the workers in the EU are now jobless and why during the first year of the much vaunted single market the EU's GDP shrank by 0.3 percent.[7] Wilhelm Roepke's prediction that in any proposed European economic union "the highest degree of inflation in any member country will be adopted by the others along with the longest paid vacations and the greatest measure of intervention or planning," has fast become a reality.[8]

Because of the collectivist attitudes in Brussels, there will certainly be future trouble as member nations seek to revive their economies by abandoning the policies of the past. And if mechanisms are to be designed to allow a peaceful transition to nonintervention, the 1996 intergovernmental conference is the proper place to begin. Decisions made there will shape the future power arrangements of Europe for years to come.

Unfortunately, the French and the Germans—both with strong centralizing tendencies—along with the power-hungry European Parliament will make most of the Conference preparations. Nevertheless, there is an opportunity to curb the foolishness in Brussels that has led to edicts regarding everything from subsidies to the curvature of cucumbers.

National Veto

Ever since French recalcitrance over agricultural policy sparked the "Luxembourg Compromise" in 1965, nations have enjoyed a national veto in the Council of Ministers. This veto applies to areas such as taxation, treaties, the acceptance of new members, and foreign policy. Britain successfully used her veto to strike at plans for further centralization last year when she vetoed the appointment of Jean-Luc Dehaene to the presidency of the European Commission. Nonetheless, if each member nation is to retain her national sovereignty, the national veto must be strengthened against encroachments.

Encroachments will most likely come from the courts. The European Court of Justice claims the power to declare acts of member states and EU institutions void if they violate the Treaty of Rome (which formed the European Economic Community in 1957). From American history we learn the danger of a Supreme Court that claims final say over the constitutionality of state and national legislation. In the early days of the American republic, Thomas Jefferson saw the danger that the Supreme Court posed and correctly predicted that it would be "the engine of consolidation."[9] It should be a priority in 1996 to ensure that a European John Marshall will not have the power to alter the balance between Brussels and the member nations. The nations should have final say concerning the legitimacy of EU as well as their own legislation because they retain their sovereignty and have entered the compact as equal partners.

Such a power of nullification does, however, pose serious risks and could be deterimental to the very idea of a common market. Individual nations could nullify free-trade initiatives, which were the impetus for the EU in the first place, in order to protect local economic interests. Though this is a possibility and it would be regrettable if nations used their power of nullification for frivolous purposes, the risk is worth taking. A national government with exclusive power to judge the constitutionality and breadth of its powers will tend, as in the United States, to become consolidated. A single consolidated government would be deleterious to the peculiar local habits and customs that are at the heart of European culture.

Opt-Outs

Along with the precedent of a national veto, since Maastricht a precedent has been set for nations to opt out of certain EU programs that they feel are detrimental to their national welfare. For example, Britain has been exempted from Maastricht's onerous social chapter and any future European Monetary Union (EMU). Denmark is exempted from the final phase of the EMU, European citizenship, and common defense and legal policies. Even Germany, a self-described "core of the hardcore" regarding union, insists that her parliament have final say-so regarding the replacement of the mark with a common currency.

Nevertheless, opt-outs, in their current form, have drawbacks. For instance, since opting out of the social chapter of the Maastricht treaty, Britain has lost the power to block trade unions' demands for worker-consultation councils and other pro-union measures. These councils demand that workers be consulted about such things as restructurings, closings, or changes in production methods. Though British firms operating domestically are unaffected, British multinational firms operating in the EU are at the mercy of Brussels.

To check such excesses, member nations must retain their veto power over legislation emanating from Brussels whether they have opted out of the particular legislation or not. Member states should be allowed to retain their voices concerning any EU legislation that could affect them adversely.

Secession

The EU has already caused much tension and is held in disrepute by citizens of many member nations. In fact, 60 percent of the EU electorate opposed the Maastricht treaty and 65 percent of Europeans are against abandoning their national currencies.[10] Norman Lamont, former chancellor of the British exchequer, predicts that Brussels' centralizing tendencies "may mean one day contemplating withdrawal" from the EU.[11]

When nations finally decide to abandon welfarism and planning in favor of a more liberal alternative, such a decision will necessitate a withdrawal from the EU and its massive schemes of redistribution. And if the nation choosing withdrawal is not a net recipient of redistributed wealth (as will likely be the case), then the beneficiaries will no doubt try to stop their victim from escaping.

The EU's Common Agricultural Policy (CAP) is already causing divisions similar to the American sectional conflict of the nineteenth century. However, in Europe's case it is the agricultural interests that are exploiting the commercial interest. The CAP already eats half of the EU's budget with its guarantee of minimum prices to farmers. As the EU expands and admits the poorer nations of Eastern Europe, transfer payments will skyrocket. Under current policies, admitting Poland's five million farmers to the CAP would require a boost in the EU's budget of $74 billion.[12] Such transfers can and will breed only contempt from those who have their earnings confiscated by the technocrats in Brussels.

Tragedy looms ahead for Europe as incompatible cultures are thrust together in unnatural centralized arrangements. Once the intoxicant of political unity wears off, the nations of Europe must be able to coexist peacefully in a loose confederation or go their separate ways. The 1996 intergovernmental conference offers perhaps the last opportunity for EU nations to secure constitutional guarantees ensuring their sovereignty and future. For Europe to prosper, it must soon abandon the impoverishing policies of the welfare state. Because such an edict is not likely to be issued from the mismanagers in Brussels who thrive on power wrought from consolidation, the future of Europe rests on the power of the people acting within their nation-states to do so when the ideological climate finally changes. □

1. "Genscher calls for an end to European separation," *Manchester Guardian Weekly*, May 7, 1989, p. A4.
2. For an excellent discussion of the early socialist schemes regarding European integration, see Hans F. Sennholz, "The Socialist Movement for a United States of Europe," in *How Can Europe Survive* (New York: D. Van Nostrand Company, Inc., 1955).
3. Wilhelm Roepke, "How to Integrate Europe," *The Freeman*, May 18, 1953, p. 594.
4. *Ibid.*, p. 594.
5. "A job-destroying machine," *The Economist*, October 22, 1994, p. survey 5.
6. European Commission report quoted in "The enlightened welfare-seeker's guide to Europe," *The Economist*, March 12, 1994, p. 57.
7. "A singular market," *The Economist*, October 22, 1994, p. survey 15.
8. Wilhelm Roepke, "European Economic Integration and its Problems," *Modern Age*, Summer 1964, p. 237.
9. Jefferson quoted in Albert Jay Nock, *Mr. Jefferson* (Delavan, Wisc.: Hallberg Publishing Corporation, 1983), p. 163.
10. "No Shortcuts on the Way to a Closer Europe," *The Christian Science Monitor*, August 3, 1994, p. 19.
11. "European Unity Policy Splits Tories in Britain," *The New York Times*, October 12, 1994, p. A6.
12. Mark M. Nelson, "Extra Accommodations," *The Wall Street Journal*, September 30, 1994, p. R13.

THE FREEMAN
IDEAS ON LIBERTY

Economics 101: A True-False Test

by Ralph R. Reiland

Here's a quiz. Which of the following statements about the American economy during the 1980s are true?

1. From 1982 to 1989, 19 million net new jobs were created in the United States (more than the number of jobs created in Europe and Japan combined), two-thirds of them high- or middle-paying, resulting in the lowest unemployment rate in 16 years.

2. The economic growth unleashed by tax cuts increased federal tax revenues in the 1980s by $1.1 trillion.

3. These additional federal tax revenues contributed to the reduction of the federal deficit from 6.3 percent of GDP in 1983 to 2.9 percent in 1989. (A Congress loaded with pork peddlers blocked greater spending cuts.)

4. Presidents Kennedy and Reagan both enacted supply-side tax cuts on top income earners and job creators and produced the two longest economic expansions in American history.

5. The Reagan tax cuts "trickled down" to produce a 76 percent jump in new business investment in real (adjusted for inflation) dollars in the 1980s and tripled the rate of productivity growth.

6. Real per capita after-tax income rose by 19 percent in the 1980s, nearly double the rate of the 1970s.

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7. Real family income increased each year from 1983 through 1990 in every income group (from the poorest fifth of households to the richest fifth), while median family income fell by 1.9 percent in 1993.

8. The real income in the bottom fifth of the income distribution increased by 12 percent in the 1980s, reversing a 17 percent slide between 1979 and 1983.

9. Eighty-six percent of the tax filers in the poorest fifth of families in 1980 moved out of that bottom quintile by 1988 (16 percent moved all the way to the top fifth of income earners).

10. Looking at income distribution as an individual matter, not as a group comparison, real median income increased by 5 percent between 1982 and 1988 for those who started in the top fifth of income earners, and increased 77 percent for those who started in the bottom fifth (primarily by moving out of that bottom quintile).

11. Real family income declined each year from 1979 until 1982, and has declined each year since 1991—the years sandwiched between these two periods of shrinking income, produced a real increase of $4,877 in median family annual real income.

12. Since 1988, the typical American household has lost $2,344 in real annual income, and the degree of income inequality is now at a post-World War II high.

13. After growing nationwide by 7 million people during the late 1970s, the poverty

population declined by 4 million during the 1980s: reversing the downward trend, poverty in the '90s is rising again with over a million Americans falling into poverty in 1993.

14. The top income-tax rate was reduced from 70 percent to 28 percent in the '80s, but the top 5 percent of all earners paid more taxes, increasing their share of all federal income taxes paid from 36 percent in 1980 to 43 percent in 1990.

15. In the 1980s, the percentage of African-American families earning more than $50,000 in real dollars doubled from 7 to 14 percent, the unemployment rate for black teenagers fell by 21 percent and black employment in professional and managerial jobs expanded by one-third. After declining 10 percent between 1978 and 1982, the real median income of black families increased by 17 percent between 1982 and 1989.

16. From 1982 to 1987, the number of black-owned businesses increased by 38 percent, triple the overall business growth rate during that period. The number of new Hispanic-owned businesses soared by 81 percent.

17. The median weekly earnings of female workers grew 8 percent faster than male earnings in the 1980s, and women entrepreneurs ended the decade employing more people than all of the Fortune 500 companies combined. The number of women-owned firms expanded by 57 percent in the '80s and the sales volume of these firms tripled.

18. Following the double-digit annual inflation rates of 11.3 percent, 13.5 percent, and 10.3 percent during the Carter years, the annual inflation rate averaged 3.9 percent in the two Reagan terms.

Scoring: Each of the above statements is True. All information is based on Labor Department and Census Bureau studies. Readers missing more than 12 questions are eligible for Rhodes Scholarship assistance. □

THE FREEMAN
IDEAS ON LIBERTY

Hail to Prices!

by Jeffery G. Lee

Recently in South Korea I had an experience that bodes poorly for proponents of price controls. During my stay, a Korean friend, D.J., took me to a bar to soak up a bit of local flavor. After a good time, my friend and I left the bar just before midnight in search of a cab. As we were going in separate directions, I said goodbye and prepared to flag down a taxi. D.J., however, knew something I didn't and stayed with me despite my assurances that I could handle myself. I'm thankful he stayed.

I was completely unprepared for what happened. Crowds of people began creeping dangerously far out into the street. D.J. joined the fray, facing the oncoming taxis

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like a modern-day matador. Cabs slowed just enough for D.J. and others to yell their desired destinations into the open window (*Pangbae* Station in our case). Without fail, after hearing the places we and others were intent on going, cab after cab sped off leaving us in clouds of exhaust and bewilderment.

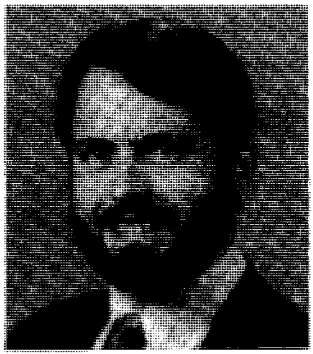
After about 20 minutes, it was apparent that it might take a while to actually get picked up. Interestingly, D.J. "upped the ante" for the ungracious drivers. "Pangbae!"—in endless repetition—had been all that I had heard for nearly a half-hour when my friend began yelling "Pangbae DOUBLE!" He even yelled "Pangbae TRIPLE!" at a driver who stopped only long enough to flash four fingers hoping for four times the normal fare. Later, we stopped a taxi with a "triple." We got in, only to be told to get out when the driver reconfirmed our destination. He said he had misunderstood us and wouldn't go to Pangbae Station.

Later I discovered the reason for this black market in transport. Taxi rates are set by the government. Ostensibly to protect the consumer, the government limits the price taxi companies can charge. The consequence of such myopic legislation should be obvious to any first-year economics student. The artificially low fare not only reduces the supply of taxis, but decreases the incentive of remaining drivers to provide good services to passengers. Full of good but misdirected intentions, government officials have taken it upon themselves to protect the consumer. Ironically, the result is just the opposite. As with all examples of price control throughout history, demand exceeds supply when an artificially low price is mandated, resulting in various degrees of chaos.

After an hour and a half we flagged down a willing driver and made it home. Because our quest was limited to cross-town transportation, the most we suffered was the indignity of standing in the middle of the road, in addition to a few lost hours of sleep. Raise the stakes from the taxi scenario and consequences are more devastating. Instead of commuters, picture physically ill folks clamoring for health-care professionals. "*Pangbae* double!" might suffice as a potential solution when negotiating for something as simple as a ride. I don't imagine, however, an equally likely "*heart attack* double!" would be a very amenable strategy.

Low prices might appear to the uninitiated as desirable. But prices are no culprit. Prices provide ready information on the availability of goods and services, and on the values of goods and services to competing would-be users. Attempts to artificially alter prices are tantamount to removing signs from dangerous roads. Prices fairly balance the amounts of a good available and the amounts demanded. Of course, prices are also the most visible and easily targeted feature of a market economy. Unfortunately, politicians, eager to placate their benefactors, have more influence than economic truths on the formation of public policy.

I do not mean to insinuate any backwardness on the part of Korea (which would upset my Korean wife immeasurably). It just so happened that this experience reminded me of the endless gas lines of the 1970s and of the recent debate over health care in the United States. As economically enlightened as we are in America, we are not immune to a "calculated reversion" to the illogic of price controls. Symptomatic cures for what some may see as the pestilence of prices are misdirected. Hopefully, people can now see through quick-fix solutions to economic problems. If not, maybe something as simple as a taxi ride in Korea would be sufficient to cure their economic myopia. □



Freedom from Taxes?

WASHINGTON—Income tax day may be behind us, but the pain is not over. We are still working for government, and we won't be finished until the middle of this month.

According to the Tax Foundation, the average American had to labor 126 days—to May 6—to pay his or her taxes this year. Looked at another way, people devote two hours and 46 minutes of every workday to government. This is the latest Tax Freedom Day ever, as a result of the 1993 tax hikes. And May 6 is just the national average. If you live in Connecticut or New York, you labor for government till May 28. Residents of Washington, D.C., and New Jersey start working for themselves only on May 18. Residents of Hawaii are indentured servants until May 17. The *least* taxed citizens of America work three and one-half months for the government. Far more people labor four to five months for politicians before earning a penny for themselves.

Even these horrible numbers understate the impact of government on taxpayers. The Tax Foundation only looks at tax collections. The federal government, however, relies on deficits to expand its outlays and regulations to control even more private activities. Thus, the Washington-based Americans for Tax Reform estimates that while Americans may have finished with their taxes on May 6, Spending Freedom Day didn't occur until May 16, when people stopped paying for government outlays. And Cost of Government Day, when citizens were finally free of the total expense of government, including regulation, is still to come, on July 9.

In short, the average American spends more than *half* of every year working for government. Did you feel liberated after April 15? You shouldn't have—you had nearly *three more months* to go before the money you earned was truly your own.

This is unconscionable—feudal serfs were treated better than taxpayers today. People have a moral right to more of their incomes.

But you wouldn't know it from the debate in Washington. A few legislators freely admit that they want to keep on spending, so they prefer tax hikes to cuts. The more subtle—seen as "responsible" politicians by the opinion-making elite—say that deficit reduction must take first priority. Of course, many of them are convenient converts to budget responsibility, having never before found a federal program they didn't like.

Even many of the defenders of tax reduction seem half-hearted. Rather than simply returning money to people, letting them decide how to use it, they promote supply-side engineering: proposals for specific credits and the like. Moreover, even some tax-cutters fear being perceived as, horrors!, favoring the rich. Thus, they advocate denying any benefits to high earners.

Alas, no one in the nation's capital is making the basic moral case: government is taking far too much of everyone's income and Congress should just cut overall tax

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rates. Such an approach would also help serious tax-cutters confront their opponents' shameless attempts at class war. The 1980s have been attacked as the decade of greed, but it appears that the 1990s will end up as the decade of envy. People don't so much want more money for themselves as they want to take it away from those with more. Greed is bad enough, eating away at a person's soul. Envy is far worse because it destroys not only individuals, but also communities, poisoning relations as everyone attempts to use the state to live off of everyone else.

Even today, the much maligned "rich" are paying a huge proportion of their incomes in taxes. Many people face a marginal rate of roughly 50 percent in federal taxes alone—income, Social Security, and Medicare. Added to that are state and local income taxes, real estate taxes, sales taxes, county business fees, and a host of other levies. By what right should transient majorities and influential minorities be able to divest people of two-thirds or more of every extra dollar they earn?

Not just the rich are subject to such extraordinary levies. The National Taxpayers Union reports that a family with an average median income of $52,895 pays an extraordinary $26,689 in taxes, more than half. Is that fair?

Particularly scandalous have been attempts to treat the 1981 across-the-board income tax rate reductions as unfairly skewed to the rich. That 25 percent cut provided more in tax cuts to the rich because *the rich were paying so much more in taxes*. It was simple fairness to give someone who paid, say, ten times as much in taxes more tax relief. Given the half dozen major tax hikes passed by Congress over the past decade, a new round of rate cuts would be the fairest reduction of all by offering benefits proportional to what people are already paying.

How to sell sizable tax cuts to a deficit-wary public? Tax reductions would help starve government, forcing it to be more responsible fiscally. Every tax hike in the 1980s was followed by higher, not lower, spending, irrespective of the promises made by successive Congresses and presidents. Ultimately, the only way to stop the special interest looting that occurs daily in Washington is to cut off the money.

Consider the conventional wisdom that irresponsible tax cuts caused the massive deficits of the 1980s. Good try, but no cigar: federal revenues rose (in inflation-adjusted 1987 dollars) from $766.6 billion in 1981 to $894.7 billion in 1991, a hefty 16.7 percent increase. Unfortunately, spending rose more—from $867.7 billion to $1,123.2 billion over the same period, a jump of 29.4 percent (after inflation). Every extra dollar in taxes is an extra dollar for legislators to spend. Taxes are unlikely ever to catch up with outlays because politicians simply can't be trusted with someone else's credit card.

Of course, advocates of tax cuts also need to propose serious budget cuts, killing agencies and subsidies for Republican and Democratic allies alike. There's little gain in taking nicks out of programs: interest groups will still resist and the public won't care enough to voice its support. Instead, legislators need to take great whacks at spending, and let the public know that serious tax relief depends upon voters backing those great whacks.

Finally, if people want everyone to be better off, they should support policies to expand the nation's economic pie rather than steal more from those who are economically successful. Yet the sort of class warfare represented by attempts to "soak the rich" actually reduces employment. Higher marginal rates discourage people from working and investing; confiscatory taxation reduces the availability of private investment capital. Indeed, it is the wealthy who provide much of the capital that business uses to employ people and expand operations. While large, investment-based incomes may seem scandalous to the envious, they help create the jobs that employ low- and middle-income Americans.

How to tell if last November's electoral earthquake makes a real difference? The simplest test next year will be whether Tax Freedom Day and Cost of Government Day have shifted backward. Then we will know the truth of legislators' claims to have the taxpayers' best interests at heart. □

THE FREEMAN
IDEAS ON LIBERTY

Don't Believe the Hysterical Preservationists

by James D. Saltzman

Should it be illegal to hang shutters on your old house without your city's permission? Or to add vinyl siding to your home without first checking with a local panel of political appointees? Or to adorn your own land with a fence made of wood instead of a more costly fence made of stone?

Believe it or not, approximately 2,000 city and county governments across America have acquired this much clout over changes to private property by adopting historic-preservation ordinances.[1] These statutes allow a local government to regulate the appearance or possible demolition of a property by declaring it a historic landmark or by mapping it into a historic conservation district, all without the permission of the owner.

Instead, the owner cannot alter the look of his property without the permission of his local government. For Dennis Foley that meant being told by the Arlington County, Virginia, Historic Review Board in 1993 that he could not hang wood-grain vinyl shutters on his home. Because he lives in an historically protected community, only the more expensive kind made from genuine wood will do.[2]

Even with this much say-so over changes to private property at the local level, preservationists want even more control. In 1993, the National Trust for Historic Preservation placed the entire state of Vermont on the Trust's annual list of the 11 most endangered places in America and followed in 1994 by putting Cape Cod on the same list. In some cases, state and federal agencies can already direct changes to "historic" buildings and sites.

And preservationists have no qualms about annihilating owners' freedom of choice when it conflicts with preservationists' wishes for the appearance of properties. For example, a recently proposed historical preservation ordinance for Houston called for fines of up to $500 per day for violating any article of the ordinance, a penalty the local Preservation Alliance criticized as too weak to "provide an effective deterrent"[3] against unacceptable changes to "historic" buildings. Meanwhile, the National Trust for Historic Preservation advises: "The stiffness of the penalty varies with each community depending on the likelihood of non-compliance."[4]

According to this thinking, local police powers are needed to protect a "historic" property from the whims of its owner. As the Houston Preservation Alliance claims, "historic landmarks are landmarks no matter what an owner might think and should be designated and protected accordingly."[5] In other words, successful preservation cannot occur unless the owner of a "historic" building or site can be forced to let others manage changes to the appearance of his property.

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Preservation Without Coercion

But the coercive preservationists are wrong. Successful preservation *does* occur voluntarily. In Great Britain, for example, private and voluntary conservation societies—including the National Trust and National Trust for Scotland, the Historic Houses Association, and the Landmark Trust—use private donations and some government grants to acquire, restore, and maintain over 1,800 historic properties, almost all in the British Isles.[6] Recently, the Landmark Trust has purchased sites in Italy and the United States.[7] And the Trust gets one third of its annual budget from leasing its properties for holidays or vacations.

Uncoerced preservation is also common in America. For example, Kykuit, the Rockefeller family estate near Tarrytown, New York, was given over in 1992 to the (American) National Trust for Historic Preservation, so that the Trust could display the estate's house, gardens, and art collection to the public.[8] Just last February, the Heritage Society of Houston received the circa-1870 house of the Reverend Jack Yates, a nineteenth-century African-American civic leader. The Society will spend $300,000 renovating the building, turning it into a museum.[9] In 1989, the National Trust for Historic Preservation and *Successful Farming* magazine teamed up in a project called "Barn Again!" to advise farmers on how to restore old barns and gave prizes of up to $1,000 for the best results.[10]

Offering prizes can encourage preservation, but even better urging comes from market incentives. According to *Time*, "Barn Again!" prizewinners "spent an average of $11,000 on their projects, compared with a $25,000-to-$35,000 cost for a new metal building."[11] In general, rehabilitating an old structure is cheaper than building a comparable new one, especially when the cost of tearing down the existing building is included.[12]

Thus, common sense leads investors to restore old buildings conveniently located in or near a downtown. A comprehensive review of modern economic research on historic preservation appeared in the Summer 1991 issue of the *Journal of the American Planning Association* and concluded that "gentrification rarely proceeds by central direction, but rather, through the individual investment decisions of hundreds of thousands of people."[13] Preservation rules usually arrive only after an area has achieved fashionability and stirred investor interest.

For example, renewal preceded local district rules in the Woodland in Waverly neighborhood of Nashville. This locale was first developed between the 1890s and the 1930s. After declining through the 1950s and 1960s, the area revived in the 1970s.[14] Local historic district controls on demolitions and design arrived in 1985 once a petition was signed by 80 percent of neighborhood property owners. So before the controls, Woodland in Waverly had already become a magnet for buyers serious about fixing up old buildings.

Restoration has also preceded regulation in Houston, which adopted its first preservation ordinance in 1995.[15] Prior to that, some of the city's oldest neighborhoods have enjoyed a spontaneous revival since the 1970s. Perhaps the best example is the Houston Heights, a neighborhood of four square miles first developed before the turn of the century.

Formerly one of Houston's most desirable locations, the Heights deteriorated in the early sixties. Crime soared. Nevertheless, a surplus of Victorian homes and quaint bungalows, available at bargain prices, began attracting buyers in the early 1970s who sought to settle only minutes from downtown and from the city's other major employment centers.

What began as a trickle of new investment in the Heights soon became a deluge. Between 1970 and 1980, the price per square foot of single family homes in the Heights increased 17.5 percent, equal to or better than the increases in the more fashionable Houston neighborhoods of Bellaire and West University Place.[16] Between 1990 and 1994, average prices rose 25 percent in the Heights while dropping slightly in Bellaire and moving up slowly in West University.[17]

Preservationists argue that controls are necessary to draw investors by offering them assurance that a neighbor won't do something distasteful with his property. But investment has flooded the Heights even while the area has lacked the "protection" of preservation mandates. Most good homes are restored, not torn down for gaudy replacements, and much of the new construction is architecturally compatible with the old, all without a nudge from the heavy hand of government.

The Real Enemy of Preservation

In fact, when the hand of government gets involved with old buildings, it usually pushes them down or blocks their recovery. For example, in his 1966 report, "The Federal Bulldozer,"[18] Martin Anderson decried federal urban-renewal schemes of the 1950s and 1960s for leveling tens of thousands of sturdy inner-city homes. No doubt, this scheme destroyed many structures that would now be cherished as "historic" buildings.

Today government interference in preservation continues. Stringent building codes discourage the restoration of older properties.[19] In addition, zoning laws requiring excessive parking and setbacks while restricting mixed uses complicate efforts to revive older areas.[20] Transportation policies favoring street and highway construction in the suburbs subsidize the flight of people and their money from inner-cities.[21] Furthermore, when taxes in the central city are higher than those in surrounding jurisdictions, people move from the former to the latter,[22] reducing investment in older buildings at the urban core.

And don't forget obstacles created by the preservation rules themselves. As a 1991 federal report found:

> Regulations governing the preservation of buildings can also block rehabilitation of older structures. A project may be slowed while a determination is made as to whether an old elementary school or hotel is of historic significance. If the building is labeled as historic, then the planned rehabilitation is sometimes subject to lengthy and costly approval processes to ensure authenticity of appearance. In other cases, where a building is in a historic district or has been individually designated as historic, energy-efficient enhancements such as replacement of windows and doors or drilling of holes into side walls for the injection of insulation may be blocked on the basis of strict adherence to preservation standards.[23]

As one developer testified in the report, a dispute between local and state landmark groups over his plans to renovate three older homes in Louisville "consumed about $20,000 more than I originally planned, in increased carrying costs and lost time, and added considerably to the price of the finished product."[24] Not surprisingly, the 1991 report in the *Journal of the American Planning Association* offers the speculation that preservation rules shift small-scale investment to areas with comparable properties not covered by the rules.[25]

Correlation Is Not Causation

But coercive preservationists maintain that their rules encourage investment. For proof, they point to thriving conservation districts. A favorite example is the Lower Downtown (Lo-Do) area of Denver.[26] There, say the preservationists, restrictions enacted in 1988 on demolitions and design in Lo-Do transformed the 20-block area in little more than five years from a run-down warehouse district into a trendy locale for restaurants, bars, shops, small offices, and condos. Historic rules, boast the preservationists, are good for business.

But correlation should not be confused with causation. Investment picked up after the installation of preservation controls but not because of them. Yes, the Lower Downtown Business Support Program attracted more than $15 million in new investments and 500 new jobs between 1987 and 1991.[27] Yet these changes occurred, according to reports written in 1990 and 1992 for Denver's planning department, as the city was speeding the regeneration of the area with $114 million in street and sewer improvements between 1988 and 1993.[28] As developers know, private investment dollars tend to flow in the direction of such large public outlays for infrastructure.

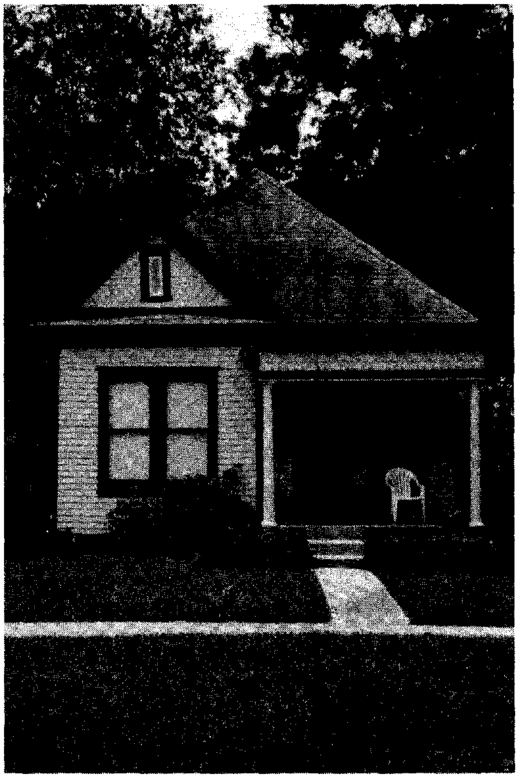
Lo-Do's surplus of sturdy old buildings, available for low prices just as Denver crept out of a local recession,[29] also made the area ripe for investment, regardless of preservation controls. In fact, the 1990 report says that the renovation of Lo-Do buildings was 25 to 30 percent cheaper than new construction.[30] And a new major-league baseball stadium just outside Lo-Do has strengthened the area as a location for bars and restaurants. Thus, public subsidies and market opportunities, not preservation rules, accelerated Lo-Do's redevelopment.

Lo-Do isn't unique. Scratch a preservation district "success story" and you're likely to find public subsidies, tax breaks, or zoning bonuses,[31] with one or more of these channeling investment toward areas favored by the preservationists. Thus, preservation awards may profit some targeted businesses or apartments by giving them an unfair advantage over their local competitors outside the district. If preservation rules were beneficial in themselves, tax breaks and other public assistance would not be needed to funnel investors into historic districts.

Property Values

Preservationists also argue that their rules serve the public by raising the value of designated properties. How? "Properties with such designation tend to receive a higher degree of maintenance due to pride of ownership and thus maintain or increase in value better than those of comparable actual age without a designation of historical significance,"[32] explains the National Trust for Historic Preservation.

But the facts say otherwise. The study in the Summer 1991 issue of the *Journal of the American Planning Association* reviewed the impact of local historic designation on



Preservation by choice, not by edict, in the Houston Heights.

property values around the country in the 1970s and 1980s. In the Park Slope neighborhood of Brooklyn, "the greatest property value increases occurred prior to designation."[33] Meanwhile, several "blocks in Galveston's Strand historic district . . . experienced an annual growth rate of only about 11 percent from 1974 to 1977, although city values overall rose by 28 percent per year."[34] In five Washington, D.C., neighborhoods, the rate of increase in property values actually *slowed* after the imposition of local historic controls.[35]

Despite the preservationists' beliefs, assets do not become more valuable because the government has gained more control over them. A study in the May 1994 issue of the *Journal of Real Estate Finance and Economics*, explains how stringent preservation rules in Philadelphia weakened the value of small apartment buildings by 24 percent relative to comparable apartments without the rules.[36] And according to the 1992 report written for the Denver planning department, preservation controls on demolition and design in Lower Downtown created a "cap on expectations"[37] for financial returns to investors in the district by prohibiting high rises and new parking facilities. Only the preservationists would equate progress with scaling back the future value of property.

Censoring Our Choices

The economic arguments for historic preservation rules—that they foster community benefits like urban renewal, local business growth, and rising property values—falsely presume that a political elite knows better how to manage property than do the individuals who actually own the properties. And supplanting the aesthetic choices of the property owner with the edicts of the historical commission isn't just bad economics; it's censorship. The government has no more business imposing aesthetic controls on our buildings than it does on our clothes or our cars. □

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2. "Property owner dramatically demonstrates absurdity of 'historic' preservation rules," *Land Rights Letter*, April 1994, p. 1.
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11. *Ibid.*, p. 88.
12. Donovan D. Rypkema, "Preservation Under (Development) Pressure; We Have Consumed Enough of Somebody Else's Assets," in *Vital Speeches*, February 15, 1990, p. 269.
13. Dennis E. Gale, "The Impacts of Historic District Designation; Planning and Policy Implications," *Journal of the American Planning Association*, Summer 1991, p. 327.
14. "Districts Make the Difference," *op. cit.*
15. On February 22, Houston adopted a limited ordinance, allowing the city to designate properties as historic without the owner's permission but also providing some opportunities for the owner to alter or demolish his "historic" property as he sees fit after a 90-day waiting period.
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17. "Tracking Houston's Home Prices," *The Houston Post*, June 12, 1994, p. D-6.
18. Martin Anderson, *"The Federal Bulldozer," Urban Renewal, The Record and Controversy*, 1966, pp. 491–508.
19. "Not in My Back Yard; Removing Barriers to Affordable Housing," Advisory Commission on Regulatory Barriers to Affordable Housing, The Department of Housing and Urban Development, 1991, p. 3–3.
20. Richard Moe, in "All Adding Up to Noplace; How Transportation Polices Affect Communities," (*Vital Speeches*, May, 15, 1994, p. 468) explains how such zoning rules complicate efforts to proceed with new development patterned after older downtown areas.
21. Bennet Roth, "Inner city could be big loser in roads improvement funding," *The Houston Chronicle*, January 15, 1991, p. 1A.
22. "Most Cities Surveyed Have Raised Revenues," *Insight*, February 25, 1991.
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24. *Ibid.*, 3–3.
25. Dennis E. Gale, *op. cit.*, p. 333.
26. Nora Richter Greer, "Preserving Preservation," *Architectural Digest*, March 1991, p. 88.
27. Karen Weintraub, "Downtown Houston ripe for dramatic turnaround; Denver's success a model for Market Square District," *The Houston Post*, July, 24, 1994, p. A-26.
28. Thomas M. Roelke, "Impact of Historic District Designation, Lower Downtown, Denver, Colorado, Second Analysis, April 1, 1990- March 31, 1992," Denver Office of Planning and Community Development, p. 25.
29. William Hathaway, in "Rocky Mountain High, Lessons from a real estate market that climbed out of a slump" (*The Hartford Courant*, August 8, 1993, p. J-1), says that the Denver economy ended its slump and "improved slowly between 1987 and 1989."
30. "Lower Downtown: Economic Impact of Historic District Designation," Hammer, Silber, George Associates, July 1990, p. 9.
31. See "Zoning Strengthens Character," *Southern Living*, November 1990, pp. 104–105. Developers following preservation and other guidelines in Coral Gables, Florida were "eligible for square footage beyond what normally would be allowed under standard zoning."
32. Bridget Hartman, "Public Benefits," The National Trust for Historic Preservation, p. 36.
33. Dennis E. Gale, *op. cit.*, p. 327.
34. *Ibid.*, p. 326.
35. *Ibid.*, pp. 328–332. This slowing coincided with slowing property values at this time for the entire city.
36. Paul K. Asabere, *et al.*, "The Adverse Impacts of Local Historic Designation: The Case of Small Apartment Buildings in Philadelphia," *Journal of Real Estate Finance and Economics*, May 1994, pp. 225–234.
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THE FREEMAN
IDEAS ON LIBERTY

Free Banking and Economic Development

by David Glasner

About five years ago I published a book, *Free Banking and Monetary Reform*, that proposed a radical reform of our monetary system. Competing banks, I argued, should be free to supply any monetary instrument, including currency or banknotes, while the government would perform the limited but vital function of establishing a currency unit (e.g., the dollar) in terms of which privately supplied monetary instruments could be defined. And to ensure optimal stability of the purchasing power of the currency unit, I proposed a mechanism of indirect convertibility tied to a price (or, preferably, a wage) index.

I have been disappointed but not surprised to detect no groundswell of popular support either for free banking or for any of my specific proposals. I do not believe that this lack of enthusiasm betrays any shortcomings with free banking or my proposals. What the indifference to free banking reflects is rather a salutary, "if it ain't broke, don't fix it" sort of conservatism. As long as inflation remains low and the banking system is not collapsing, practical people will not undertake the effort required to effect a reform of this magnitude. The potential benefit from such a reform is not big enough to outweigh the perceived risk in trading the monetary system we know for one we don't.[1] I have therefore concluded that my proposals for free banking are less relevant for the United States and other developed countries with stable monetary systems than for less developed and former Eastern Bloc countries now lacking the monetary stability necessary for economic development. Without secure monetary institutions, these countries have far less to lose than do advanced countries by experimenting with free banking. Nor, for reasons that will become apparent, can less developed countries simply copy the monetary systems of the advanced ones. Free banking is, therefore, ideally suited for overcoming the systemic problems that now frustrate the attempts of less developed countries to achieve monetary stability.

To understand why free banking is so well suited to the circumstances of less developed and former Eastern Bloc countries, we must first consider how money and banking can contribute to economic development. The role of money is familiar and obvious—it is a medium of exchange. Money facilitates exchange by allowing us to trade without having to identify, as we do in barter transactions, a double coincidence of wants. Reducing barriers to trade promotes economic progress by allowing resources to be shifted from less to more valued uses. Such

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shifts create new opportunities and new demands for resources, triggering an upward spiral of output and wealth.

It is worth observing that the capacity of money to perform this extraordinarily valuable social function poses something of a puzzle. The existence of an instrument that serves only as a medium of exchange, providing no real services, seems to contradict the usual assumption of economists that self-interest motivates economic decisions. Why do people accept money, which (despite its social utility) has no direct use for them individually, in exchange for real commodities or services that do have direct use for them? The acceptability of money is sometimes attributed to an implicit understanding among people to act in the common good rather than pursue selfish goals or to a command by the sovereign imposed through legal-tender laws. But neither recognition of the common interest in having a medium of exchange nor laws commanding that an instrument be accepted as legal tender could make people use as money an instrument that they would not have otherwise, in their narrow self-interest, chosen so to use.

Self-Interest and Exchange

How then does self-interest cause anyone to accept a money that has no use except to be exchanged for something else? Whether it is in my self-interest to accept money in exchange for real goods and services depends critically on whether I expect other people to accept money in exchange for real goods and services. If I expect other people to refuse money that I offer in exchange for their goods and services, then my self-interest is to refuse money in exchange, too. But if I expect other people to accept money that I offer in exchange for their goods and services, then my self-interest may dictate accepting money in exchange for the goods and services that I supply, because doing so may allow me more easily to sell what I want to sell and more easily to buy what I want to buy than if I try to barter. The less confident I am that it will retain its value, the less willing I shall be to accept it in exchange. So whether money is acceptable is a matter of degree, not a simple yes or no question.[2]

It is, at any rate, clear that money cannot function well as a medium of exchange unless people are confident that it will be acceptable at roughly its current value in the future. Whatever undermines people's confidence or trust in the future value of money threatens its capacity to serve as a medium of exchange. The delicate web of mutually supporting expectations that allows a medium of exchange to function can easily unravel or collapse if the trust underlying those expectations is eroded—or betrayed.

In primitive conditions, the medium-of-exchange role of money can be performed without the aid of banks. Money could circulate hand-to-hand, either in the form of precious metals, coins, or currency (convertible or fiat) issued by the state. However, the transfer of deposits within or between banks through checks (and now electronically) is an exceptionally efficient way to convey money in trade. To engage in monetary exchange through banks, people must hold deposits with them. By holding bank deposits instead of some other form of money or wealth, people lend banks capital which the banks then lend to borrowers (who typically borrow to finance investment, not consumption). Thus, by providing a convenient way for the public to hold money and execute transactions, banks channel the savings represented by the public's deposits to investors. As intermediaries between ultimate savers and ultimate borrowers, banks increase the return to savers from savings and reduce the cost to borrowers of borrowing, promoting economic development within the areas they serve.

Creating and Maintaining Confidence

Having considered how money and banking promote economic development, we can now ask which institutions will support a stable system of money and banking. Since money cannot function well as a medium of exchange unless people have confidence in its future value, the fundamental task of monetary institutions is to create and maintain that confidence. How can such confidence be created and maintained? The answer for a private supplier of money, i.e., a competitive bank, is very different from the answer for a state that supplies money. And it is on that difference that I am going to rest the case for free banking as the solution for chronic monetary instability in less developed and former Eastern Bloc countries.

Why does it matter whether money is supplied privately or by the state? When a private bank creates money, it does so by issuing a special type of IOU against itself. The IOU allows the owner of the IOU or anyone he assigns to demand its instant redemption in terms of a fixed amount of a specified asset. For example, when Citibank creates a demand deposit, it is promising to redeem that deposit in terms of an equivalent amount of U.S. currency to the depositor or to anyone to whom the depositor writes a check up to the amount of the deposit.[3]

A bank's contractual obligation to redeem its IOUs on demand does not automatically create the confidence in their future value required for them to function as money. If the bank is widely expected to default on its IOUs, those IOUs, regardless of the bank's net worth or financial soundness, will not function as money, because IOUs that people do not expect to be honored will be unacceptable in exchange. For a bank to create confidence that it will continue redeeming its IOUs, it must convince people that it would lose more by defaulting than it would gain. Whether people will trust banks with a substantial net worth to honor their contractual obligations depends in large part on the legal consequences of default for the bank. If the legal system under which banks operate strictly enforces contractual obligations and penalizes default, default will appear unlikely.

One might question whether, if they were not legally required to make their moneys convertible into an asset whose supply or value they could not control (e.g., currency or gold), private banks would voluntarily obligate themselves to redeem their IOUs on demand in terms of such an asset. But no private bank has ever issued irredeemable money without a state edict declaring the money legal tender and acceptable for discharging tax liabilities. Moreover, the theoretical argument denying that a private bank can issue irredeemable money is compelling. The magic a bank performs by creating money is to impart a value to something whose only use consists in being valuable. The bank performs this conjurer's trick by legally committing itself to redeem instantly its IOUs in terms of another asset whose value it cannot control. That credible promise allows the bank's IOU to take on a value identical to that of the redemption asset. But without the promise, people, recognizing the potential profit from issuing valuable IOUs and redeeming them for nothing, would never place a value on such IOUs any higher than their expected final redemption value, namely, zero. Inconvertible bank IOUs must be worthless.[4]

Inside and Outside Money

It may be helpful to distinguish here between inside and outside money. The money private banks supply is called inside money because it represents a debt the bank creates against itself. Outside money can be a physical commodity (e.g., gold) that has become acceptable as a medium of exchange, or a fiat currency issued by the state that has become acceptable as a medium of exchange. Like gold, outside money is an asset without being anyone's liability. Private banks cannot create outside money; they can only create inside money which, to make acceptable, they promise to convert on demand into some outside money.

A sovereign may choose to issue inside money by committing itself, like a private bank, to convert its money on demand into some asset whose supply and value are beyond its control, or to issue outside money in the form of fiat currency. Should it do the former, its IOUs are apt to be less acceptable than those of a private issuer for one very powerful reason: while the default by a private bank on its obligation to redeem its IOUs triggers immediate insolvency, allowing creditors to seize its assets, a sovereign is immune from such sanctions when it defaults. Indeed, a sovereign's default, isn't even called a default, but a devaluation. People would therefore have much better reason to expect a sovereign to default on its obligations than to expect a private bank to do so.

Should the sovereign seek to issue an inconvertible fiat currency, it faces credibility problems of a different sort. Sovereigns have, indeed, successfully issued fiat currencies in numerous instances, so fiat currencies can maintain their value for long periods of time. However, there have been more unsuccessful than successful fiat currencies. So it certainly is not the case that a sovereign, just by declaring a fiat currency legal tender, can ensure its acceptability in exchange.

A sovereign wishing to issue a fiat currency must overcome two problems. First, how can it create a demand to hold the currency it is issuing? Why should anyone sacrifice any real goods or services just to hold pieces of paper that have no use other than to be exchanged for something else? For the pieces of paper to be used as money, people must want them enough to sacrifice something else of value for them. To assume that such pieces of paper have value because they are money begs the question why people accept them as money in the first place.

Second, a positive demand to hold an asset clearly does not ensure its acceptance as money. As I explained above, for an asset to be accepted as money, people must share expectations about the stability of its future value. So even if the sovereign can create a demand for fiat currency, how does it create sufficient consensus among the public about the currency's future value for people to use it as money?

Creating Demand for Fiat Money

Let us consider first how the State can make its currency more valuable than the paper it's written on. A legal-tender law that requires fiat currency to be accepted in the discharge of debts doesn't, by itself, impart any value to the fiat currency. It simply provides a way for some people to discharge debts that they previously incurred but does not compel anyone to accept legal tender in exchange for real goods and services. So why would anyone prospectively supply something of value in exchange for fiat currency? If what the State declares legal tender is not acceptable, people can avoid accepting debt instruments that could be discharged by the proffer of legal tender.

A more powerful way to create a demand to hold fiat money is for the sovereign to require its currency to be used in discharging tax liabilities. If the public owes the sovereign enough at certain times of the year (e.g., April 15), then the demand to hold currency may be sufficient (even during periods of zero or negative net tax liability) to give the currency positive value throughout the year.

But though feasible, such a strategy may still be impractical, which raises our second problem. Even if government tax certificates have a positive value, what would create a sufficient consensus about the expected future value of these tax certificates for them to serve as money? Without such consensus, a positive value will not enable them to serve as money. Indeed, there are few if any historical instances in which a fiat currency was successfully introduced without its first having been made convertible into another money. Thus, although requiring taxes to be paid using a fiat currency seems to be necessary to prop up its value after convertibility has been suspended, acceptability as payment for taxes may not suffice to enable a sovereign to create a new fiat currency.[5]

To sum up: A private issuer of inside money has more credibility than a sovereign issuer of inside money, because people generally understand that a sovereign has less to lose than a private bank by reneging on a convertibility commitment. A defaulting bank forfeits its assets to its creditors while a devaluing sovereign forfeits only its reputation. On the other hand, a private bank cannot issue outside money, while a sovereign can. But a sovereign's capacity to issue a fiat currency without first making it convertible into some other money or asset may be quite limited. Even if requiring its currency to be used in paying taxes gives the currency a positive value, the currency may still not be an acceptable money. Unless the currency, upon introduction, is made convertible into an accepted medium of exchange, the consensus about its future value required for a fiat currency to serve as money may be lacking.

My argument thus far has two basic implications for less developed and former Eastern Bloc countries. First, such countries cannot create stable monetary systems based on inconvertible fiat currencies, because their political regimes lack the credibility to impose stable monetary institutions by fiat. Lacking a widely accepted money about whose future value expectations are secure, such regimes cannot create an acceptable money out of thin air, because they cannot impose a consensus about the future value of a fiat currency.

Creating a new fiat currency inevitably creates a hyperinflationary environment, because with no public confidence in the future value of the currency, the public will be willing to hold very little of it. This does not mean that the demand for money of any kind is small. The demand for a stable money in which people had confidence would be much greater than the demand for a new fiat money. An attempt to force more than this small amount into circulation, say, to finance the government deficit, causes rapid inflation. And the inevitable attempt to overreach the limits of that revenue source by printing even more money triggers a vicious inflationary cycle that causes a complete monetary breakdown.

All Moneys Are Not Equal

Conventional monetary models make two unwarranted assumptions that lead to disastrously misguided policies for developing countries. First, they assume that all money is alike, so that there is a given demand for money, which any instrument so designated can satisfy. Second, they assume that total output is independent of the amount of money. But not all moneys are equal and an inferior money in which people have no confidence cannot perform the services that a superior money could. Moreover, money serves as working capital for households and businesses adding to their productivity, while monetary stability provides a kind of intangible infrastructural capital that adds to the productivity of all economic agents independent of the amount of money they hold individually. Policies aimed at achieving monetary stability in developing countries by restricting the quantity of the available fiat money treat a minor symptom but ignore the fundamental problem, which is that distrust of the available money makes it useless and deprives the economy of desperately needed monetary services.

Thus, the second implication is that in such circumstances the only feasible way to create a consensus about the future value of a currency is to make it convertible into another money, e.g., the dollar, about whose future value expectations are secure. But governmental commitments to establish and maintain convertibility, as the recent Mexican fiasco has shown yet again, are obviously not credible, because a sovereign that defaults on such a commitment faces no effective sanction. Devaluations are a dime a dozen.

Nevertheless, given sufficient reserves, and given some institutional constraints on money creation and on government borrowing, governments can maintain a fixed exchange rate for a period of time. With sufficient resolve, they may do so indefinitely. However, such pegs are extremely fragile. Once an economic or political shock occurs, the expectation of a future devaluation becomes almost irresistible even for a developed country.

One way a government could increase confidence in its commitment to maintain convertibility is to create a currency board whose sole function would be to issue domestic currency in exchange for an equivalent amount of some foreign currency in terms of which the domestic currency would be defined. Such a system, if maintained, converts the domestic currency into a denomination of the foreign currency in terms of which it is defined. However, even a currency board cannot prevent a government from devaluing if that is what the government decides to do.

It is now clear why free banking is so well suited for less-developed and former Eastern Bloc countries. By making the commitment to maintain convertibility one which holders of money can enforce through legal means against private banks instead of one that can be abrogated by the sovereign at will, free banking avoids the barrier that sovereign irresponsibility places in the way of creating monetary confidence.[6]

Under free banking, private banks would be allowed to issue currency (banknotes) and create deposits denominated in units of their own choosing. Thus, if the public wished to use dollars, free banks would be willing to create money denominated in dollars. However, since there would be legal problems in issuing banknotes denominated in dollars, free banks would instead define new denominations (say, the crown) in terms of dollars (one crown equals one dollar), so that prices could be quoted interchangeably in either dollars or crowns. Because it would allow private banks to supply the hand-to-hand currency needs of the public, free banking would be preferable to simple dollarization which would require a country to import the dollars required for hand-to-hand circulation by means of a costly export surplus.

By setting an appropriate tax rate on bank profits, governments would, in the end, derive more tax revenue from the profits of the competitive banks than they could have by issuing fiat currencies and seeking to exploit their monopolistic control over those currencies. But even this gain would be dwarfed by the general increase in tax revenue that would result from an economic boom triggered by the provision of sound and stable money by a system of free competitive banking. □

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1. Yet, as I pointed out in my book, continuing financial innovation and technological progress toward a cashless economy will, like it or not, gradually lead us over the long term at least part of the way toward free banking even with no deliberate redesign of our basic monetary institutions. The same point has been emphasized by Sir Samuel Britten in two recent columns in the *Financial Times*, June 9, 1994 and June 16, 1994.

2. A money can survive even if there is some expected depreciation in its value, but the more depreciation is expected the less useful and the less acceptable money becomes. Because of the positive feedback effects between your willingness to accept money and my willingness to accept money (now referred to as a network externality), monetary collapse can come very suddenly in response to a seemingly small change in expected depreciation.

3. The legal restrictions requiring U.S. banks to hold reserves of currency or otherwise restricting their behavior are, for purposes of this discussion, irrelevant. What matters is that in creating deposits, banks are offering an IOU that they are contractually obligated to redeem in terms of an asset (U.S. currency) whose supply or value they cannot control. If banks were legally allowed, as they once were and as they would be under free banking, to create banknotes circulating from hand to hand as currency, the legal status of banknotes could be similarly characterized, except that the bank's obligation to redeem would be to the bearer of the banknote not to the original holder of the deposit.

4. I have explained this point more fully in my article, "The Real Bills Doctrine in the Light of the Law of Reflux," *History of Political Economy*, Winter 1992, pp. 885–86.

5. On the role of prior convertibility in establishing a fiat currency, see G. Selgin, "On Ensuring the Acceptability of a New Fiat Money," *Journal of Money, Credit and Banking*, November 1994, pp. 808–26.

6. The government might still profit from devaluation by reducing the real value of debt denominated in terms of the domestic currency, but it is not clear that the government so circumstanced would have anything to gain by denominating debt in terms of its domestic currency rather than the foreign standard currency since denominating in terms of the foreign standard currency would enable it to borrow at a reduced interest rate.

THE FREEMAN
IDEAS ON LIBERTY

Thomas Jefferson's Sophisticated, Radical Vision of Liberty

by Jim Powell

When Virginians reflect on the American Revolution, they often like to describe George Washington as its sword, Patrick Henry as its tongue, and Thomas Jefferson as its pen.

Jefferson expressed a sophisticated, radical vision of liberty with awesome grace and eloquence. He affirmed that all people are entitled to liberty, regardless what laws might say. If laws don't protect liberty, he declared, then the laws are illegitimate, and people may rebel. While Jefferson didn't originate this idea, he put it in a way that set afire the imagination of people around the world. Moreover, he developed a doctrine for strictly limiting the power of government, the most dangerous threat to liberty everywhere.

Jefferson was among the most learned men of his time. He understood historic struggles for liberty. He drew on his practical experience serving as a representative in the Virginia House of Burgesses, the Virginia Convention, Continental Congress and Confederation Congress, and as Governor of Virginia, Minister to France, Secretary of State, Vice President and President of the United States.

With his gifted pen and meticulous script, Jefferson drafted more reports, resolutions, legislation, and related official documents than any other Founding Father. Above all, Jefferson wrote letters, probably more than his illustrious contemporaries, and a larger number of these letters survive—some 18,000. He corresponded with many leading lights of liberty, including Thomas Paine, John Adams, Benjamin Franklin, Patrick Henry, Marquis de Lafayette, James Madison, George Mason, Jean-Baptiste Say, Madame de Stael, and George Washington.

He had a reserved manner, even with his children, but he was a steadfast friend. His friendship with James Madison endured for a half-century. Jefferson's tact enabled him to maintain relationships with prickly-pear patriots like Thomas Paine and John Adams. In an affectionate letter, Adams commended him for "friendly warmth that is natural and habitual to you."

Jefferson was an instantly recognizable Founding Father. He stood about six feet two inches tall, was thin, had reddish hair, hazel eyes, and a freckled complexion. As a young man, he was a snappy dresser, but in later years he neglected his appearance. His hair turned gray and flopped around his

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head. When President, he reportedly greeted morning visitors in worn slippers and a worn coat.

Jefferson's intellectual legacy has been hotly contested. For four decades after he left the White House, his ideas dominated U.S. government policy, and he was revered as the "Sage of Monticello." Then the Civil War changed everything. Some 620,000 people died amidst that struggle to preserve the Union, turning public opinion against Jefferson who had defended the right of secession and independence. He fell even further out of favor during the "Progressive Era" when reformers imagined that every problem could be fixed by giving the federal government more power. President Theodore Roosevelt scorned Jefferson as a "scholarly, timid, and shifting doctrinaire." Hamilton, apostle of government power, became the most revered Founder.

The bicentennial of Jefferson's birth, 1943, prompted many Americans to think about his life, and his reputation experienced a comeback. It was marked by construction of the Jefferson Memorial in Washington, D.C., emblazoned with his stirring oath: "I have sworn upon the altar of God eternal hostility against every form of tyranny over the mind of man." As historian Merrill D. Peterson explained the comeback: "The man glorified in the monument had transcended politics to become the hero of civilization. He had come to stand for ideals of beauty, science, learning, and conduct, for a way of life enriched by the heritage of the ages yet distinctly American in outline. The range of his appeal, if not its intensity, increased with the disclosure of his varied and ubiquitous genius."

Since about 1960, Jefferson has again come under attack. Constitutional historian Leonard Levy, for instance, cited episodes when Jefferson suppressed civil liberties, especially during his terms as Virginia Governor and U.S. President. Historian J.G.A. Pocock portrayed Jefferson as a backward-looking country aristocrat who feared cities and commerce, out of touch with the modern world. Historian Bernard Bailyn called Jefferson an unthinking "stereotype." Some historians revived Federalist charges that Jefferson fathered children with his attractive young slave Sally Hemings. And of course, many historians expressed disgust that Jefferson owned slaves, bred slaves, gave away slaves as wedding presents and never liberated any slaves—he reportedly owned 180 slaves when he wrote the Declaration of Independence and had 260 slaves when he died. Historian Page Smith claimed that because Jefferson didn't always live up to his expressed ideals, he was a fraud, and his ideals were no good.

Though Jefferson had personal failings—in the case of slavery, a monstrous one—they don't invalidate the philosophy of liberty he championed, any more than Einstein's personal failings are evidence against his theory of relativity. Moreover, every one of Jefferson's adversaries, past and present, had personal failings, which means that if ideas are to be dismissed because of an author's failings, Jefferson and his adversaries would cancel each other out. When historians finish dumping on Jefferson, they still won't have cleared the way for Karl Marx or whomever they admire. Jefferson's accomplishments and philosophy of liberty must be recognized for their monumental importance.

Early Life

Thomas Jefferson was born April 13, 1743, at a plantation named Shadwell, along the Rivanna River. He was the third child of Peter Jefferson, who seems to have been a self-educated, enterprising man—surveyor, plantation operator, judge, and representative in the Virginia House of Burgesses. His mother, Jane Randolph, brought aristocratic blood from a prosperous Virginia family. While Thomas expressed admiration for his father, he hardly ever talked about his mother.

Jefferson was tutored by Anglican ministers in Latin, Greek, science, and natural history. For two years, he attended William and Mary, America's second-oldest college (after Harvard), located in Williamsburg. Then he began studying English common law and opened a successful law practice.

Jefferson loved books. Among the titles that would influence his understanding of liberty: John Locke's *Two Treatises on Government*, Adam Ferguson's *An Essay on the History of Civil Society*, and Baron de Montesquieu's complete works. His library would eventually exceed 6,000 volumes.

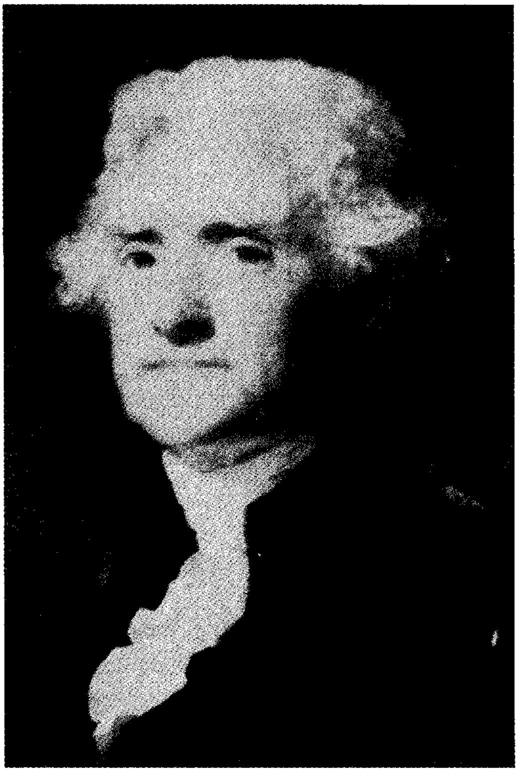
Jefferson was in the thick of things politically because Williamsburg was the capital of Virginia, the largest and richest colony. His political career began in December 1768 when he was elected to the Virginia House of Burgesses. The hot issue was Britain's persistent effort to defray its war debts by taxing colonists. Jefferson helped form a committee of correspondence for coordinating tax resistance.

In 1774, Jefferson wrote his first published work, a 23-page pamphlet called *A Summary View of the Rights of British America*. It was a legal brief which boldly declared that Parliament didn't have the right to rule the colonies. The work established Jefferson as a man who had a way with words.

By March 1775, Jefferson was named a delegate to the Second Continental Congress in Philadelphia. He met people he had heard much about, especially John Adams, Samuel Adams, and Benjamin Franklin. After meeting the Virginian, John Adams remarked: "Writings of his were handed about, remarkable for their peculiar felicity of expression. . . . [Jefferson] was so prompt, frank, explicit and decisive upon committees and in conversation . . . that he soon seized upon my heart."

On June 7, 1776, Richard Henry Lee urged the Continental Congress to adopt his resolution for independence. Debate was scheduled for July 1st, while Jefferson, Franklin, John Adams, Roger Sherman, and Robert R. Livingston were assigned to prepare a statement announcing and justifying independence.

Thirty-three-year-old Jefferson drafted the Declaration of Independence on the second floor of a Philadelphia home belonging to bricklayer Jacob Graff, where he rented several rooms. They were at Market and Seventh streets. Jefferson wrote in an armchair pulled up to a dining table. He



Thomas Jefferson
(1743–1826)

probably scratched away with a goose quill pen, a writing implement which is quite difficult to use. By habit, he did most of his writing between about 6:00 PM and midnight. The Declaration took him 17 days.

Like *A Summary View of the Rights of British America*, the Declaration was mostly a legal brief listing a succession of complaints against England—revolution wasn't to be undertaken lightly. In the Declaration, however, Jefferson directed his case against George III rather than Parliament, and he provided more of a philosophical justification for the Revolution.

With just 111 words, he expressed ideas which would inspire people everywhere: "We hold these truths to be self-evident: that all men are created equal; that they are endowed by their Creator with certain inalienable rights; that among these are life, liberty and the pursuit of happiness; that to secure these rights, governments are instituted among men, deriving their just powers from the consent of the governed; that whenever any form of government becomes destructive of these ends, it is the right of the people to alter or abolish it, and to institute new government, laying its foundation on such principles, and organizing its powers in such form, as to them shall seem most likely to effect their safety and happiness."

This was radical stuff. It was radical for Jefferson's day, as subsequent struggles with Federalists made clear. It was too radical for Abraham Lincoln who forcibly resisted the secession of Southern states. Today, it remains a radical creed, since few Americans talk much about the right of armed rebellion against government.

As Jefferson later explained his aims: "to place before mankind the common sense of the subject, in terms so plain and firm as to command their assent, and to justify ourselves in the independent stand we are compelled to take. Neither aiming at originality of principle or sentiment, nor yet copied from any particular and previous writing, it was intended to be an expression of the American mind, and to give to that expression the proper tone and spirit called for by the occasion."

All colonial delegates except those from New York, who initially abstained, voted for Lee's independence resolution on July 2nd. Then came a three-day debate on Jefferson's draft of the Declaration. Congress voted to cut about a quarter of the text and insisted on many minor changes. Deferring to delegates from Georgia and South Carolina, and perhaps delegates from some Northern colonies that had engaged in the slave trade, Congress cut Jefferson's extended attack on George III for not outlawing the slave trade.

Congress approved the Declaration of Independence on July 4th. On July 19th, 56 men officially signed what was to become the most important document in American history.

Jefferson served as Revolutionary War Governor of Virginia, raising money and cobbling together defenses against the British. Moreover, thanks to his efforts, Virginia became the first state to achieve complete separation of church and state.

Amidst these public crises, Jefferson endured shocks at home. He and his wife Martha had three children die in infancy. On September 6, 1782, Martha died at 33—complications from childbirth. They had been married 10 years. Deeply depressed, he stayed in his room for three weeks. Then, for several more weeks, he spent nearly every day alone, riding his horse through the woods around Monticello. It was fellow Virginian James Madison who coaxed Jefferson back into public life.

Jefferson went on to do much more for liberty during his phenomenal career. He represented American interests in Paris while the Constitutional Convention conducted its epic debates, but through correspondence he helped convince James Madison, architect of the Constitution, to support adoption of a bill of rights. As Secretary of State in George Washington's cabinet, Jefferson was horrified at Alexander Hamilton's scheming to subvert the Constitution and expand federal power. This convinced Jefferson that he must seek the Presidency. He won in 1800, cut taxes, cut spending, and paid off a third of the national debt. When Spain blocked access to the Mississippi and ceded it to Napoleon, then conquering Europe, Jefferson moved to purchase the Louisiana territory, even though he couldn't defend the policy on constitutional grounds. Unfortunately, his presidency closed on a sour note—frustrated by British seizures of American sailors and goods, he declared a trade embargo that backfired.

After his second term, Jefferson retired to Monticello, his beloved mountaintop mansion near Charlottesville, Virginia. Here he planned the University of Virginia, played with his 13 grandchildren, struggled with his money-losing properties, and wrote many luminous letters.

Jefferson explained his exhilarating vision of liberty, perhaps his most precious legacy to the world. He insisted that liberty is impossible without secure private property: "a right to property is founded in our natural wants, in the means with which we are endowed to satisfy these wants, and the right to what we acquire by those means without violating the similiar rights of other sensible beings. . . ."

How gracefully he rejected envious appeals to seize wealth: "To take from one, because it is thought his own industry and that of his fathers had acquired too much in order to spare to others who, or whose fathers have not exercised equal industry and skill, is to violate arbitrarily the principle of association, the guarantee to everyone a free exercise of his industry and the fruits acquired by it."

Jefferson urged Americans to pursue peace through free trade. "It should be our endeavor," he wrote, "to cultivate the peace and friendship of every nation . . . Our interest will be to throw open the doors of commerce, and to knock off all its shackles. . . ."

Personally, the most heartening experience of Jefferson's last years was the reconciliation with John Adams. It was the idea of Benjamin Rush, a Philadelphia physician and fellow signer of the Declaration of Independence. In January 1811, Dr. Rush wrote Jefferson, reminiscing about Revolutionary days and Adams' contributions. Although Jefferson and Adams became bitter rivals for the presidency, Adams had later defended Jefferson against attacks from fanatical Federalists. Jefferson, almost 69, told Dr. Rush that while he was wary of the suspicious and envious Adams, then 76, he recognized what Adams had done for American liberty. Not long afterwards, a couple of Jefferson's Virginia friends visited Adams and heard him declare: "I always loved Jefferson and still love him." Word got back to Jefferson who was thrilled.

Adams ended up writing the first letter on January 1, 1812, and Jefferson replied: "I now salute you with unchanged affections and respect." Soon correspondence was flowing between Quincy and Monticello. The two men talked about their health, books, history, and current affairs. They touched on past political disagreements, Adams' persistent pessimism and Jefferson's enduring optimism. Above all, they talked about the American Revolution which both men were immensely proud of. "Crippled wrists and fingers make writing slow and laborious," Jefferson confided in October 1823. "But, while writing to you, I lose the sense of these things, in the recollection of ancient times, when youth and health made happiness out of every thing."

Before Jefferson slipped into a coma on July 3, 1826, he asked: "Is it the Fourth?" He died on the Fourth, about 12:20 PM, a half-century after the glorious Declaration. Meanwhile, in Quincy, Massachusetts, some 500 miles away, John Adams was fading, too. Around noon on the Fourth, some six hours before he died, he managed a few words: "Thomas Jefferson survives." Indeed he does, in the hearts and minds of millions everywhere who cherish liberty. □

THE FREEMAN
IDEAS ON LIBERTY

Forrest Gump: A Subversive Movie

by Aeon J. Skoble

A Hollywood movie is like a box of chocolates: it tastes good, but it's really bad for you. Of course, it isn't bad to eat a small amount of chocolates; likewise, not all Hollywood movies are bad for you. But after seeing *Forrest Gump*, the charming aphorism that was central to the film ("My momma says that life is like a box of chocolates") metamorphosed in my mind in this fashion. I caught myself enjoying the film while realizing that I was enjoying something unhealthy. As time passes since the film's release, it not only grows in popularity, but the associated merchandising increases. One can buy collections of Gump sayings, tins of "BubbaGump Shrimp," Gump t-shirts, and so on. As the film's appeal grows, so does the need to examine its message. The movie won six Academy Awards (including Best Picture and Best Actor for Tom Hanks)—so the film is clearly an influential social and cultural item.

Before criticizing the film's vices, I first praise its virtues. It is very well executed. The by-now-well-known special effects that make Tom Hanks appear in old newsreel footage and play championship ping-pong, and that make Gary Sinise's legs disappear, are outstanding. Hanks adds another finely crafted performance to his résumé. The film's narrative structure is tight, and strikes the right balance between serious drama and light comedy. Indeed it is truly an excellent film, in the sense that it tells a story well and conveys a message. But the values portrayed, like a box of chocolates, are too sweet and not entirely healthy.

This film is subversive. It doesn't subvert the Constitution of the United States, but rather it is subversive of the human spirit. This claim will come as a spoilsport voice-in-the-wilderness to the many who are trumpeting the film as a triumph of the human spirit. *Forrest Gump* is unambiguously anti-intellectual, and subversive in its power to make one enjoy it anyway.

The naive innocent who prospers in a wicked world is an old standard, and a very seductive device. Even Wagner, after announcing the coming of the superman, found refuge in this archetype in *Parsifal*. Here Hanks portrays a man with an I.Q. of 75 who becomes a national hero and a millionaire through. . . what? The purity of his spirit and the grace of God, or something like that. The message is that intelligence, indeed ability generally, are unimportant. Providence will watch out for those without gifts, therefore everyone is gifted. Some of Gump's achievements are due to his being a nice guy. He wins the Medal of Honor for rescuing his company because he is unwilling to abandon his friend. But he becomes a great runner by divine fiat. His shrimp boat survives a hurricane. He becomes a champion ping-pong player simply by not taking his eye off the ball. It's not quite like *Being There*, to which this film is frequently compared. The character Chance in *Being There* receives his fortunes through the misinterpretations of his idiocy by a sick society, hence the satire. *Gump* is satire-free. But the film makes us ask, what's the point of having talents if talent is unimportant?

The film not only portrays talent as unimportant, but literally as an impediment to the good life. Consider the intelligent and intellectually curious Jenny. She is an independent thinker who questions authority

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and social standards, and who is experimental and adventuresome. Jenny is punished with a series of abusive relationships; she finally dies of AIDS. I've rarely seen a characterization so hostile to inquiry. It is revealed that the roots of her eagerness to question authority and think independently are having a dysfunctional family. So an evil force drives her to independence of thought, and the results of the consequent life are drugs, abusive boyfriends, and AIDS.

The contrast with Gump is clear enough. His mother loves him. He always does as he's told, and prospers as a result. In response to the command, "just run," he is able to score touchdowns. This trait also makes him a natural for military service. To be sure that we do not interpret all this as anti-Christian, Jenny, despite her sins, is forgiven and rewarded in the afterlife in the form of a perfect child conceived with Forrest. When Lieutenant Dan loses his legs, he rails against God, but when he makes his peace with God, he walks again.

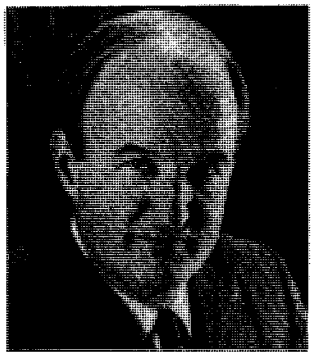
Gump's mother, played well by Sally Field, keeps admonishing him that he's no different from everyone else. The film insistently advances the idea that there is "nothing wrong with being stupid." Honestly, could there be a more dangerous message to promulgate? It should go without saying that people should not be cruel to those with less ability, and we may indeed wish to care for those incapable of taking care of themselves. But is there really *nothing wrong* with being less able, less smart? This is not about self-esteem for the disabled, it is actually about radical leveling, a devaluation of ability. How is Gump no different from anyone else? This claim seems innocent enough, and might follow from the idea that those of less ability are still humans deserving respect and dignity. But of course he is different—he is a great runner, a football star, a war hero, a millionaire. Most of us are none of those things. And he has a 75 I.Q., which most of don't have either. So he is different from most people. By downplaying that, the critique of ability is made more subtle.

There's no secret to excelling, the film tells us, just do what you're supposed to do. In real life, people must earn their achievements. Of course, some steal and some inherit, but in general, people have to achieve through their efforts. At any rate, that would be a better lesson to teach, I submit, than that if you just blunder about, God or fate will take care of everything. No ability is necessary to make a fortune in the shrimp business—just make sure that your shrimp boat is the only one left intact after a hurricane. No ability is necessary to be a football hero—just run until they tell you to stop running.

Of course, all these bits in the film are funny and charming. I laughed and smiled on cue with everyone else. Hanks is always likable, and Gump especially so, being the sweet innocent that he is. But I am disturbed that a film could attain such popularity and appeal by advancing the view that ability is not an important component of business success and that critical thinking is not essential to achieve prosperity. Despite Gump being a successful businessman, the film thereby conveys a tacit anti-commerce message.

The anti-commerce message derives from the more general anti-ability theme. If intelligence and analytic ability are not portrayed in the most popular film of the year as important components of the good life, an intellectually lazy generation will tacitly take this as support for their disengaged condition. The majority of teens cannot locate the Pacific Ocean on a world map, or the Civil War by half-century. The fastest growing trend in criminal defense is diminished responsibility. Books are out, MTV is in. Critical reasoning is on the decline not only as a skill but as a desideratum. And now comes *Forrest Gump* to reinforce the idea that we are not responsible for our destinies, that intelligence is not important, that independent thought will be punished. That's dangerous.

Forrest Gump is not a bad film, but it is subversive. The film is subversive because it *is* so well made and enjoyable. I enjoyed it even as I was aware of the unhealthiness of its message. If anyone tells me that it was a good film, or that he or she enjoyed it, I won't disagree. But if anyone tells me that it was profound or that it changed his life, I shall weep. □



Sorry, Charley, But That's Not Capitalism!

"All economic transactions involve a win-lose proposition. Every gain involves a loss."

—Charley Reese, *Orlando Sentinel*
May 22, 1994

Lord Acton once said, "There is no error so monstrous that it fails to find defenders among the ablest men." That was my reaction to a series of articles recently written by national columnist Charley Reese. Over the years, Reese has made a reputation as a strong defender of individual rights against a growing Leviathan, the federal government. So it was all the more perplexing when I read some of his claims about free-market capitalism:

"Two people can't eat the same bean. That's the essence of economics."

"All economic transactions involve a win-lose proposition."

"The historically visible trend [in capitalist societies] is always for the rich to get richer and the poor to get poorer."

"Only the youngest, the strongest can put stock in pure capitalism."

Statements like these were demolished years ago in Leonard Read's classic little book, *Clichés of Socialism*, which was recently updated by Mark Spangler under the new title, *Clichés of Politics* (Foundation for Economic Education, 1994). Unfortunately, some clichés die slowly.

Let me respond to each one of these commonly held criticisms of the free market.

Voluntary Exchange Is Win-Win

First, is the free market similar to a sporting event, where one team wins and the other loses? Not at all. In every voluntary transaction, both the buyer and seller gain. Here's a simple proof: Suppose I sell an apple to a student for $1. The student buys the apple because he would rather have the apple than the dollar bill. Thus, by purchasing the apple, he improves his situation. On the other hand, I sell the apple because I'd rather have the dollar bill than the apple. I too am better off.

In *Das Capital*, Karl Marx popularized the view that all exchanges under free-enterprise capitalism involved an equality of values and therefore one person's gain must be another person's loss. But now we see that just the opposite is true: All transactions in a voluntary exchange involve an inequality of values. In fact, without an inequality of values, no voluntary exchange would ever occur.

Because of an inequality of values, both the buyer and seller gain in every transaction. The only exception to this law is when fraud or deception is involved. When that happens, one party gains at the other's

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expense. But in a voluntary exchange, where full and honest information is revealed, everyone benefits.

The Essence of Capitalism

Reese says that the essence of capitalism is contained in the statement, "Two people can't eat the same bean." Not so fast, Charley. A free market is not just an "either-or" proposition. Capitalism is also a highly cooperative system. If there are two people and only one bean, the free market provides a better alternative: plant the bean and harvest enough beans to feed both people! That's the true essence of capitalism.

Granted, natural resources are limited. But the beauty of free enterprise is its ability to *multiply* these resources into goods and services that people can use to increase their standard of living. What really matters is not so much the amount of resources in their natural state but the supply of *economically useable* natural resources, which are limited only to the extent of our know-how and physical ability to transform these inputs into useable wealth. In that sense, there is virtually no limit to further advances in our standard of living. In reality, nature isn't scarce, only the productive capacity of labor to change nature into real wealth is.

Capitalism Can Improve Everyone's Standard of Living

Finally, Charley Reese is wrong in suggesting that capitalism breeds inequality, that the rich get richer and the poor get poorer. Under the free market, the rich get richer and the poor get richer too. Historically, citizens of capitalistic nations have enjoyed higher real wages and steady advances in the quantity, quality and variety of goods and services. Only government, the politics of coercion, causes a decline in the standard of living.

Moreover, the free market does not only benefit the young and the strong, as Charley Reese suggests, but the weak, the poor, and the discriminated. Contrary to popular belief, capitalism is not a dog-eat-dog jungle where only the fittest survive. As the classical economist David Ricardo demonstrated, the market is characterized by comparative advantage, not just absolute advantage in the division of labor. Therefore, opportunities abound for people of all abilities, talents, religions and races. The less fortunate may not earn a high wage, but they can and do benefit from the blessings of a technologically advanced capitalistic society. Today practically everyone, rich and poor, enjoys the benefits of electrical power, the telephone, the automobile, television and radio, books and newspapers, and a myriad other goods and services. Such everyday products were available only to the wealthy less than a century ago.

A free society is by no means perfect. People make mistakes, employers sometimes take advantage of workers, sometimes workers shortchange their employers, and salesmen may deceive the public. But the strength of the market is that bad business, deceptive practices, and shoddy merchandise are constantly being overwhelmed by good business, accurate information, and quality products. On net balance, there is no substitute for the free-enterprise system. □

BOOKS

Clichés of Politics

edited by Mark Spangler

The Foundation for Economic Education • 1994 • 314 pages • $15.95 paperback

Reviewed by Robert Batemarco

There's much truth in the old saying that it's not so much what people don't know that hurts them, as what they know that just isn't so. Indeed, when things we know that aren't so are used to shape public policy, it hurts not only those who harbor the misinformation, but virtually everyone falling under the jurisdiction of such misguided policy. The Foundation for Economic Education counters such superficially plausible but fundamentally wrong-headed ideas in *Clichés of Politics*. Edited by Mark Spangler, it lists and refutes 83 economic fallacies which have proven to be leech-like both in their tenacious hold on the public mind and their proclivity to drain the life-blood of our economic prosperity. While most of the 83 appear here for the first time, 27 "classic clichés" originally appeared in FEE's 1970 volume *Clichés of Socialism*.

Just how much of a stronghold these nuggets of misinformation have attained was evident in President Clinton's 1995 State of the Union Address, which included either explicitly or implicitly no fewer than six of the clichés debunked in these pages. Had the President read, understood, and taken to heart Tibor Machan's exposé of national service as, "a ploy, once again, to extract unpaid work from unsuspecting and gullible folks, another type of involuntary servitude," which is at best, "a wasteful way to give direction to human works" (p. 289), he would not continue to regard it as the accomplishment of which he is most proud. Had he not swallowed hook, line, and sinker the cliché that, "the government must set standards for living and working conditions," he would not have proposed a boost in the employment-killing minimum wage. Only someone enamored of the shopworn assertion that, "government should guarantee freedom from want," could contend that ceasing to subsidize out-of-wedlock births is somehow punishing people, "just because they happen to be poor." Paul Poirot's critique of that cliché in these pages is shaped by the insight that subsidizing failure breeds even more failure.

Characteristic of the FEE approach to economic issues is its willingness to go beyond mere cost-benefit considerations to focus as well on the morality of the actions imposed. Entry after entry in this book serves as evidence of this. Thus, Cecil Bohannon's refutation of the cliché that "food is a right" rests not only on the recognition that government attempts to guarantee a right to food invariably destroy the incentives to produce food, but that they do so at the expense of the rights of food producers. Similarly, Robert Higgs counters the claim that, "in a national emergency, government must control the economy," by alluding to the inevitable distortions created by such control, but he clinches his argument by declaring that, "even if the government were more capable, it would not be justified in using its coercive powers for any and all purposes." This volume leaves no doubt, as if there ever were any, which side FEE is on in what Murray Rothbard calls "the eternal struggle between morality and immorality, between liberty and coercion."

Clichés of Politics challenges the statist conventional wisdom on every front. Whether the false notion under consideration involves the nature of rights or foreign trade, regulatory policy or income inequality, health care or political philosophy, it is handled with dispatch. For the uninitiated, this book is a virtual crash course in FEE's freedom philosophy. For those already well acquainted with these ideas, it provides clear, concise, and quotable articulations of them. Anyone who learns the lessons put forth in this book need never fear entering the battle of ideas unarmed.

Not only was Spangler judicious in his

selection of the most harmful and well-entrenched bromides to attack, but he has assembled a veritable "all star team" of free-market thinkers past and present to assist him in that effort. Among the most prominent are FEE founder Leonard Read, current FEE president Hans Sennholz, Henry Hazlitt, Murray Rothbard, John Hospers, Llewellyn Rockwell, Robert Higgs, and Tibor Machan. I'll take them on my side any day. □

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Death By Government

by R.J. Rummel

Transaction • 1994 • 496 pages • $49.95

Reviewed by Doug Bandow

The line, "I'm from the government and I'm here to help you," takes on new meaning after reading R.J. Rummel's devastating *Death By Government*. This century, estimates the University of Hawaii policial scientist, the State has killed almost 170 million people.

The numbers are so horrifying, so unfathomable, so unbelievable—it is tempting to dismiss them as meaningless statistics. But consider: this century, politicians have killed, for matters of ideology and policy, the equivalent of the entire population of Russia. With the slaughter averaging roughly 1.8 million people a year, in effect every resident of Houston or Philadelphia has been buried year in and year out.

Rummel calls these murders "democide" rather than "genocide," because the latter focuses on the elimination of specific ethnic groups, while the former includes mass killings for any number of other reasons. He readily acknowledges the difficulty in developing an accurate death toll, but no one has done better: Rummel offers 72 pages of references. The basic problem, he explains, is power. Writes Rummel: "Power kills; absolute Power kills absolutely." Of course, this problem is not new. Rummel estimates that some 133 million people were murdered over the first several thousand years of human life. China's emperors were particularly brutal, killing 33.5 million; the Mongols ran a close second at 30 million.

While the State long ago demonstrated its democidal nature, the political experiment has, unfortunately, taken a much deadlier turn this century. Indeed, the twentieth century demonstrates the utterly disastrous results of what historian Paul Johnson calls the Age of Politics. Unique to this century has been the marriage of sinful men, all-powerful governments, and technological progress. As a result, 20 death states have killed 170 million human beings.

The greatest system of mass murder belongs to the Soviet Union—the "Soviet Gulag State," as Rummel refers to it. Some 62 million, "Old and young, healthy and sick, men and women, even infants and the infirm, were killed in cold blood." What makes this slaughter particularly mystifying is the fact that most of these victims were, as Rummel puts it, "guilty of . . . nothing."

Anyone who has read Robert Conquest knows the details of Joseph Stalin's persecutions, but even Rummel's much shorter account provides more than enough information to turn anyone's stomach. There was genocide, such as the slaughter of the Don Cossacks, Ukrainian peasants, and Estonians. There were the mass purges of the Communist Party. And there were killings to fulfill quotas. At least the other murders fulfilled a horrific, perverse logic. But these? Explains Rummel:

> [M]urder and arrest quotas did not work well. Where to find the "enemies of the people" they were to shoot was a particularly acute problem for the local NKVD, which had been diligent in uncovering "plots." They had to resort to shooting those arrested for the most minor civil crimes, those previously arrested and released, and even mothers and wives who appeared at NKVD headquarters for information about their arrested loved ones.

Who can doubt that this was, as Ronald Reagan opined, an evil empire?

Then there are the Communist rulers of China, Mao Zedong, Deng Xiaoping, and company, who were long feted in the West. Their victims roll was modest only when compared to that of the Soviet Union: 35 million. Given such a record, Rummel asks, why was anyone surprised at the murder of students and workers in Tiananmen square?

China's history is, in many ways, more tragic than that of Russia. Rummel figures that various emperors killed 33.5 million people. Nearly a million died at the hands of warlords early this century. Chiang Kai-shek's nationalists, backed so enthusiastically by many Westerners, slaughtered ten million, putting Chiang in fourth place behind Adolf Hitler in the pantheon of mega-murderers. And then came the Communists.

As revolutionaries, Mao Zedong's forces killed millions under their control. Once in power throughout China, the new regime liquidated millions more opponents. The "Great Leap Forward" resulted in a famine that left as many as 27 million dead from starvation. Millions more were murdered during the Cultural Revolution. Almost as inconceivable as this endless slaughter was the fact that so many Western leftists could have promoted so vile a system for so long.

Mass murderer number three was Hitler, along with his criminal gang of anti-Semites, misfits, misanthropes, and racists. Rummel numbers the Third Reich's victims at 21 million. Germany's killings were heavily weighted toward genocide—of Jews, Slavs, and Gypsies, for instance, though few people escaped the Nazi jackboot. Hitler also deserves blame for igniting the worst war in history, with generous help from Stalin and others.

Rummel goes on to chronicle more modest killers, like Japan, Cambodia, Turkey, Vietnam, Poland, Yugoslavia, North Korea, and Mexico. What makes his analysis particularly useful is its impartiality. His book forces us to remember mass killing by the supposed good guys in World War II.

Even Great Britain and the U.S. come under criticism for their terror bombings of civilian populations during the same conflict. Rummel goes so far as to list Britain as a "Centi-Kilomurderer," responsible for an estimated 816,000 deaths, primarily from its World War II aerial campaign, which exceeded anything attempted by Nazi Germany.

Death By Government is a depressing, unnerving book. For this very reason, it should be read in history classes not just across America, but around the world. The problem of power, as Rummel terms it, remains with us today—just ask residents of Angola, Bosnia, Chechnya, Georgia, and Rwanda, among many, many other lands. Only if we learn from the past can we ever hope to end state-sanctioned murder. The case for human liberty and limited government has never been made more effectively than by this fearsome book. □

Mr. Bandow, a Freeman *columnist, is a Senior Fellow at the Cato Institute and the author of* The Politics of Envy: Statism as Theology.

Beyond Politics

by William C. Mitchell and Randy T. Simmons

The Independent Institute/Westview Press • 1994 • 234 pages • $17.95 paperback, $49.50 cloth

Reviewed by Gregory P. Pavlik

Within the last 30 or so years some advocates of limited government have begun promoting public choice economics. This small but increasingly influential school of thought applies assumptions of neo-classical economics about human behavior to public employees, elected or not. Public choice economists insist that politicians and bureaucrats are motivated by rational self-interest, and the manifestations of that self-interest result in perverse and disastrous consequences for the public. Many of their insights buttress earlier sociological and political analyses of both the State and the political class, echoing the work of such theorists as Franz Oppenheimer, Vilfredo Pareto, and Ludwig von Mises.

William Mitchell and Randy Simmons have written an interesting and informative work on political interventionism in the economy from a public choice perspective. The book, *Beyond Politics*, begins with a discussion of welfare economics, that branch of the dismal science that deals with, among other things, issues of market failure. Market failure refers to the divergence of real markets from the assumptions of perfect competition.

One of the most troubling of market failures in the eyes of the general public is monopoly. On this issue and others, the authors approach the "market failure" from a public choice point of view, showing that the incentives of government officials are structured in such a way as to exacerbate the very problems, real or imagined, that the State is being used to solve.

For example, politicians in a democracy must seek popular re-election. The easiest and most effective means of staying in office is often the use of public power to benefit an electorally powerful interest or constituency. Why then the absurd belief that politicians can be relied upon to eliminate monopolies? For one thing, a genuine monopoly is impossible to maintain against the forces of a competition in a free market economic system. Politics is the only means of creating a sustainable monopoly through artificial barriers to competition. More importantly, it is in the interest of politicians to structure regulatory mechanisms that inhibit competition and lead to consolidation, since this creates a wealthy and grateful backer for the politician.

In a similar fashion, Mitchell and Simmons argue convincingly that market failures are often ill-defined and almost never warrant the degree of criticism they invoke. To drive the point home, the authors show that private solutions are invariably superior to public solutions. In fact, most of the book deals with what the authors call "public failure," the inability of the public sector to live up to the vision of an efficient and benevolent government handling the flaws of the marketplace.

The book ends with a call for a return to a free and unfettered economy, something which the authors have succeeded in demonstrating as superior to the various schemes involving the State. Occasionally lost in the long discussions of the personal interests of politicians and bureaucrats and the economic consequences of interventionism is the fact that the most precious cost of growth of the State can be measured in terms of human liberty. The loss of freedom may be one of the unseen costs for economists, but it is the heaviest of burdens for civilization.

Beyond Politics is flawed by an over-reliance on equilibrium models to illustrate points in the text. A free economy is dynamic and constantly changing. Many of the authors' points could be made using economic laws based on apodictic principles that do not presuppose static conditions in the economy. But this caveat should not preclude an appreciation of the devastating critique of statism, government intervention, and the pretensions of the political classes found in this book's pages. *Beyond Politics* is a cogent defense of the economic system of a free society and a firm rebuttal to some of its most vociferous critics among the economics profession. It deserves the attention of anyone interested in the great economic controversies of our day. □

Mr. Pavlik is director of The Freeman *Op-Ed program at The Foundation for Economic Education.*

Investment Biker

by Jim Rogers

Random House • 1994 • 402 pages • $25.00

Reviewed by Richard A. Cooper

Jim Rogers autographed my copy of *Investment Biker* with the words, "Life is short; Ride hard and far." Rogers closes his highly readable account of the round-the-world motorcycle trip he and girlfriend Tabitha Estabrook accomplished with more words of wisdom: "More important, I've also learned that if you've got a dream, you have to try it; you must get it out of your system. You will never get another chance.

If you want to change your life, do it." Motorcycles, markets, and musings make this book both provocative and entertaining.

Viewers of the CNBC show *Mutual Fund Investor* will recognize his blend of down-home Alabama folksiness, savvy investment insights, and shrewdly biting public policy comments. Those viewers and other readers will marvel at the observations of Jim riding about China, Russia, Africa, South America and elsewhere, as he records his impressions and predictions about economic policies and investment prospects. Often he saw how bad economic policies and wars had squandered great natural endowments and the labor of the inhabitants.

Why does Jim Rogers want to see and know the world? He hails from the small town of Demopolis, Alabama. His family's phone number was 5. Just 5. As he says, if you are from somewhere that small you either stay there your whole life or you want to get out and make your mark in the wider world. Despite the folksiness, Rogers is a well-educated and sophisticated man. From Yale he went to graduate school at Oxford with a summer stop on Wall Street along the way. He was a partner in a hedge fund after going to Wall Street full time. Jim left Wall Street in 1980 with millions of dollars.

Jim and Tabitha's trip—intellectually and geographically—began in Ireland. Let Jim tell this part: "Riding through this part of Ireland was wonderful, great for motorcycles, the roads curvy and small and convoluted, green and beautiful. All my life, from my history courses at Yale to my work at Oxford and later on Wall Street, I've studied geography, politics, economics, and history intensely, believing they are interrelated, and I've used what I've learned to invest in world markets. I was on the lookout for investment opportunities, for some country—and its investment market—about to take off, where I could jump in and make five, ten, fifteen times what I put in."

Unfortunately, Ireland could not meet Jim's tests. He worried over its instability but was most concerned about statist policies. The conflict between statism and entrepreneurial capitalism is one of Jim's key themes. Where statism reigns, decay increases and opportunity decreases. Tied to that conflict is the burden of war frustrating the achievements of peace.

Jim observes that "Ireland is a victim of statism, which my dictionary defines as the concentration of economic controls and planning in the hands of a highly centralized government, and which I further define as the belief that the state is the mechanism best suited for solving most if not all of society's ills, be they health related, natural disasters, poverty, job training, or injured feelings. Statism is *the* great political disease of the twentieth century, with Communist, socialist, and many democratic nations infected to a greater or lesser degree. When the political history of our century is written its greatest story will be how a hundred variants of statism failed." I would say this is the story that should be written, but I expect that the story told will be how the historians' preferred brand of statism was not tried with enough rigor or was mishandled.

Unlike economists, Rogers is not merely interested in economic policy or analysis but in scouting out investment prospects. He is none too optimistic about the United States. Bright spots include Botswana. Botswana? Yes, and he tells a great story about why he is optimistic about this small African country.

Investment Biker shows you a world through a unique pair of eyes—badly maintained roads and sweeping natural vistas, economies wrecked by statist mismanagement, and countries torn by renewed tribalism. All this with a country boy's way with words and a Wall Streeter's eye for investment opportunities. You can enjoy the ride with Jim Rogers, and think of your gasoline savings. □

Mr. Cooper is an export/import manager and freelance writer.

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IDEAS ON LIBERTY

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PERSPECTIVE

A Twentieth-Century Noah?

If Noah had lived in the twentieth century, the ark would never have been built.

We read in the biblical account that Noah was commanded to "make thee an ark of gopher wood." And although he lacked the modern technology, skilled craftsmen, and abundant choice of materials that we possess in this century, Noah was able to build his. But there are too many things that Noah would have to contend with in the twentieth century that would prohibit him from building an ark.

First, Noah would have a problem with his employees. If Noah sought to hire some workers to help him in the ark's construction, he would have to exercise affirmative action policies in hiring to maintain "diversity" in the workplace. Once a crew was selected, Noah would have to pay at least the minimum wage and be careful not to work his employees over 40 hours a week, lest he be required to pay overtime. He would probably like to pay his craftsmen well above the minimum wage, but since he would be forced to pay workers' compensation insurance, Social Security taxes, and unemployment insurance on each employee, the actual cost would be too prohibitive. An accountant would then have to be hired to make sure the proper taxes were withheld from each paycheck and timely deposits made. In spite of the high cost, additional employees would have to be hired to cover for those who were temporarily off due to the Family Leave Act.

The next obstacle to overcome in building the ark would be the mass of government regulations that Noah would have to comply with. First he would need an OSHA inspection of his workplace. If his place of business were approved, an inspection by the local fire department would then be in order. When Noah actually got around to building the ark, he would first have to obtain a building permit. But before this could be done, he would have to check zoning laws to ascertain that having an ark on one's property is not illegal.

Inspections of the ark during all phases of construction would have to be carried out to ensure that everything was according to local building codes. The EPA would have to check the construction site to make sure it was "friendly" to the earth. Once the ark was completed, it would have to be licensed just like a boat or mobile home. This would present a problem to government bureaucrats, who would not be able to find a reference to an ark in any of their policy and procedures manuals.

During the construction of the ark, numerous special interest groups would be on hand to harass Noah.

The environmental extremists would demand that Noah stop cutting down so many trees. They would complain about the low percentage of recycled material that went into the construction of the ark.

Organized labor groups would hinder production of the ark by picketing the job site, heckling the non-union workers, and boycotting Noah's suppliers.

Since Noah was a "preacher of righteousness," he certainly would seek to relay God's message that "the wickedness of man was great in the earth." This might get him charged with "hate speech."

As the ark was nearing completion, the animals would have to be rounded up "two of every sort." At the first sight of an animal being taken aboard the ark, animal rights groups would be out in full force. They would demand that all the animals be spayed or neutered and have their shots. What these groups consider to be adequate food and water would have to be provided. The animal rights crowd would further complain that the ark could not possibly hold all those animals, even though they never bothered to measure how big the ark was.

Should Noah have lived in the twentieth century, the obstacles he would face in attempting to construct an ark would prove insurmountable. His problem? The same problem that plagues all of mankind: government, the omnipotent State. If Noah had had to contend with the government back in the twenty-fourth century B.C., he would have drowned with the rest of the world.

—LAURENCE M. VANCE

Mr. Vance is a free-lance writer and instructor at Pensacola Bible Institute in Pensacola, Florida.

Properly Limited Government Encourages Maximum Freedom

Real freedom means the least government—government conspicuous by its absence—with sufficient power only to protect life, liberty, and property from frauds, thieves, and murderers. Real freedom means the full right of ownership and to make decisions for one's self and one's family. The right to vote—while an important mechanism if properly used—should be employed sparingly by the people and by lawmaking bodies. Lawmaking activities ought to be directed, for a change, toward the removal of government interferences and restrictions already on the law books.

When government is confined to its proper, limited scope, there will be no necessity for opinion poll-takers to find out what Mr. and Mrs. America think. Each one then will decide for himself—privately, separately, individually—and the matter will concern no one else when real freedom once again exists behind its façade.

—JOHN C. SPARKS

"Behind the Façade" (1964)

THE FREEMAN
IDEAS ON LIBERTY

The Economics of Good Intentions

by Joe Cobb

Lawmakers often accuse one another of bad motives, or misguided proposals to help the wrong people. But anyone who runs for political office has some ideals about making the world a better place in which to work and raise a family.

The economics of good intentions can be seen all around us in every government program that calls for direct action to solve social problems. Every debate is about good intentions versus actual good or bad results. These arguments separate liberals from conservatives, Democrats from Republicans, and "compassionate" activists from their "special-interest" opponents.

Appearances vs. Reality

Good intentions have to contend with the very real economic forces of self-interest. The government can command and regulate people, but the direct use of mandates often fails because the indirect results of a free market system can have more powerful, contradictory effects. Some government policies, enacted with benevolence, just fail, or worse, they produce opposite results from the lawmakers' good intentions.

Joe Cobb is the Heritage Foundation's John M. Olin Fellow in Economics. Thomas Sowell's book, A Conflict of Visions *(1987), is highly recommended for a more detailed discussion of the ideas in this essay.*

For example, it might seem like a good idea if workers at the bottom of the wage scale could receive more income. Hence, the administration proposed to increase the minimum wage for low-income workers. But what if a law against low wages resulted in fewer jobs for low-productivity workers? Reducing tax rates on successful business investments could encourage jobs, but it might make the richest members of society better off. Would that hurt anyone, or just appear to favor the wrong people?

Economists study how a market coordinates the indirect results of many different unrelated actions and their unintended effects. Economics is not about anyone's intentions, good or bad, but about "non-intentions"—the beneficial indirect social results of everyone's self-interested, profit-seeking behavior.

Trickle-Down Economics

The *absence* of some consciously good intentions in public policy, and in a free market generally, provokes the scornful label "trickle-down economics." That slogan implies *the intention* of some government policy to make rich people wealthier so they can patronize the poor.

The contempt implied in the slogan suggests a belief that intentions, good or bad, are a necessary part of any policy, and the absence of consciously good intentions,

	Have Good Intentions	Don't Care	
Bad Results	**The Failed Economics of Good Intentions**	***Vice***	Bad Results
Good Results	***Virtue***	**Indirect Results of Self-Interest**	Good Results
	Have Good Intentions	Don't Care	

therefore, means a free market must have bad intentions.

At the same time, those who use the slogan to attack political opponents are themselves less than intellectually honest because the same term could describe any policy to make the poor richer too. People from every social class spend money on goods and services, which "trickle around" the economy and increase incomes. A simple diagram illustrates the kind of error this single-minded concern with intentions can produce. The rows are good and bad results, intersecting with good intentions or the absence of any conscious motives. Compassion with good results is obviously a virtue, and vice might come from neglecting a problem. But the policymaker who believes intentions are essential for good results is unable even to see the logical case for an indirect system such as the free market.

Ruling Indirectly

Laws and public policy that are based on our knowledge of indirect effects are among the most successful in modern society. Rules such as private property rights and formal ways to draft enforceable contracts are made for people to deal with each other without government's direct participation.

The good results of those policy rules are strictly indirect consequences. A lawsuit may go to court or the police may be called if people violate the rules, but the government's role has nothing to do with the good intentions of political leaders. Government really cannot, and should not, care what people do so long as they follow fair and equal rules.

Systematic Malpractice

Should good intentions play any role in government policy at all? No one gives an automobile mechanic credit for good intentions if your car is still not fixed. Generals aren't praised for good intentions if they lose a battle. If economics and politics were any kind of exact science, there would be no question. Good or bad results are all that anyone would look for.

The failed economics of good intentions is a kind of systematic malpractice in public policy, and it continually recurs. Its advocates fail to understand the repeated failure of their policy ideas, because they have no malevolence. Their pious style of scornfully dismissing as trickle-down economics all reforms that are not based on benevolent social engineering or political planning has prompted economist Thomas Sowell of the Hoover Institution to identify them as "the morally self-anointed."

But like generals before a battle, elected leaders have a duty to look beyond intentions and focus on producing good results. Public policy has to be based on an understanding of the non-intentions and indirect effects of economic and social behavior. □

THE FREEMAN
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Nature Versus the Central Planners

by Robert A. Peterson

For the past 100 years, central planners have used the language and methods of science to explain and justify their attempts to fine-tune most of the world's advanced economies. Pointing to the successes of researchers in the hard sciences, they have led people to believe that a little inflation here or a lot of regulation there can actually fine-tune an economy—the same way a mechanic can adjust the points, set the timing, and put new spark plugs in a classic car engine.

Using the veneer of scientific language, government officials explain how in five years a deficit will be reduced, or how so many shoes or tanks will be produced, or how so much health care will be made available. Like some ancient soothsayer, the official economist looks for good omens in the economic data and tells the ruler or rulers what they want to hear. When the projected results don't materialize in democratic countries, we are told it was merely because the central planners weren't skilled enough. Just find enough Rhodes scholars, create a Brain Trust, and all will be well.

There's only one problem with this kind of thinking: the very nature of the universe makes all central planning impossible.

Man's inability to control the economy is nowhere more graphically illustrated than in our helplessness before the weather. All of life depends on agriculture, and successful harvests depend on "good" weather. No economist can predict prolonged years of cold weather, such as Europe experienced in the Middle Ages when the Baltic Sea froze over, destroying the seaborne trade of the Hanseatic League. The Japanese have kept meticulous records for over 1,000 years of when the cherry trees blossomed, but no one can predict when they will bloom next year, or if they will be killed by a late frost. No one could have predicted the destructiveness caused by the Great Blizzard of 1888, or the ravages of Hurricane Andrew (which cost over $20 billion, and destroyed some insurance companies in the process). And no amount of emergency planning by any level of government was able to hold back the Mississippi in 1993.

When forecasters do successfully predict a change in the weather, it's almost always by accident. *The Old Farmer's Almanac* got its lasting claim to fame back in 1815, when editor Robert B. Thomas was so sick in bed that, he told his assistant to "leave him alone" and "just write anything for July 13th." The assistant did just that and for that day wrote "Rain, hail, and snow." Thomas and Co. couldn't have known it, but about that same time Mt. Tambora in Indonesia was erupting, spewing millions of tons of sulfur dioxide into the stratosphere, which circled the globe, deflecting the sun's light and heat, causing the infamous "Year With-

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out a Summer." Farmers wore their greatcoats in the fields, only to shake their heads in disbelief at the meager harvest. And yes, on July 13, it really did rain, hail, and snow in the Eastern United States.

The cool summer of 1992—when vast acres of Midwestern cornfields were declared federal disaster areas—was also caused by a volcanic eruption, this time from Mt. Pinatubo in the Philippines. When Pinatubo erupted, 25 million tons of sulfur dioxide were blasted into the atmosphere. The effect on America's summer economy that year was devastating. Utilities, previously thought recession-proof, saw their sales of kilowatts plunge as people and businesses used less power for air-conditioners. Sales of patio, pool, and sports equipment plummeted, and people sipped fewer soft drinks.

One government economist said that the floods in the Midwest in 1993 would have "no overall negative effect" on the economy. That, of course, is absurd: people's lives were changed forever, personal plans and fortunes were dashed, and the agricultural heartland of America was crippled.

Quantum Changes

Not only is the economy subject to the weather, but also to what might be called "quantum changes" in history. Our world has always been—and is now—subject to major changes that make tomorrow quite different from yesterday. Sometimes such quantum changes are the result of an invention. Most historians agree, for example, that those of us who live in the West might all be speaking Arabic today had it not been for the invention of the stirrup. At Tours, Charles Martel's Frankish cavalry had stirrups, while the Moors did not. As a result, the Western European forces were victorious. Other times quantum changes are brought about by a mutant virus, to which a certain population has developed no immunities. In modern times, quantum changes may come from the actions of a lone entrepreneur or group of investors. Fiber optics would still be in the research and development stage had not an upstart little company, MCI—financed by junk bonds that were marketed by the much-maligned Michael Milken—taken on AT&T. IBM would still stand astride the business world like a colossus had it not been for the ideas of kids like Steven Jobs and Bill Gates. Thousands of jobs were lost at IBM, and the company's equity was cut in half. Meanwhile, millions of people have been empowered by the ever-expanding capabilities of the affordable personal computer.

Today, the world economy is being driven not so much by raw materials, but by creative minds and the software and computer chips they produce. George Gilder has written extensively of this quantum technology both in *Forbes* and in his 1989 book, *Microcosm*. "Quantum technology devalues what the State is good at controlling: material resources, geographic ties, physical wealth," Gilder writes. "Quantum technology exalts the one domain the State can finally never reach or ever raid: mind. Thus the move from the industrial era to the quantum era takes the world from a technology of control to the dictionary of freedom. . . . We live in an epoch when desert-bound Israel can use computerized farming to supply 80% of the cut flowers in some European markets and compete in selling avocados in Florida; when barren Japan can claim to be number one in economic growth; and when tiny islands like Singapore and Hong Kong can far outproduce Argentina or Indonesia."

No one knows what the next major quantum changes will be in our world, least of all government officials. For political reasons, the State always overcommits itself to older, existing technologies and large companies who find it difficult to change and retool for the future. That is one of the great weaknesses of national industrial policy. Moreover, when the State crowds out all entrepreneurs, it leaves itself as the only institution effectively planning for the future. If it plans for seven fat years but gets seven lean ones instead, the entire society suffers. That is why the old Soviet Union had "bad weather" for 70 years.

In a free society, however, thousands of entrepreneurs and millions of consumers make their own individual plans for the future. Some are cautious and save their cash; others are courageous risk-takers and expand their businesses and services. Those who correctly gauge future conditions will be successful; those who fail will have to go to work for others.

The unpredictability of the weather and the possibility of quantum changes make it impossible for the State to control our economy or predict future needs. For most of this century, the state capitalists of the Communist world almost always guessed wrong, and were then bailed out by those entrepreneurs in the West who correctly anticipated future conditions.

But there's one more factor that is perhaps the most complex of all. In his seminars at New York University and in *Human Action*, Ludwig von Mises demonstrated that an economy's performance is based on the decisions of millions of people, not just in one place but all over the world. These millions of people make economic decisions, based on their own wants, needs, hopes, prejudices, and world-views. Sometimes they act in groups, often they act alone. In America, we put diamonds on a woman's hand; in India, they sew them into their clothing as their currency of last resort and pass them down through their families. In the West, experts have pronounced the death sentence on gold, time and again, for nearly a century. Yet in the Far East, economic growth is creating a demand for gold unlike anything seen for a generation. Individual Chinese want gold for the security and prestige it brings, thus driving world gold prices higher.

Many talented people, like Mother Teresa, willingly choose fields in which they not only know they will not get rich, but may very well live in poverty and disease. Some people—we call them martyrs—give up not only their wealth but their lives for an idea or belief.

Mises waited ten years before he finally asked his sweetheart, Margit, to marry him. Both he and Margit believed that his economic works and his struggle to destroy socialism were so important that they postponed their marriage until her children were on their own. Fortunately they did finally marry and Margit became a partner in his work.

Through much of his work, Mises argued that a central authority could never successfully direct human action on a wide scale. In fact, Mises pointed out, government intervention almost always results in the exact opposite of what policymakers are trying to achieve. A recent case illustrates Mises' point. When, toward the end of the Bush administration, the Federal Reserve lowered interest rates to try to stimulate the economy, people who depended on interest for income (now 15 percent of the American population, and growing) lost much of their purchasing power. Here's another case: In the 1960s, the United States embarked on a program called the "Great Society" to wipe out poverty. Today, millions of Americans linger in poverty because those welfare programs encouraged the breakup of the family economic unit.

For centuries, philosophers and poets have written about the unpredictability of life. Modern liberals might say that that is precisely why we need central planning—to give us security from the slings and arrows of outrageous fortune, as Shakespeare put it. But as history has shown, the only guarantee the State can provide is one of shared misery and poverty. If society is poor, it cannot generate enough wealth to take care of the elderly. When medical care is scarce, there's no security against the simplest of diseases. It was modern capitalism that gave us penicillin, the polio vaccine, the concept of retirement, and so many other blessings that most people take for granted.

In the end, as a modern Robert Burns might say, the "best laid schemes of mice and governments oft go astray." That's why the best that we can do is allow millions of people to make their own plans for the future. It is simply not in the nature of things for central planning to work. □

THE FREEMAN
IDEAS ON LIBERTY

Environmental Law Endangers Property Rights

by Sigfredo A. Cabrera

"The moment that 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

According to Black's Law Dictionary, the term *property* "embraces everything which is or may be the subject of ownership." It is the "unrestricted and exclusive right to a thing; the right to dispose of a thing in every legal way, to possess it, to use it, and to exclude everyone else from interfering with it." By definition, the term does not just apply to lumber companies, builders, ranchers, and farmers. If you own a home or business, you are a property owner. If you own a car, stocks, bonds, or an IRA, you are a property owner.

The Most Fundamental Right

It is often overlooked (or perhaps ignored) that private property rights are included as civil rights guaranteed by the United States Constitution. The Fifth Amendment declares that "no person shall be . . . deprived of life, liberty or *property* without due process of law. . . ." That Amendment further states, "nor shall *private property* be taken for public use, without just compensation." And in the Fourteenth Amendment, local officials are forewarned, "nor shall any state deprive any person of life, liberty, or *property.*"

Writing for the majority in last year's landmark ruling in *Dolan v. City of Tigard,* Chief Justice William Rehnquist of the U.S. Supreme Court stated that property rights are as important a part of the Bill of Rights as freedom of speech and religion or the protection against unreasonable searches and seizures: "We see no reason why the Takings Clause of the Fifth Amendment, as much a part of the Bill of Rights as the First Amendment or Fourth Amendment, should be relegated to the status of a poor relation."

All other civil and political rights—the right of basic freedom, religious worship, free speech, the right to vote—are vitally dependent on the right to own private property. "Let the people have property," said Noah Webster, "and they will have power—a power that will forever be exerted to prevent the restriction of the press, the abolition of trial by jury, or the abridgement of any other privilege."

History has taught painfully what hostility toward private property rights accomplishes. The social and economic travesty caused by over 70 years of Communist control of private property in the former Soviet Union is a lesson that should neither be forgotten nor repeated. But that lesson

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has not been heeded by those writing and enforcing modern environmental laws.

A Slow, Subtle Erosion

Like rust eating away metal until it crumbles, the erosion of property rights is a very slow and subtle process that can take not just months, but years, even generations—one instance, one case at a time. And nearly always, the erosion is not apparent. It is "behind the scenes"—not evident on the evening news or in the daily newspapers, but buried in thousands of pages of documents accumulated each year around the country in the corridors of government. Indeed, this country's fourth president, James Madison, stated in 1788: "I believe there are more instances of the abridgement of the freedom of the people by gradual and silent encroachments of those in power than by violent and sudden usurpations."

Ocie and Carey Mills (Florida)

On May 15, 1989, 58-year-old retiree Ocie Mills and his son Carey shocked the nation by becoming one of the first people to serve jail time for violating federal wetlands regulations. Their crime? Cleaning out a drainage ditch and putting clean sand on a parcel of land where Carey Mills planned to build a home. The Millses wanted to clean out the ditch to control mosquitos and to improve drainage. Although Ocie and Carey Mills had prior approval from the Florida Department of Environmental Regulation (DER), the U.S. Army Corps of Engineers (Corps) arrested them for filling in a "wetland" without a permit.

Believing the charges to be totally unfounded, Ocie did not hire an attorney, but defended himself and his son. "The charges were so incredibly trivial," he said, "I did not take them seriously and certainly didn't think that we could be in jeopardy of going to prison."

During their trial in Federal District Court, the judge refused to allow Ocie to present evidence confirming that the Millses' maintenance of the drainage ditch was allowed under Florida law and that DER officials authorized the placement of sand on his property. The judge also refused to allow DER employees to give their opinion that the property was not a wetland as defined by the Corps' regulations. Ultimately, the two men were each sentenced to 21 months in federal prison camp, were denied eligibility for parole, were each fined $5,000, and subsequently were ordered to restore the affected site within 90 days of their release.

After serving their time, the Millses were home with their family the day before Thanksgiving, 1990. But their ordeal would not be over. In March 1991, federal officials hauled the Millses back into court on charges that they failed to comply with the probation order to restore the property. After personally examining the property, U.S. District Judge Roger Vinson sided with the Millses and ruled that the "defendants have substantially complied with the site restoration plan." In his ruling he noted that the Corps' mandated "restoration" had left the lots "totally denuded and ugly" and that further "restoration" as required by the Corps would destroy the property's value.

In the spring of 1992, the Millses went back to the U.S. District Court to erase their convictions. But constrained by the present state of the law, the reluctant and sympathetic judge upheld their convictions. In his March 1993 ruling, Judge Vinson expressed astonishment of how the federal Clean Water Act had been interpreted in a manner "worthy of Alice in Wonderland" in which "a landowner who places clean fill dirt on . . . dry land may be imprisoned for . . . discharging pollutants into the navigable waters of the United States." The Eleventh Circuit Court of Appeals in Atlanta upheld their convictions on October 27, 1994; on May 15, 1995, the U.S. Supreme Court turned down their request for review.

Tom and Doris Dodd (Oregon)

In the January 1992 issue of *The Freeman*, I told the story of the Dodds ("Dream House Turns into Nightmare"). In 1983, Tom and his wife, Doris, had put $33,000 of their life's savings into a 40-acre, scenic parcel in Hood River County, Oregon, overlooking beautiful Mt. Hood. A major factor in their decision to buy the lot was the prior assurances they received from local officials that building a home there was permitted. But a short time later, the zoning was changed. Under the new rules, they can use their property only for growing and harvesting lumber. A house is permitted only if absolutely necessary to accommodate a full-time forester on the property.

Twenty-two acres of the property are covered by a type of soil that will not support forest vegetation. The combined value of the land as now zoned and the estimated proceeds from harvesting the few merchantable trees from the forested area would be less than $700! Moreover, according to a forest expert, harvesting trees on the parcel would damage watershed yields, wildlife habitat, aesthetic qualities, and the protection to neighboring properties from wind.

As retirees, the Dodds have no desire to engage in the forestry business, and they certainly do not wish to be forced into a losing business venture. And so the inescapable conclusion is that unless Tom and Doris are allowed to build their house, their property is useless to them. After exhausting every possible administrative avenue and failing in the Oregon court system, the Dodds have now taken their fight into the federal court system. A ruling from the Ninth Circuit Court of Appeals is expected this year.

Lois Jemtegaard (Washington)

Mrs. Jemtegaard of Skamania County, Washington, owns a vacant 20-acre parcel that the county zoned for a single-family home. She would like to sell the parcel as a buildable lot so she would have money to repair her home, located on another parcel, that she says "is literally falling down around my ears." The proceeds would also help supplement the widow's retirement income.

The problem is that the parcel she wants to sell is considered to be a "resource" and "scenic" land under the Columbia River Gorge National Scenic Area Act. Under that federal law, the parcel may be used only for agriculture or timber operations. However, the property is not presently suitable for either of those uses.

Although Mrs. Jemtegaard holds formal title to the property, for all practical purposes she has lost any realistic use of it. Moreover, she has not received a nickel of compensation for the "taking" of her land for public benefit. Her parcel has lost its economic value as a buildable lot so long as the Columbia River Gorge Commission's decision disallowing a home remains in effect.

Hope Through Involvement

These instances of environmental regulation gone amok in America represent only the tip of an ugly iceberg whose body is submerged and invisible to most of us. Many more "silent encroachments" can be found in the legal files of Pacific Legal Foundation, a nonprofit organization defending in court the property rights of the Millses, the Dodds, Mrs. Jemtegaard, and others like them.

We are witnessing a gradual decay in the basic principle that government is supposed to *protect* private property—not to take it away, not to impede reasonable use and enjoyment of it, and not to destroy its economic value through overregulation. It is critically important that citizens stay informed and communicate their concerns to their elected representatives about proposed or existing policies that are harmful to private property rights.

Environmental laws are too often churned out with little or no regard for their costs or their consequences to human life, private property rights, and the free enterprise system. Under the federal Endangered Species Act, vast areas of land suitable for housing or other beneficial uses are being closed off to development, because of findings that the land is a current or potential habitat of some endangered or threatened animal, fish, or plant. Appalling as it may seem, the social, economic, or environmental benefits of proposed projects are deemed *irrelevant* by federal regulators who decide if a species should be protected. Human existence is simply disregarded in efforts to save certain species.

The Delhi Sands Flower-Loving Fly, whose lifespan is about 10 days, enjoys the same protected status as the American bald eagle, grizzly bear, and California condor. Swat this little creature and you could face a year in jail and up to $200,000 in fines! This obscure insect, which inhabits 700 scattered acres in San Bernardino County, California, now threatens to hinder needed economic development in the area. The detrimental effect of this kind of overzealous regulation is aptly illustrated in the following abstract of a report entitled, "Impacts of Mitigation for the Endangered Delhi Sands Flower-Loving Fly on the San Bernardino County Medical Center":

> The Endangered Species Act as applied to the construction of the San Bernardino County Medical Center resulted in an expenditure of $3,310,199 to mitigate for the presence of eight Delhi Sands Flower-Loving Flies. The effort as negotiated with the U.S. Fish and Wildlife Service and California Department of Fish and Game resulted in moving and redesigning the facility to provide 1.92 acres of protected habitat for eight flies believed to occupy the site. The effort mitigates only for species on site. Cost per fly amounted to $413,774.25 and resulted in a one year construction delay. This cost is equivalent to the average cost of treatment of 494 inpatients or 23,644 outpatients.

When fires swept Southern California last October, the rural Winchester area of south Riverside County was hit particularly hard. Over 25,000 acres were charred and 29 homes destroyed. Many burned-out families in that area believe they could have saved their homes if only government officials had given them permission to create firebreaks around them. Brush fires can be kept away from homes by clearing out a strip of vegetation—a process called disking. Many of the victims of the Winchester fire have disked their property for years. But a few years ago officials from the U.S. Fish and Wildlife Service dissuaded them because doing so would disturb the burrows of the Stephens Kangaroo Rat, a rodent put on the federal endangered species list in 1988.

The Endangered Species Act either bans or strictly limits development on most of the 77,000 acres designated as "rat study" areas in Riverside County. Yshmael Garcia, a rancher who lost his home in the blaze, was quoted in the *Los Angeles Times:* "My home was destroyed by a bunch of bureaucrats in suits and so-called environmentalists who say animals are more important than people. I'm now homeless, and it all began with a little rat."

Private Property Rights Advocacy

There is no shortage in this country of organizations dedicated to representing the interests of various species of animals or plants. Unfortunately, in courtroom battles involving land use and environmental protection, the interests of mainstream Americans are typically *under-represented.*

Every intrusive land-use or environmental regulation that is upheld in court results in the creation of a legal principle that acts like a building block upon which another antiproperty legal principle can be erected in yet another case. Years of bad precedent inevitably will result in a frail social and economic fabric that will not hold up to the wear of tyranny. That is why Americans must begin to stop the legal erosion of property rights, and restore this bulwark of our personal liberties. □

THE FREEMAN
IDEAS ON LIBERTY

The Environmental Assault on Mobility

by John Semmens

I recently had the opportunity to attend a Federal Highway Administration workshop on air-quality analysis. This session was designed to train government bureaucrats to operate computer models for assessing a region's compliance with federal air pollution regulations. The experience was most enlightening.

Air-quality planning across the nation is heavily dependent on air-quality "models." Unfortunately, these models are insufficiently connected to reality to be reliable measures of actual air pollution in any metropolitan area. In the models, emission estimates for vehicles are based on a "standard trip" from a 1969 Los Angeles survey. Whether such a "trip" would be representative of the types of trips taken in other urban centers across America seems dubious. Whether the conditions pertaining in 1969 are relevant for today, some 25 years later, is also questionable. The specific amounts of emissions for each vehicle are based on a sample of cars taken in Indiana. Whether emissions for these types of vehicles might differ in the traffic and climatic conditions in other locations would seem a pertinent question, too.

Unfortunately, the federal bureaucrats in charge of this training session declined to address any of these questions. Even worse, an inquiry as to whether the air-quality monitoring program might be improved by a greater effort to actually measure quantities of pollutants was brushed aside. Apparently, the officials in charge of the air-quality monitoring program are not interested in attempting to actually measure pollution in the ambient air, nor to identify specific sources of emissions.

Within the models, the alleged pollution reductions to be achieved by various measures are not evaluated for net impacts. That is, there is no analysis of the potential offsetting negative consequences of implementing these measures. In the case of transit, for example, adding buses to the traffic stream would have some negative effects. The slower acceleration capabilities of buses and their frequent stops during peak-hour traffic significantly impede other traffic. This causes some increased vehicle emissions. But, since the model does not explicitly calculate or adjust for this effect, we do not *know* whether increasing the frequency and distances covered by buses decreases or increases pollution. During a question and answer session at the workshop, my inquiry on this issue was greeted with the cynical response that the data could be made to show whatever we wanted it to show. If this is true, then the models are useless as a guide to environmental policymaking.

Most of the emphasis in current air quality

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planning is aimed at discouraging travel. Many environmental planners at this training session expressed a preference for making travel more inconvenient as a means of reducing trips and thereby cleaning the air. I find this approach discomforting. Mobility has a positive value to people. The ability to cover large distances in short periods of time enables people to enjoy wider employment opportunities and more access to the amenities that make for a better standard of living. Government policies that set out to reduce travel will lessen these positive benefits.

Serving customers entails selling them what they want to buy. These customers should be charged a price that covers the full cost (including externalities, like pollution) to provide this service. While we want to promote cleaner air, a policy aimed at achieving this by reducing travel makes as much sense as a business seeking to reduce shoplifting by discouraging shoppers from entering the store. While restricting people's travel opportunities may satisfy the self-righteous dictatorial proclivities of many environmental planners, it also serves to undermine the highly valued mobility that comes from a well-constructed and efficiently managed highway system.

The potential impact of many of the "politically acceptable" trip-reduction, pollution-mitigation measures (like expanding the public transit system) is pitifully small. In the Phoenix metropolitan region, for example, fewer than one percent of trips are made on public transit. Since transit trips are typically shorter than auto trips, the share of person-miles of travel for transit is even smaller. Given transit's tiny market share of total travel, expanding bus service would have a minuscule impact on pollution. A doubling of Phoenix bus service would cost taxpayers another $30 million per year. At best, this might lure one percent of drivers out of their cars.

The meager potential of efforts to *entice* people out of their cars inspires some environmental planners to promote ideas for *forcing* people out of their cars. Mandatory no-drive days are popular among bureaucrats. So, too, are punitive parking fees. Strict land-use controls to compel people to live and work in high density zones are also viewed favorably. While these heavy-handed measures might have a greater impact on travel than subsidizing transit services, their cost, in terms of sacrificed travel benefits, is an overlooked consequence.

The good news is that we can make significant reductions in air pollution without restricting travel. Since it is likely that the worst 10 percent of the vehicles cause 50 percent of the pollution, a program to target these vehicles would appear to offer the best chance of meeting clean air goals. In this regard, mobile emissions testing is an obvious policy option. There is now a device on the market, the so-called "smog dog," designed to measure emissions from moving vehicles. This method of testing for emissions is less expensive and more effective than the scheduled annual vehicle emissions inspections commonly employed in most urban areas.

Governments seriously concerned about vehicle contributions to air pollution ought to implement this kind of technology. In 1993, the Arizona Legislature passed a law mandating a pilot test of a mobile emissions enforcement program in the Phoenix metropolitan area. This program took effect in January of 1995.

A second obvious policy option is to use pricing to clear peak-hour traffic jams. Over half the trips during the peak hour are classified as "discretionary" (i.e., non-work trips). When the explicit price of using the roads during peak hours is zero there is little incentive for people who place a low value on their time to make these discretionary trips at a different time of day. The result is a colossal waste of time and the creation of air pollution caused by rush-hour traffic tieups. This may have been excusable when we lacked the means to overcome the problem. Now, with the automatic vehicle identification technology that is available, we have the ability to charge peak-hour users a peak-hour price while offering an off-peak discount to those who use the roads during periods when traffic is light.

Transponders no bigger than a credit card could be carried in each vehicle. These devices would be "read" by roadside computers as the vehicles passed at highway speeds. The vehicle owners would receive a monthly bill similar to the ones they currently receive for their phone service. Charges for using the roads could be varied by time and place, just as long-distance phone rates are, to encourage people to shift their demand to less busy hours. This would lower the total cost of highways by promoting more efficient use of the existing capacity, and avoid the cost of having to build more lane miles of roadway.

A more efficient use of the roadways will also benefit the environment. As time-of-day pricing more evenly spreads out the traffic, fewer gallons of fuel will be burned by vehicles stuck in traffic jams. This will directly improve air quality by reducing noxious emissions. A more efficient use of existing capacity will eliminate the "need" to further disrupt the environment by constructing more lane-miles of highway.

We don't have to give up mobility in order to have clean air. The sooner this idea gets through to the government's environmental planners, the sooner we will be on our way to improving both mobility and air quality. □

THE FREEMAN
IDEAS ON LIBERTY

Meaning Well Versus Doing Well

by Tibor R. Machan

Current politics is a source not only of much frustration, but also of some good lessons in morality.

The central problem in morality is: What counts as doing the right thing, of acting properly, in the myriad of situations of one's life? And while the question has been on the minds of human beings from time immemorial, it resurfaces with each new generation because people generally like to get their own answers, not leave it all to their elders.

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In our own culture, there is much discussion about who is mean-spirited, who lacks compassion, who is kinder and gentler among those vying to be political leaders. It is already a sign of trouble that so many questions of morality seem to await answers from political leaders, as if they could really serve as substitutes for our own moral sensibilities. But there is yet another, more troubling, problem with how morality is viewed in our time.

For too many people it seems that what counts most in moral character is the feelings that motivate one's conduct. If you mean well—if what you feel in your heart is good, decent, and caring—any actions that follow are supposed to be morally upstanding and commendable. It doesn't even matter much what actually *results* from the conduct motivated by such good feelings, "it's the thought that counts," as the saying goes.

Yet there is clearly something wrong with this idea. People may feel good for having done one thing or another from certain generous, charitable, kind, or compassionate motives; but it doesn't follow at all that the consequences will actually produce much benefit. Indeed, it is often likely that by focusing on how one feels about what one does, one loses sight of whether the action actually achieves any good at all. Furthermore, by focusing on these elevating feelings, one can run the very real risk of trying to please others instead of actually helping them.

Helpful conduct often does not square with conduct that pleases. We know this well enough in our personal relations: friends or relatives want us to do for them things that are definitely not in their best interests. Such conduct more often simply satisfies some desire, never mind whether it is actually worthy of being satisfied.

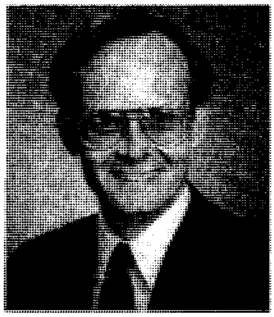
Consider young friends who want us to purchase, say, cigarettes or alcohol for them. Consider the deadbeat who would so much like another loan, or the lazy person who would like to escape all hardship and just sit around. Or consider the moments when you, too, are tempted to plead merely to have your own way, hoping that no one will critically examine the merits of your desires. Those who are unwisely generous may often fool themselves and feel moral righteousness about what they do. And they are certainly liked for this by the people whom they have "helped."

In contrast, bona fide help is much more risky. And it is demanding. One needs to learn what actually is good for the person who seeks it. And in doing so, one often upsets those whom one helps, just as doctors often displease patients with treatments or prescriptions that are unpleasant, or just as coaches displease athletes with the training they demand.

The more remote one is from those in need of help the less likely it is that research into their actual needs will be undertaken. Instead, some standard formulas will be invoked, and the gauge of success will be how much gratitude is forthcoming, not whether such gratitude is based upon their objective well-being.

Are those derided for callousness perhaps thinking more seriously than their critics about what will be most helpful to the targeted beneficiaries? Are their proposals perhaps more fruitful in the long run than those motivated by kinder and gentler feelings? And are these so-called mean-spirited policy architects perhaps more deserving of real moral credit for generosity and compassion, than those who are flooded with *feelings* of compassion and righteousness?

Since the feelings of the latter tend to come at the expense of other people's well-being, the answer should be obvious. □



Putting Leviathan in Perspective

"The Budget Is Out Of Control!" screamed the headline. "As if its sheer size and momentum had made it untouchable," the writer declared, "nobody seems able to eliminate the waste that everybody recognizes."

That may sound like a story that describes the federal government in 1995, but it actually comes from a cover story in *Fortune* magazine of 45 years ago. Published in 1950, the article went on to state, "By any sane economics, Congress should . . . unmercifully sweat down the $42.4 billion that Mr. Truman plans to spend in the year ending July 1, 1951."

A dozen years and two presidents later, the federal budget was a few cents short of $100 billion. Today, at about $1.6 trillion dollars, the federal budget is still eight times larger than it was in 1950 *after* adjusting for inflation. Appropriations bills are commonly hundreds of pages long, in stark contrast to the very first one after the adoption of the Constitution, which was a mere 111 *words*.

Don't let these figures slip by without comprehending the magnitude of their meaning. *If the federal government were the same size today as it was in 1950, it would be spending 1/8 as much as it is—or about $200 billion.* Does anybody out there really believe that today, we are eight times better governed, eight times better off, than we were 45 years ago?

We now have a government in Washington that practices forcible redistribution of wealth on a scale unprecedented in American history, makes war on private property, sacrifices the long-run good for the short-run "fix," taxes and regulates beyond reason and then wonders why people don't work as hard or produce as much, squanders billions on things that nary a soul would willingly spend a nickel of his own money for, and uses its power of the purse to bully the very people who earned the purse in the first place.

While the Congress grapples with the need to curtail Washington's longstanding spending addiction, some partisans would have you believe that a massive, heartless bloodletting is taking place. Rarely will you see on the nightly news anything that even begins to put the gargantuan federal leviathan in perspective. If the American people were provided the information they need to fully comprehend how much government they've bought over the years, they might regard most current efforts to cut spending as rather timid. And I haven't even mentioned the phenomenal growth of *state* and *local* governments.

Economist Stephen Moore of the Cato Institute recently assembled some impressive data on the growth of government and passed it on to the Senate Budget Commit-

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tee. Government, he showed, is America's #1 growth industry.[1]

Moore advised the committee that more Americans today are employed by government than by the entire manufacturing sector of the U.S. economy. With all the money that local, state, and federal governments will spend this year, you could purchase all of the farmland in the United States, plus all of the assets of the 100 largest corporations in America. If the federal government alone were an independent economy in and of itself, it would be larger than the entire gross domestic product of every nation in the world except for Japan and Germany.

Incredibly, the $2.5 trillion that local, state, and federal governments will spend this year represents $24,000 per household in America. Adjusted for inflation, that's up from about $13,000 per household in 1960. Moore asks, "Are government services twice as good today as they were in the 1960s? It is no accident that as government has grown larger over the past four decades, there has been a steady erosion in the percentage of Americans who trust government to do the right thing. In the 1960s, roughly 60 percent of Americans said they had confidence in government 'most of the time,' while today less than 25 percent do."

The next time a brave soul in Congress suggests a spending cut, don't be afraid. The budget cutters are starting out with a government so big that even if they had their way on everything, there would still be far more government left over than we had barely two generations ago. And somehow, back in those dark days of a mere $45 billion in the federal checking account, we survived. □

1. For an earlier discussion of this topic, see Stephen Moore, "The Growth of Government in America," *The Freeman*, April 1993.

THE FREEMAN
IDEAS ON LIBERTY

The Ups and Downs of Unemployment

by Russell Madden

Anyone who has found himself without a job for an extended period of time knows the problems that can accrue from having no work. As someone who has experienced such episodes firsthand at various periods in my life, I can empathize with the ups and downs—mostly downs—which unemployment can bring.

At first, unemployment may seem like a nice change. Relief from the psychological and physical stresses that accompany many jobs can be a welcome respite. No more alarm clock jolting you to bleary-eyed awareness at too early an hour of the morning. No more scramble to shower, dress, and eat. No rush to drop off children at school or the sitter's. No "rush" hour traffic. No annoying boss, co-workers, or customers with their incessant demands and complaints. No lack of time to catch up on sports, reading, house repairs, or just relaxing.

No money . . .

That point, of course, is the wall against which such pleasantries come to a screeching halt. No money means goods and services done without. It means uncertainty and worry about the present and even more about the future. It means bills piling up and debts left unpaid amidst escalating arguments with your spouse. It means bill collectors calling on the phone or knocking at the door. It means self-doubt, anger, and depression. It means the threatened loss of all you worked so hard to earn.

With such potentially dire disruptions staring them in the eyes, it is little wonder that most individuals abhor the prospect of joblessness. In a free society, such adverse conditions provide powerful motivation to seek other employment as quickly as possible.

Of course, politicians are quite vocal in *their* opposition to unemployment, as well. Greater unemployment leads to an angry electorate and a threat to the officeholder's re-election. It leads to greater demands on governmental services such as unemployment checks, food stamps, and other forms of welfare at the very time when revenue from taxes dwindles because of fewer workers collecting paychecks. This shortfall of funds leads to diminished opportunities for politicians to create new governmental programs to expand their power, influence, and control.

Such is the situation most people hear reported in the media. For the unemployed worker, and the politician who fears his own future unemployment if he fails to please his constituents, "unemployment" becomes a reviled menace to be avoided at all costs. Many people loathe it so much they are willing to trade away the exercise of their freedoms and rights for more of that

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illusive ideal, "security." In the long run, of course, they cannot succeed. Security bought at the price of liberty leads to no security at all.

In a free market, joblessness does not represent the kind of widespread societal crisis that requires governmental intervention. Indeed, the kinds of "safety net" programs favored by so many in and out of government exacerbate the problem of occasional joblessness into a chronic condition. They not only lower the number of jobs available, but also weaken or destroy the incentives necessary to encourage individuals to work.

When I found myself unemployed after over a decade with the same employer, my life was—to say the least—disrupted. That painful period is not one I would care to repeat. Yet in retrospect, being without a job turned out to be one of the best things that ever happened to me. As Henry Hazlitt pointed out so long ago, to understand the true impact of an action, we must look not merely at the short-term results but include the long-term effects in rendering our judgments as to that action's utility or harm.

Had I been eligible for and accepted unemployment payments, I might have drifted along for a period of time while I sought out a similar job that gave me relative security but little fulfillment. As the situation stood, however, reality demanded that I expand my range of options. With plenty of time to re-think my situation, I began to look for solutions beyond the horizons to which I had grown accustomed. First I moved to another city. With no luck there, I traveled to another state. When a suitable position still eluded me, I shifted direction yet again. I chose graduate school as a way to improve and expand my skills and value in the job market.

Throughout this period, I relied upon the assistance of friends and family and worked whatever part-time jobs I could find as I inched painfully along the new road I had chosen to follow. My task was made all the more difficult by the very programs those in Washington assured me would protect me and cushion my discomfort. The wealth diverted from more worthwhile projects or wasted by governmentally imposed regulations and laws decreased the number of jobs available to me and diminished the potential salaries of those I might have obtained.

Still—no thanks to the politicians—my period of unemployment provided me with the opportunity (and the incentive) to try out new ideas and to do things I might not otherwise have done. I discovered the works of Ayn Rand. Her novels and essays led me into even wider realms as I explored the history, politics, economics, and philosophy of classical liberalism . . . a radical change in my understanding which might never have occurred had I remained secure and employed. An advanced degree provided me with an opportunity to share with my students the exciting things I learned and to change some of their thinking as well. The positive personal changes I experienced continue to open new doors for me.

No one should misconstrue my point here and believe I advocate quitting a job and waiting around to "see what happens." There are less negative ways of improving one's life. Yet if a person does find himself unemployed, one message the market is sending him is that his personal resources—his talents and skills and experience—are being utilized in an inappropriate manner. He would do well to heed that warning and look for employment in a field of endeavor better suited to his particular circumstances.

Making Choices

A person in such a situation has two choices: (1) accept the status quo and rely upon the government to provide a solution, or (2) be determined to use the time available to create new opportunities for himself. Job retraining, more education, or relocation to another city or state may offer someone greater growth than he might ever have enjoyed had he remained fully employed in his old position. Over a lifetime, periodic unemployment may actually result in his achieving greater wealth than he might otherwise have enjoyed.

Indeed, some unemployed people decide to leave the ranks of the jobless by giving *themselves* a job, that is, by becoming entrepreneurs. Perhaps they borrow money from friends or dip into savings and start their own auto repair shop or clothing store. Perhaps they use the time during their unemployment to indulge in a favorite hobby and suddenly realize that people might actually pay for those carvings or cookies or cabinets they enjoy making so much. If successful, these individuals may move from being unemployed to being self-employed to becoming employers themselves as they continue to create wealth by fulfilling the needs and wants of their customers.

It all begins with an *idea* and the *freedom* to put that idea into practice.

If politicians are truly interested in maximizing employment, they can best do so by eliminating the restrictions that currently govern hiring and firing; by repealing laws that prevent people who want to work from doing so; by doing away with regulations and paperwork and taxes that encumber employers and employees. Only in the kind of hampered market that plagues us today can widespread, chronic unemployment become a reality. Minimum wage laws and government-sanctioned labor union practices maintain wages above market levels. Unemployment compensation and other types of welfare only strengthen the disruptions which the loss of jobs entails . . . even though all of these are usually (and erroneously) touted as being the mechanisms which have improved the lot of laborers.

Like poverty, unemployment always will be with us. Some people will not want to work no matter how extensive the want-ads are; there are those who prefer to loaf. Others value free time more than additional money and will work only long enough to pay expenses before voluntarily becoming jobless once again. A certain group of people will live with unemployment—perhaps relying upon savings or friends or relatives—until they are able to obtain the kind of position they feel most appropriate for them, whether that is defined in terms of prestige, salary, or skills demanded. People employed in seasonal occupations such as farming or construction might fit in here as would those who believe that certain jobs are "beneath" them. Others might endure unemployment because seeking a job in another location might require selling their homes and uprooting their families; accepting short-term employment elsewhere might prevent them from obtaining a more suitable long-term job closer to home.

Whatever the particular situation or reasons might be, in a free and unhampered market, unemployment—even if unpleasant—is always voluntary. There will always be lower paying jobs available or positions in other parts of the country which an individual *could* accept . . . if he were willing to do so.

The True Friends of Labor

The true friends of labor are the free market, the entrepreneurs who provide its motor, and the increases in productivity which only progress—not any government—can produce. Unemployment resulting from changes in the marketplace can open up new avenues to the future for workers and is, at worst, temporary. To deal with such unemployment, government need only allow employers and employees the freedom to decide for themselves which arrangements best suit their own particular needs. The benefits will follow in due course. However, unemployment resulting from changes caused by governmental interference can throw up roadblocks to success few individuals can overcome by themselves.

It is crucial to be able to recognize the difference between these two types of unemployment: it's the difference between freedom and slavery, between prosperity and poverty.

I know which one I choose. □

THE FREEMAN
IDEAS ON LIBERTY

The Ethics of Rhetoric

by Felix R. Livingston

In *The Ethics of Rhetoric,* Richard Weaver identifies two criteria that define the ethical boundaries of political discourse. First, rhetoric should be grounded in sound logic with argument's "high speculation about nature" provided by clear thinking and experience. Second, rhetoric should move people toward the good when knowledge of the truth alone is inadequate for rightly affecting human action.

Judged by these standards, political discussion has become, for the most part, ignoble. During recent election campaigns, it was rare to find candidates willing to honestly examine alternatives using cause-and-effect reasoning. Vote-seeking competitors, some intentionally and others out of ignorance, obfuscated issues by praising causes while condemning effects, applauding consequences while repudiating means, and affirming ideas while denying corollaries.

When the ideal of democracy was being refined in the eighteenth century, election campaigns were viewed as events to educate the masses. A full discussion of contrary policies would enlighten even the most uninterested among us. Politicians now view educating electors as risky business. After all, the opposition's argument might be found compelling. To apply the faculty of reason requires understanding; to experience emotion does not.

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And so, it is to the emotions that appeals are now made. Campaigns are designed to inspire blind faith and affection in candidates portrayed as noble, and to stir feelings of indignation and hatred toward opponents said to be evil. This is base rhetoric because it blocks the intellectual independence and understanding of constituents; competing arguments are rejected solely because rhetoric's will is impeded "and in the last analysis it knows only its will."

Rhetoric was, in its inception, a mainstay of constitutional order. When the Greeks first wrote about it in the middle of the fifth century B.C., their manuals were used by exiles from Sicily, whose property had been confiscated by the tyrants. Following their return to Sicily after the tyrants' expulsion, they used this knowledge in courts of law to obtain restitution for their losses. As the century came to a close, a terrible truth about rhetoric was revealed in Athens: when political discourse abandons principle, the decline of a republic can be frighteningly rapid. When Pericles delivered his famous funeral oration describing the Athenian ideal and its contrast with Spartan totalitarianism, Greece was at the zenith of her material and intellectual powers. Socrates was in his forties, Sophocles was still writing, and Hippocrates was practicing medicine and teaching many others this developing science. A mere 50 years later, democracy in Athens destroyed itself when unbounded rule by the Athenian Assembly replaced the rule of law. The world's first democracy became a tyranny when unprincipled legislation forced individuals to obey the capricious will of a popular majority.

Full Circle

America's architects of freedom were deeply offended by the thought that a prince's pleasure could have the force of law. Although Americans are still repulsed by this idea, we have traveled full circle. We expelled the monarch from his palace, but we replaced him with an aggressive legislative body, whose pursuit of political ends is only periodically disrupted. We are now citizens for a day and then subjects for the intervening years that separate elections. For all practical purposes, Washington's elected elite is America's sovereign power. They possess vast legislative authority, and they establish arbitrary rules of behavior for their constituents while applying special rules to themselves. Their legislative acts neither command nor deserve respect beyond that procured by force; law has become the means by which the few exploit the many.

Many are now rejoicing about the recent "sea change" in Congress. "Good" newcomers are said to have replaced "bad" incumbents. More astute observers know that any changing of the guard in Washington is analogous to a barbarian invasion. Newly elected officials, and incumbents who have gained influence, can be found in the corridors of power displaying pride and wonderment about how to legislate benefits for themselves and their constituents. Politics is primarily a struggle to command, with the spoils going to those who are willing to say and do anything to achieve their ends.

If political rhetoric is to be a guiding light for legislative action to renew our republic, its logic must be animated by "first principles" identified by the philosophers of freedom—David Hume, John Locke, Montesquieu, and Adam Smith. Their central lesson is that the judgments of unbridled democratic majorities are as flawed as the dictates of tyrants; government can only be good if it is limited. Without a "belief in things higher than democracy," including individual liberty, the rule of law and private property, our fate is inextricably linked to that of ancient Athens. As nations move along the slippery path toward totalitarian democracy, liberty is extinguished by governments that inevitably become absolute. □

THE FREEMAN
IDEAS ON LIBERTY

A Peek Behind the Old "Iron Curtain"

by Bettina Bien Greaves

In September–October 1994, FEE's President, Dr. Hans F. Sennholz, sent me to Eastern Europe on behalf of FEE, to meet people who were interested in the freedom philosophy, economics, and the government. Through me, FEE offered them *The Freeman* and FEE's other publications as aids in explaining the concepts of individual rights, savings, investment, and entrepreneurship to their fellow citizens.

For 45 years, the people in the countries I visited had lived behind the "Iron Curtain." They had had little or no experience with free markets and have little understanding of what it means to be individually responsible. They have become accustomed to having government make decisions for them about housing, jobs, and medical care. Since the collapse of Communism in 1989, however, they have been forced to face reality; they have come to realize that food, clothing, and shelter are not free goods, that they must be produced, earned, and competed for in world markets. As a result, the people are trying to transform their old command economies into private property orders and to integrate their activities into the world market. My trip was short; I spent very little time in any one country so I do not pretend to be an authority. Thus this report is based on limited observations and on my conversations with the people I met.

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Poland

A professor of philosophy in Poland told me he had spent nine months in a mental hospital under the pre-1989 Communist regime. Those months had been far more difficult for his family, he said, than for him. He had not been medicated or tortured, but had had time for meditation and speculation. By observing his fellow inmates and their actions, he had come to realize that the drive to cooperate and trade with others is inherent in human nature and could never be completely suppressed. This natural drive on the part of individuals to cooperate and trade offered hope to the formerly Communist nations that they could in time develop economically and re-enter the world of civilized nations.

In Poland, the Communists had confiscated property and suppressed the people through controls, regulations, and censorship. But the Communists never fully succeeded in subjugating the Church and farming. Agriculture was not completely collectivized as it was in the U.S.S.R., Romania, and Hungary. Most farms in Poland are small, lack capital, and so are unable to take advantage of modern technology, but because they are privately owned and operated, the farmers have an incentive to do their best.

One of the first forms of private enterprise to appear in the wake of the 1989 Communist pullout was the small retail shop. Many private shops and stalls now line the streets and pedestrian underpasses of Warsaw. I saw in Wroclaw what is in effect a modern department store, a conglomerate each department of which is operated by an independent private entrepreneur. I stayed in a small privately operated hotel, ate at a privately owned restaurant run by Vietnamese refugees, and saw a private brewery.

In expectation of the prospects for economic improvement, foreigners are beginning to invest in Poland. I talked with a Finn whose firm was producing machinery in Poland for energy production. The names of foreign companies, even of U.S. manufacturers of pet-food, appear on billboards everywhere. And I was amazed to see shops selling expensive imported perfumes. The drive to produce goods to export to pay for imports, such as the satellite TV dishes that are seen on many apartment house roofs and balconies, is forcing workers to face the discipline of the world market.

Russia

Mikhail Gorbachev's *Glasnost* (openness) permitted the peoples in the old "Iron Curtain" countries to talk more openly than before. His proposal for *Perestroika* failed to fulfill its promise of bringing about radical economic reform, but it opened the door a crack to private initiative. Alert and energetic individuals began to cooperate and trade openly with one another.

As it takes relatively little capital to start selling to consumers at the retail level, individual entrepreneurs began to bring wares to Moscow from far-off places by bus, train, and plane. At first they sold from carts on the street, then later out of small kiosks or shops. More fresh produce, much of it from far away, appeared in food markets. One fruit vendor in Moscow told me his home was more than 1,000 miles away. Small retail shops, not all strictly legal, now line Moscow's streets and pedestrian underpasses, offering everything from liquor to electronic appliances, candy, and flowers to leather jackets and running shoes. Craftsmen, some of whom try to avoid taxes, are also appearing, producing such items as wooden bed frames, chairs, and souvenirs. To avoid being completely smothered by the heritage of the old Communist government—oppressive regulations, taxes, and inflation—some of these small private enterprises are operating in the uncertain underground economy. Yet their efforts could prove to be the vanguard in the movement toward teaching individual responsibility and re-establishing free markets. In the meantime, some goods and services are more readily available, making life a little easier for city people.

In Russia, individuals are permitted to lease for 99 years small pieces of land, perhaps about one-fourth of an acre outside the city. Moscow is almost deserted weekends, as city dwellers escape their crowded apartments in the city's high-rise buildings to visit their small cottages or dachas, in the surrounding countryside and cultivate with tender loving care their little gardens. They take pride in the fruits, vegetables, and berries they grow, harvest, and preserve for winter consumption. Farming such small plots and canning the produce in tiny apartment kitchens may not be the most efficient way to feed the people in Russia's urban centers, but it has helped tremendously to alleviate transportation bottlenecks and food shortages, which still plague Russia because of 75 years of Communist rule.

Romania

Romania's tyrannical Nicolae Ceausescu suppressed the people without mercy; any criticism of his regime was strictly censored; attendance at periodic political rallies was compulsory. Ceausescu tore down the buildings in a vast area of Bucharest, the capital city, to construct a huge plaza for military parades and a gigantic palace for his personal self-aggrandizement. He razed some 7,000 villages and forcibly resettled the inhabitants into hastily constructed urban communities.

Revolutionaries ousted and executed Ceausescu in December 1989. But pro-Communists, who claimed to be anti-

Ceauscescu revolutionaries, managed to maintain control. When in the spring of 1990, students organized a sit-in on University Square, in the hope of attaining real political reform and an independent television station, they were ruthlessly suppressed by the police. A new election is scheduled, but that is more than a year away.

The people of Bucharest, say there are more goods in the markets than under Ceausescu's regime, and that life is a little easier. The names and products of foreign companies are beginning to appear on the streets and in the shops. Yet Romania still suffers under more controls and regulations than the other countries I visited in Eastern Europe. Although some agricultural land has been turned over to farmers to operate privately, the rest, about half, remains under state control. A complicated "denationalization" scheme gave Romanians the chance to buy vouchers entitling them to buy into national industries, but little was accomplished; the voucher-owners could not choose the companies whose shares they want to buy and if they bought they could not sell. The employees of some government-operated companies were given shares in the companies in which they worked but their control was strictly limited; and again they have no right to sell, so they do not really own the company.

Bucharest, more than the other Eastern European capitals I visited, reveals the ravages wrecked by decades of Communist control. Romanians still face constant irritations, signs of neglect and misrule. Bucharest's streets are in disrepair and littered; trash collections are erratic; and the water is turned off without warning for several hours each day. If the survivors of Ceausescu's regime are to be ousted and real political reform instituted, the voters must be willing to reject the old system of government-defined security and controls.

One indication of Romania's dismal economic situation and its inhospitability to private enterprise is that it was the last country in Eastern Europe to be blessed with McDonald's "golden arches." In June 1995 the firm finally opened a new restaurant in Bucharest.

Hungary

Thousands were killed and several hundred thousand fled Hungary during its 1956 anti-Communist revolution. The U.S.S.R., out of fear of another revolution, refrained in Hungary from strictly enforcing its controls and regulations. This opened up opportunities to those who dared risk trying to go into business. Although hampered by the Communist regime until the 1989 pullout, the people had a slight, if rather uncertain, headstart toward recovery. Today its capital city, Budapest, appears quite prosperous.

However, Hungarians have been seriously burned at least twice by "runaway inflations"—in the wake of World War I and in 1956 after World War II; they no longer trust government money or banks. In a desperate effort to conserve their savings, they are fleeing paper money and looking for ways to invest in real goods. A do-it-yourself building boom has developed as individuals renovate, add on to existing homes, or construct new ones, even if they have no immediate prospects of living in them. Perhaps their children will live there some day; in the meantime their money is invested in something real.

Czech Republic

Of the cities I visited in Eastern Europe, Prague, capital of the Czech Republic, appears the most "Western." It has made considerable progress toward removing the old Communist restraints. Further economic development became easier when its eastern section, Slovakia, gained independence. Slovakia had been more nationalistic and leftist, also less developed economically than the Czech Republic. Without Slovakia to consider, the Czech Republic could proceed toward economic reform.

The Czech Republic has taken a major step toward privatizing nationalized industries. The people were permitted to buy vouchers, entitling them to buy shares in specific nationalized companies which could then be offered on the market. In this way, 50 percent of the formerly nationalized companies privatized in the first phase of

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Private kiosks on a street in Moscow.

denationalization, another 30 percent during a second phase, so that 80 percent of the industries that had been government-operated are now privately owned. Still the free-market-minded Czechs with whom I spoke complain that the actions of their government officials do not match their rhetoric. The government, for political reasons, continues to hamper economic development by failing to liquidate bankrupt firms and by maintaining controls, for instance, on rents and wages, with a high minimum wage rate.

Conclusion

The people in the Eastern European countries I visited have many of the same complaints that we do in the United States. They are saddled with high taxes, burdensome controls, costly government pension schemes, and central banks that consider inflation and/or credit expansion the proper way to meet the government's expenses. It has been this country's good fortune that it was not devastated by 40 years of Communist rule. Destructive as our controls, regulations, monetary manipulation, and taxes have been, we in the United States have not endured such suffering as have the inhabitants of Eastern Europe. What the United States has that the Eastern European countries lack is an economic climate that is relatively congenial to private enterprise. People in the United States have felt relatively confident that their property would be protected. Thus, they have been willing to work, save, and invest. Many entrepreneurs have dared to innovate, experiment, and take risks in the hope of profit. As a result, we enjoy the benefit of the savings and investments of countless persons over decades. It is these accumulated savings and investments and the undertakings of many entrepreneurs that have made possible this country's technological and economic development.

The countries of Eastern Europe were devastated for decades and their wealth was confiscated by the Communist regime. Now that they are on their own and beginning to participate in world trade, they have a chance for economic recovery. It is imperative that the people come to recognize the importance of protecting private property and what it means to be individually responsible. Their governments must cut expenses until they can be covered by the taxes they collect and the money they borrow from private lenders. They must protect private property and respect private contracts; they must avoid arbitrary regulations and controls; they must shun government deficits that invite inflation; their taxes must be non-arbitrary and reasonable. In other words, governments must foster an economic climate that will attract investors and leave individuals free to pursue their natural human bent—to cooperate and trade with one another. □

Justice or "Utility"?

The core purposes of government are well expressed in the Preamble to our Constitution: to "establish justice" and to "insure domestic tranquility."

But there's a hierarchy of importance here. By seeking justice, you will necessarily promote domestic tranquility. However, if you seek domestic tranquility alone you won't necessarily promote justice.

How, then, to address crime? Liberals emphasize prevention and rehabilitation. Conservatives, and many free marketers, emphasize deterrence and incapacitation (jail). But all share a *utilitarian* objective: to advance *future* public safety by altering the *future* behavior of the criminal. The problem is that utilitarian objectives can be sought without concern for justice.

For decades, liberals have run our legal system. Renouncing punishment as a proper response to an offender's past crimes, their prevention-and-rehabilitation approach has tried instead to alter his future conduct, for the eventual betterment of society as a whole.

This anti-punitive strategy has obliterated personal responsibility. The felon endures few negative consequences for the damage he does to others. This has led to dual outrages: the unjust neglect of victims, and excessive leniency toward their victimizers.

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But under utilitarianism, leniency is not the only option. If public safety is the sole objective, why not try to suppress crime rates by executing—or jailing forever—every criminal we catch, from jaywalkers to serial killers? Instead of inordinate leniency, why not try unbridled punitivity?

Many conservatives and free marketers prefer this alternative. Their deterrence-and-incapacitation approach represents the flip side of the same utilitarian coin. It, too, aims solely to alter an offender's future conduct, for the eventual betterment of society as a whole. It, too, severs any clear causal connection between the degree of injury suffered by the innocent, and the degree of punishment imposed on the perpetrator.

Utilitarianism thus has led both the Left and Right to *injustice*: to disproportionate punishment in relation to the transgression. After all, once illegal acts are decoupled from a proportionate legal response, the only remaining argument is whether that response should be anemic or draconian.

Utilitarianism also leads both sides to *collectivism.* What counts to utilitarians, Left or Right, is not justice for individuals, but only lower crime *rates* for society in general. No longer gauged by the harm inflicted upon individual victims, punishments are instead based on arbitrary predictions of the criminal's future dangerousness to "society." In utilitarian social calculations, there is no place for the anguished human face of an individual crime

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Protectionism, Old and New

Protectionism, which is the policy of protecting home industries from foreign competition, has many origins. Some date back to the ways of tribal societies which generally viewed foreigners as aliens and enemies. Others are singularly American, arising from economic stagnation and dollar decline. All are the result of misinformation which is more harmful than non-information. Error is always more active than ignorance.

Every form of protectionism builds on raw political force. It takes an army of tax collectors, administrators, and border guards to protect domestic industries by levying import tariffs and other restrictions on foreign products, or by paying bounties on domestic products. Protectionism builds on the governmental power to tax one man to help the business of another. Taking money from one American and giving it to another is the source of much social and economic conflict.

Protectionism receives its political strength from advocates of political power who welcome additions to governmental power. They are supported by mainstream economists who look to government officials for full employment and economic growth. Their primary concern is national income, national spending, and national employment. They favor national planning which obviously cannot tolerate international free trade; it would upset, disrupt, and quickly undo any planning.

The staunchest allies of these politicos are labor unions to whom government protection is of crucial importance. They live by the doctrine that union members have an inherent right to a job in their particular industry, at their present location, and at rates of pay that exceed market rates. Plagued by the inability to compete and by high rates of unemployment, they argue forcefully against everything foreign.

Unemployment undoubtedly is a great social evil that concerns us all. It is an economic phenomenon of loss and waste that harms not only the jobless but also their fellow workers who are forced to support them. Alleviation of unemployment has become an important political task by which governments are judged and measured. But the problem also raises a basic question: can import restrictions increase the demand for labor and reduce unemployment? Unfortunately, they cannot, because they reduce the productivity of labor and, therefore, reduce the demand for labor. Surely, a newly protected industry gains temporarily from the reduction of competition: it can raise prices, earn higher profits, and pay higher wages. But other industries will consequently suffer from the loss of trade and the higher costs of labor. Consumers everywhere experience reduced purchasing power.

In many respects, trade barriers are similar to natural obstacles that thwart human effort and impair man's well–being. Both increase the demand for specific labor. For example, the destruction of housing by flood, earthquake, or fire increases the demand for housing supplies and construction labor, while also reducing the demand for a myriad of other goods which the destruction victims must now forgo. Similarly, import restrictions on foreign cars may boost the demand for domestic cars, but they also reduce the demand for other goods which the restriction victims, that is, consumers must forgo.

Trade restrictions thus destroy more jobs than they can possibly create. Yet most American workers are convinced that they need such government protection. Without trade barriers, they believe, foreign products made by cheap foreign labor would flood American markets and force American workers to suffer substantial wage cuts or outright unemployment. Americans can trade with each other because they have similar income and working conditions, but they cannot trade with foreigners who work for less at lower living standards.

When carried to its logical conclusion, this wage–rate argument bars all foreign trade because no two countries are identical in labor productivity and income. It may even bar interstate commerce because wage rates differ from state to state. Wage rates in New York State are generally higher than those in Mississippi; by this argument, therefore, New Yorkers must not trade with Mississippians In actual fact, the cost of labor is merely one of many cost factors determining the competitiveness of a product.

It is significant that the loudest agitation for protection is heard in those industries competing with high–cost foreign labor. The American automobile industry is competing with Japanese and German carmakers who pay considerably higher wages and fringe benefits. If the wage argument were correct, there would be few Japanese and German cars on American roads.

When the labor argument is not believable, American protectionists quickly retreat to a sixteenth–century defense: the balance–of–payments doctrine. It contends that government should promote exports to bring money into the country and stifle imports. The modern version urges legislation and regulation to restrict the use of foreign goods and encourages exports for the purpose of creating jobs in the country. Both versions, the old and the new, are spurious and erroneous.

The United States is currently experiencing chronic balance-of-payment deficits with Japan. The ordinary Japanese trade surplus runs at about $10 billion a month, of which $5–$6 billion are with the United States. They consist of dollar earnings which the Bank of Japan then promptly invests in U.S. Treasury obligations. The Bank of Japan is the world's biggest financier of U.S. deficits, both in the federal budget as well as in current trade accounts, and is the strongest supporter of the U.S. bond market. If it were not for this solid support by Japan, the world's biggest creditor country, the financial conditions of the United States, the world's largest debtor, would be rather precarious.

In many parts of the world the U.S. dollar is greatly undervalued in terms of purchasing power. The dollar buys 30 percent to 50 percent less in Japan and Germany than it does here in the United States. Yet in this age of instant communication and capital mobility, it is not purchasing–power parity that determines exchange rates but capital profitability and opportunity. U.S. balance–of–payment deficits are the result of excessive monetary ease on the part of U.S. monetary authorities, of low interest rates, of high taxes on capital and on savings, and of chronic deficit spending by the federal government. America is consuming too much while saving and investing far too little.

Protectionism makes for strange bedfellows. It brings together big business and big labor, politicians counting votes and government officials yearning for power, sixteenth–century thinkers and twentieth–century economists. It unites many petitioners for political favors and largess in a common cause against consumers and foreigners.

Hans F. Sennholz

victim. He or she sinks into a sea of faceless, collective crime statistics.

Don't misunderstand: prevention, rehabilitation, deterrence, and incapacitation are worthwhile ancillary objectives of the criminal law. But they aren't *primary* objectives. They address only general social conditions, so that anonymous citizens of tomorrow may not turn to crime. None of them, though, need be grounded in the principle of making punishments fit past crimes. None of them need be rooted in justice.

The alternative? A legal system that aims primarily at exacting *retribution.*

Retribution means administering punishment to a criminal in proportion to how much he has hurt others. I use "retribution" to mean "reflection." The crook's basic aim is to gain by force something at the expense of someone else. His actions impose damages upon an innocent person. The fundamental goal of a strategy of moral retribution, then, *is to reflect those damages back onto the criminal himself.*

This policy is both moral and practical. Moral, because it upholds innocent human life, and the just social framework upon which individual survival and well-being depend. Practical, because a policy of reflecting proportionate losses back upon the culprit frustrates and negates his desire, which is to profit at someone else's expense. Retribution means *he won't get away with it.*

A retributive system would incorporate many of the worthy crime-reduction ambitions of the utilitarian. For example, long terms of confinement under harsh conditions, with inmates forced to work and pay restitution to victims and taxpayers, would surely deter more criminals than does our current toothless system. Being locked up would also prevent them from causing ordinary citizens more trouble, and—who knows?—possibly encourage the occasional inmate to rehabilitate himself.

But since we cannot predict their future dangerousness, a retributive system would abandon such utilitarian fads as treatment programs and "selective incapacitation." A term of confinement would be tied to the seriousness of a convict's offenses—period.

Because retribution entails punishment, it's often criticized as being motivated by a crude thirst for revenge. In fact, a retributive legal system is the antithesis of private revenge, and the basis for the rule of law.

My dictionary says "revenge" is "the carrying out of a bitter desire to injure another for a wrong done to oneself or to those who seem a part of oneself." Of course, revenge-based punishment need not be just: the injured party may retaliate disproportionately to the harm done. By contrast, "retribution" is "just or deserved punishment, often without personal motives, for some evil done."

If we're to have a just and peaceful society, the use of after-the-fact, retaliatory force cannot be left to the arbitrary whims of private victims, each employing subjective criteria of personal injury. Precisely to minimize and avoid vengeance, vindictiveness, and vendettas, and the disproportionate punishments to which they lead, a justice system must be based upon retribution, not revenge.

Retribution constitutes the premise that the level of punishment must fit the severity of the crime. This does not mean we need to punish *in kind*: the law need not literally demand "an eye for an eye," sinking to the specific tactics of the wrongdoer. But it does mean that society should punish *in proportion*: the law ought to recognize gradations of evil and injury, and respond accordingly.

In short, retribution is the only premise fully consistent with justice and individualism. With justice—because it implements *proportionality* in criminal sentencing, fitting the punishment to the crime. With individualism—because it bases punishments on actual harm done to *individuals.* Retribution does not look to society's future: it remembers the individual victim.

Our nation's Founders made it clear that they saw no clash between the moral end of justice, and the practical ends of insuring domestic tranquility. A valid conception of retribution, of "just deserts," can incorporate many of the worthy purposes advanced by utilitarians. But it can also provide those purposes the crucial moral grounding they have never had. □

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IDEAS ON LIBERTY

Justice and Cultural Diversity

by Philip Perlmutter

Diversity and multiculturalism are increasingly heralded as desirable goals for society. It is argued that government should translate them into everyday realities—and in proportion to a group's percentage of either the local or national population, whichever is higher. For example, if a group such as women, blacks, Hispanics, Asians, American Indians, or gays are "x" percent of the national population, then that's the percentage of jobs they should have.

How government relates to individuals and groups—and vice versa—are not new problems. The framers of the Constitution and Bill of Rights grappled with them. And while none of the Founding Fathers foresaw the evolution of today's enormous and multivaried population, they knew of the dangers of a divided people, and of a government that gives special privileges to some groups, whether royal, religious, or political.

George Washington visualized an America that "gives to bigotry no sanction, to persecution no assistance," and that "requires only that they who live under its protection should demean themselves as good citizens." With equal simplicity, John Quincy Adams wrote that America "is a land, not of *privileges,* but of equal *rights*" and that "*privileges* granted to one denomination of people, can very seldom be discriminated from erosions of the rights of others."

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Such views, plus the guarantees of the Bill of Rights, formed the basis of the American ideal, though all too often not of its reality. It is the contrast between the ideal and the reality that leads to the question: what kind of governmental system best insures the greatest freedoms for individuals and groups, as well as the greatest possibilities of undoing wrongs among and between them, and with the least injury to any, and to the nation's unity?

There is ample evidence that insuring individual equal rights, with unrestricted opportunities for redressing individual and group wrongs, is more desirable than insuring group preferential rights, where redress is limited or prioritized by the victim's group affiliation and percentage of the population. Governments and elections by majorities, pluralities, or coalitions, whatever their shortcomings, are still more salutary for most people and less injurious to some than governments of proportionalized minorities.

The latter model seems theoretically fairer and more attractive because it seems to offer immediate representation and redress to some minorities. But in reality it also generates, multiplies, and perpetuates tensions and conflicts among many minorities, eventually overshadowing whatever initial progress was made, delaying solutions to existing problems, and endangering the well-being of society itself.

Also, by providing benefits to some groups on a preferential basis, a disrespect, if not contempt, for the recipients, the providers, and the law is created or reinforced. And why not? Why should all members of a group be eligible for benefits that no members of other groups are? Why must there be lower standards for some groups and higher ones for others—for the same job, promotion, or entrance to college? Is there, as various racists and sexists have long claimed, something biologically, intellectually, and/or socially amiss with some groups? Or is there, as a few contemporary minority extremists claim, something biologically, intellectually, and/or socially superior in their group?

If all people are equally entitled to certain inalienable rights and opportunities, why do some insist on differential treatment in obtaining them—whether it be via quotas, goals and timetables, and set-asides, or exemptions from standard procedures? Is it not hypocritical to deplore being denied equal opportunities and treatment, and then to defend the denial of the same to other individuals or groups? Is it no less hypocritical to denounce the misbehavior of others and defend the very same behavior by members of one's own group?

Who can respect the beneficiaries of favoritism? Who can respect those who gain something denied others? And how can the recipients respect themselves? And what is one to say about legislators who validate such behavior?

There is no evidence that governmental policies based on racial, ethnic, religious, or sexual preferences or proportional representation can assure or generate more freedom, self-respect, cooperation, well-being, or security, than can governmental policies based on individual rights, liberties, and blindfolded justice. □

THE FREEMAN
IDEAS ON LIBERTY

Individual Responsibility and Economic Well-Being

by Paul A. Cleveland and Brian H. Stephenson

Despite being motivated by apparent concern for the poor, government efforts to redistribute income have failed. Decades of U.S. welfare programs have failed to rescue both the urban and the rural poor. The only way to maximize economic well-being for all is to rely upon individual choice and responsibility, not income redistribution.

In order to transfer income to some citizens, government must first take income from others. The more government attempts to redistribute wealth, the less wealth it finds to redistribute. Ultimately, such action consumes capital, depletes wealth, and ends in widespread hardship and increasing despair.

The Soviet and British experiences with redistributionist philosophy serve as excellent examples in demonstrating that redistribution only produces a greater need for redistribution. For example, the English welfare state has led to an unemployment rate of over 10 percent.[1] It is interesting to note that both the rate and the amount of transfer payments have quadrupled since World War II. Thus, as more money is diverted to support more unemployed citizens, more must be taken from the remaining producers in the economy. At the margin, the incentive to work continues to fall and the economy spirals downward.

Some people immediately challenge this proposition. They suggest that eliminating popular social assistance programs would lead to the demise of all concern for the poor. Proponents of government-subsidized housing, welfare, and health care point out the economic value of our poor, and are quick to remind us that America's great prosperity sprang from the depths of our slums. They argue that it was the poor, the uneducated, and the unskilled that came together and transformed this country into an industrial giant.

Making a comparison of today's poor with earlier immigrants is frivolous because our forebears were different from today's poor. The people who came to America in decades past made sacrifices to build a life for themselves in a free country. They abandoned their possessions and embraced the hope of a new land, a new life, and a better home. On the other hand, today's poor are often discouraged and unwilling to seek opportunities. Most early Americans embraced opportunity with hope, but today's poor possess no such general zeal. If we wish to redevelop a spirit of hope among today's poor, we must reject the plea for government-induced equality, and instead replicate the circumstances faced by those who carved out a living for themselves and their families in earlier generations. That

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earlier reality offered little public assistance. It was market-driven, and those who failed relied largely on the compassion and private charity of their neighbors to help them in times of need.

Our forefathers possessed a sense of responsibility far greater than that generally displayed today because they knew no one would subsidize their complacency. They carefully considered the choices they made, and lived with the knowledge that they had ultimate responsibility for the consequences of their actions. Too many people today have no such understanding. They live with the assurance that regardless of their actions, government will force society to look after them. This mentality separates them from early Americans. Perhaps a modern example can clarify the issues.

Eric's Story

Eric is a young black acquaintance struggling to improve his life. He is determined to better his situation in spite of his disadvantaged environment and childhood. Eric worked to pay his way through an expensive Catholic prep school, and is currently putting himself through college. His path has not been unscathed and there have been times when it would have been easier for him to quit. For example, last summer Eric was in an automobile accident that almost took his eyesight and his life. During his stay in the hospital, he accumulated medical bills of nearly $10,000. Regrettably, he had no medical insurance.

It would have been easy for a person of lesser character to give up and seek relief through government programs, but Eric did not choose that route. Instead, he chose to focus on his goals, left college for a semester to pay off his medical bills, and then returned to school debt-free and ready to make a better life for himself. Eric's story is significant in that it shows his determination to endure hardship in order to reach his goals. In the process of endurance, Eric's character is being developed and his prospects for future success are being enhanced.

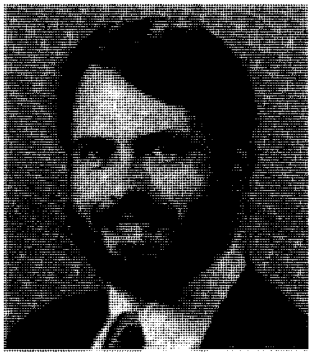
Eric personifies how individual responsibility is a far better foundation for the promotion of economic well-being for two reasons. First, Eric had to recognize that no one made or influenced him to drive, fall asleep at the wheel of his car, and run into a telephone pole, nor did anyone force him to go without medical insurance. These were decisions that Eric made freely, privately, and with the knowledge of their potential consequences. Secondly, had Eric accepted government assistance to remain in school, he would not have learned from his mistakes. People learn the most from their errors when they persevere through the hardship of the consequences that result from them.

In addition to these issues, there is the question of equity. The government does not "own" $10,000 to pay for Eric's medical bills. To obtain that money it must take it from someone else. Given the nature of government as collective force, this action is tantamount to theft. No one wins from a long-term system of public theft.

History has demonstrated that government cannot successfully alleviate poverty. In fact, government redistribution actually leads to impoverishment because it promotes the disregard for property rights.

There is nothing wrong with empathizing with the pain and suffering that people endure, or with showing mercy to those who are suffering. Private charity must be responsible so that it does not promote irresponsible behavior. However a problem arises when handouts are presumed to be a right or entitlement. When government force is used to fund charitable activities, the result is a system of public theft which exacerbates profligacy in society. If we truly wish to help the poor and unfortunate we must recognize the importance of individual responsibility, not government redistribution, as the foundation for stimulating economic well-being and character development. □

1. Robert J. Gordon, *Macroeconomics* (New York: Harper Collins College Publishers, 1993).



Terror: Against or By Government?

Washington is often convulsed by events that have no impact on the rest of America. Not so the Oklahoma City bombing, which, in contrast to so many other actions, dominated nation and capital alike. And understandably so. It is impossible to describe adequately the horror of the terrorist attack, though many people have tried. The picture of bloodied children alone is enough to indelibly imprint upon our society the barbarity of terrorism, with its helpless, innocent victims.

Yet if it seemed like ruled and rulers could come together for one moment, it was only one brief moment. Unfortunately, the reactions in and out of Washington were completely different. Around the country was anger, desire for understanding, and hope for healing. In the halls of the White House and Congress was shock, followed by a race for political advantage and demand for more power. In short, everyone did what comes most naturally to them—citizens worried about their countrymen while politicians worried about their influence.

Consider first the attempt to brand critics of government as contributing to a "climate of hate" in which violence might occur. Needless to say, it is in the interest of presidents, legislators, and bureaucrats alike to discourage criticism. And many have been quick to use the tragedy in Oklahoma City in an attempt to place themselves beyond reproach.

For instance, the American Federation of State, County, and Municipal Employees ran an ad in *The New York Times* titled "The Call of Duty." AFSCME argued that "the people who work in government service are the faces of America. Serving all of us." Thus, continued the union, "Isn't it time to end the constant attacks on the people who serve us? Who knows what the twisted mind of a terrorist might think? *Or do.*" Ah, if only *The Freeman* hadn't been criticizing failed government programs for decades, the Oklahoma City bombing might never have occurred.

Aside from the fact that this argument is both nonsensical and self-serving, it is also, well, dangerous. What is more likely to create a climate of hate—denouncing illegal and unconstitutional practices by the State that are harmful and sometimes deadly, or covering up such practices and denouncing the people who point them out? It is, in a sense, the new McCarthyism—criticize government, and you are accused of being an accessory to terrorism.

Indeed, this kind of finger-pointing will make it harder to address the real causes of terrorism. Criticism of government does not occur in a vacuum. More than half of respondents in a new Gallup Poll say they fear for "the rights and freedoms of ordinary citizens" at the hands of the federal government. And they do so for a reason.

This is where Washington is so very far

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out of touch. Most policymakers honestly don't understand why anyone would criticize, let alone fear them. Their sentiment was captured by historian Alan Brinkley who, in an article in *The American Prospect,* asked: "How has it happened that among all the powerful institutions in modern society, government has become the principal, often even the only, target of opprobrium among Americans angry and frustrated about their lack of control over their lives?"

How? Ask Randy Weaver, whose family was gunned down by FBI sharpshooters in Ruby Ridge, Idaho. Ask the parents of the Branch Davidian children, who were burned alive in Waco, Texas, in the midst of a BATF assault. Ask Mary Williams, whose 75-year-old husband died of a heart attack during a mistaken SWAT team drug raid on their apartment in Boston. Ask Donald Carlson, who was shot three times in a faulty DEA raid on his home in Poway, California. Ask the thousands upon thousands of people who've had land seized by the Environmental Protection Agency, been audited by the IRS, and been otherwise harassed by the government.

Someone needs to explain to Professor Brinkley that only the government can seize property and kill people with relative impunity. Only the government can destroy businesses, level homes, impose taxes, and regulate property with minimal restraint. Only the government has a monopoly of force. Only the government warrants constant suspicion and fear.

The fact that the State has enormous power and has constantly misused that power requires us, especially in the aftermath of the Oklahoma City attack, to talk about the unsavory role of the U.S. government in promoting terrorism. Although nothing could ever justify Oklahoma City, it, along with other murderous assaults, like the World Trade Center bombing, should not surprise us. Unfortunately, the United States has spent years creating and inflaming a multitude of grievances here and abroad, grievances that some misguided people believe can be resolved only through violence and murder.

For instance, the Oklahoma City bombing may have been a bizarre retaliation for the destruction of the Branch Davidian compound in Waco two years before. Only a twisted mind could think that the killing of four-score people by the government warranted the slaughter of nearly 170 people in and around a government building. Nevertheless, no one should doubt that Waco, too, was terrorism, only committed by the federal government. Neither the absurdity of David Koresh and his beliefs nor the convoluted legal allegations against him justified the initial raid, let alone the final assault. Apparently only the government can risk children's lives with impunity.

The World Trade Center bombing, too, was a predictable outgrowth of official U.S. policy. Persistent American intervention in the Middle East alone has been enough to turn the United States into an international target of terrorism. Though murderously misdirected and morally monstrous, the attacks are a natural response to Washington's determination to make everyone else's international conflicts its own by continually meddling in foreign squabbles and seemingly condoning most any injustice perpetuated by most any ally.

Consider the 1983 bombing of the Marine Corps barracks in Lebanon. The United States sent soldiers into the middle of a civil war, sided with one of the warring parties, and shelled Muslim villages as a show of strength. How, then, could anyone have been surprised when a suicide bomber reversed the direction of death, making 241 young Marines pay the supreme price? The United States intervened in a distant conflict for no cause and terrorized peoples with whom it had no quarrel, providing everything but an engraved invitation to revenge-minded killers. Unfortunately, American policymakers should share responsibility with foreign terrorists for the soldiers' deaths.

Especially dangerous today is the government's campaign to make an enemy of every living Muslim fundamentalist, wherever he resides in the world. There's no doubt that Islam poses a serious challenge to Western culture and values. But the United States can do little to halt its spread and has no reason to intentionally antagonize Muslims who otherwise wouldn't even think about America. Yet Washington is speaking of alliances with African nations that most policymakers, let alone citizens, can't find on a map, in order to "contain" an ancient religion that has endured for centuries. Declaring a de facto war on Islam invites retaliation, and the most likely victims will be innocent Americans.

Yes, the United States must respond to terrorism. Part of the solution is improved detection, prevention, and punishment. But the United States must also reduce the manifold justifications, perverse and warped though they be, for terrorism that it has needlessly provided to those with seared consciences and murderous intentions. There are many good reasons why people both fear and criticize government. So long as Washington tolerates, encourages, and, worse, engages in one or another variant of terrorism, it will risk repetitions not only of Oklahoma City, but also of the plethora of other bloody attacks around the globe in recent years. □

Crime and Race

by Ralph R. Reiland

The tragic murder last year of Polly Klaas, a suburban white child forcibly taken from her bedroom by a career criminal, created a national uproar. Her accused assailant, Richard Allen Davis, had been released from prison two months earlier, after serving only half of his sentence for a prior kidnapping.

The Polly Klaas case isn't unique. A recent study from the Bureau of Justice Statistics on early release practices in 36 states and the District of Columbia shows violent offenders serve only 37 percent of their imposed sentences. The average time served for murder is 5.5 years (in California, it's 41 months). For robbery, it's 2.2 years, and 1.3 years for assault. And government statistics show that the majority of early release violent offenders are rearrested for new crimes within three years, one-third of them for new violent crimes.

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However, there's not the same national outrage when the victim is poor and black. "All the murders of inner-city black children at the hands of plea-bargained violent predators elicit no such political response," says John J. DiIulio, Professor of Politics and Public Affairs at Princeton University.

In fact, no group suffers more from lenient early release practices than America's black community. "He would be alive today if the legal system worked the way it should," said Hubert Stone, Sheriff of Robeson County, N.C. Sheriff Stone was talking to Michael Jordan, the Chicago Bull's basketball star, as he buried his father. The two 18-year-olds charged in the killing had long criminal histories at the time of the murder. Larry Demery, out on bail, was awaiting trial for bashing Mrs. Wilma Dial, a 61-year-old convenience store clerk, in the head with a concrete block during a robbery, causing a brain hemorrhage and fracturing her skull. Daniel Green was on parole after serving only two years of a six-year sentence for attempting to kill Robert Ellison by smashing him in the head with an ax and putting him in a coma for three months.

A black person is murdered in the United States every 42 minutes. The FBI's current Uniform Crime Report shows that blacks, 12 percent of the population, account for over half of all murder victims (with 95 percent being killed by blacks). "We would riot if whites killed this many blacks," says Issac Fulwood, former Chief of Police in Washington, D.C.

In Pittsburgh and surrounding Allegheny County, blacks make up 11 percent of the population and accounted for 74 percent of the homicide victims in 1993 and 65 percent in 1994. Young black males, less than 1 percent of Allegheny County's population, account for nearly one-third of the murder victims. "For a 15-year-old black male in Allegheny County—and there are only about 1,000—the chances of being a homicide victim, most likely from a gun, before reaching the age of 25 are about 1 in 32," reports *The Pittsburgh Post-Gazette*. The chances, by contrast, for a white 15-year-old male are 1 in 1,000.

Federal Judge Frank Easterbrook links the epidemic of crime to the fact that many people figure they can get away with it. "If you raise the price of rutabagas, people will buy fewer rutabagas," he says. In a recent *Commentary* article, James Q. Wilson, Professor of Public Policy at UCLA, states: "The probability of being arrested for a given crime is lower today than it was in 1974. The amount of time served in state prison has been declining more or less steadily since the 1940s. Taking all crime together, time served fell from 25 months in 1945 to 13 months in 1984."

Alone, the criminal justice system can't be expected to get to the root of America's crime epidemic. It's just the last stop along a continuum of social problems. "Street crime cannot be solved by the police, the courts, or prisons," writes Judge David Bazelon of the D.C. Court of Appeals. "Those institutions act as mere janitors, tidying up the wreckage that happens to end up in the courtroom."

The roots of crime are more basic. "We no longer live nobly," says novelist John Updike. What we're witnessing is an extensive cultural decline and, unfortunately, much of the social regression seems impervious to government spending. Since 1960, with a population increase of 41 percent, government spending on welfare and education increased by 630 percent and 225 percent respectively (in real terms, adjusted for inflation). In the same 30-year period, SAT's fell by 80 points and violent crime increased by 560 percent.

Still, the vast majority of Americans think Daniel Green and Richard Allen Davis should have been in jail on the nights that Jordan and Klaas were killed. A recent *Parade* magazine survey shows that 92 percent of the public wants repeat serious offenders to serve all of their sentences without being paroled. "By requiring criminals to serve at least 85 percent of their sentenced time, we could prevent 4,400,000 violent crimes annually, nearly three-quarters of the total violent crimes committed," states James Wootton, President of the Safe Streets Alliance in Washington, D.C.

"A lot of blacks are very conservative about crime and that has to do with the fact that many of them are victims," says the Reverend Al Sharpton in a *New York Post* interview. In a recent Gallup survey, 74 percent of black respondents said parole should be more difficult to get, and 67 percent said youth offenders should be treated the same as adults.

Government experts and academics will debate about crime, and be well paid for it. Conservatives oppose judicial restraints on the police and courthouse mollycoddling. Liberals focus on racism and guns. Both worry about the impact of violent movies. Meanwhile, as the arguments continue and the grant money flows, the number of black males being killed every year is higher than the total number of black soldiers killed in the bloodiest decade of the Vietnam War.

It is time we remembered that, of all groups, it is blacks who are the worst victims of our crime epidemic. And it is time for us to understand that leniency toward criminals actually harms blacks the most. □

THE FREEMAN
IDEAS ON LIBERTY

The Uneasy Case for "Tax Fairness"

by Dale Bails

How should the tax burden be distributed? How much should one group or individual pay relative to some other group or individual? Both of these questions are usually answered by some vague reference to "fairness" and "equity."

In common usage, equity in taxation implies that high-income individuals should pay more than middle-income individuals, and low-income individuals should pay the least. More formally, the issue of equitably distributing the tax burden among taxpayers has generally been resolved by applying the concept of the "ability-to-pay" principle of taxation. A shorthand statement of this principle would be "treat equals equally and unequals unequally."

The issue of levying higher taxes on those with higher incomes is frequently cited as a justification for a progressive or graduated tax structure. Under such a structure, the more income an individual earns, the larger the tax bite out of any additional income. For example, if an individual earns $30,000, the first $10,000 might be taxed at a rate of 10 percent, the second $10,000 at a tax rate of 15 percent, and the third $10,000 at a tax rate of 25 percent. Thus, a person who earns $30,000 will pay a total tax of $5,000.

Although it is true that progressive taxes satisfy the higher tax requirement for those with higher incomes, there are fundamental problems with this position. The requirement of higher taxes on higher incomes is also satisfied under a flat-rate tax where a single tax rate is applied to all income. In the case of the individual who earns $30,000, the last $1 earned would be taxed at exactly the same tax rate as the first dollar earned. If the single tax rate were set at 10 percent, the total tax bill would equal $3,000. For a person who earns only $20,000, the tax bill would equal $2,000. The principle of treating unequals unequally requires only that those with higher incomes pay higher taxes, a condition that is satisfied under a flat-rate tax. It does not require that they face a higher tax rate. Those who justify progressive taxation by relying on the ability-to-pay principle demonstrate a complete lack of understanding of this principle.

Advocates of progressive taxation argue that individuals with larger incomes have more resources with which to pay taxes; thus, they place a lower value on the additional dollars that they earn (or that would be paid in taxes) than do lower-income individuals. If this argument is correct, levying a higher tax rate on those with higher incomes has some intuitive appeal.

However, the validity of this position rests critically upon two questionable assumptions: (1) the value of additional income to those who earn it must decline, (2) it must decline more rapidly as income increases. The value of the income earned by individuals is reflected in the goods and

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services they purchase. Thus, if the lower-value argument is true, it would suggest that, for example, the additional income required to purchase a color television is less important than the lower income required to purchase a radio. Similarly, the purchase of an automobile for transportation is not as important as being able to purchase a bus ticket for travel. In a more general sense, this position argues that all individuals, if asked to choose, would prefer fewer goods and services to more. An examination of real-world behavior certainly seems to suggest the opposite. We generally observe that individuals place some value on obtaining more goods and services and earning more income.

Further, there is no objective method for determining whether or not one individual derives more or less value from an additional dollar of income over any other individual. Those who justify progressive taxation on the grounds that some (higher income) individuals place a lower value on the goods and services that could be purchased with this income are implicitly assuming that the preferences of all individuals are identical. They assume that all of us, if left to make our own decisions, would make exactly the same choices.

Individual Differences

In light of the tremendous diversity among individuals, this is a curious assumption indeed. Individuals differ with respect to the type of entertainment and social activities they enjoy, the goods and services they consume, the company they prefer, and virtually all other matters. Why then should they have exactly the same preferences with respect to how much income they choose to earn? Who among us is willing to argue that a person who chooses to work longer hours contributes less to society than a person who chooses to work less and create art with the additional leisure time? Is art more valuable than making an automobile? Is practicing medicine less valuable than driving a race car? Those who advocate progressive taxation are in reality arguing that the value of all goods and services is identical for all individuals and are, in essence, arguing, that all professions are equally valuable.

This complete disregard for individual initiative and free choice, under the guise of equity, is puzzling. It focuses completely on the end result and never on the process which generated this result. Those who would advocate redistributive policies, such as progressive taxation, ignore totally the process by which income is earned. There is at least some reason to believe that the majority of those with higher incomes have earned this position because they are providing a good or service that the rest of us value highly. Who among us would claim that the millions of dollars earned by Bill Gates, the founder of Microsoft, by Garth Brooks, the country singer, or by Sam Walton, the founder of Wal-Mart, should be confiscated under the guise of fairness? Did not these individuals earn their high incomes fairly through the voluntary purchase of their services by the rest of us? Those who favor a progressive tax structure are suggesting that the process by which these and other successful individuals earn their incomes matters not at all.

Another curious aspect of tax policy in the United States is that a majority of individuals are allowed to impose tax rates upon a select minority. This type of policy would surely be deemed unacceptable in all other policy arenas. Indeed, in many other endeavors, the United States goes to great lengths to protect minorities from majority oppression. The principle of treating equals equally is so important that it has been written into the U.S. Constitution as the Equal Protection Clause of the Fourteenth Amendment. It is time to apply this principle to taxation.

There is something perverse about arguing, in the name of equity, that the efforts of a minority of high-income individuals are less worthy than those of lower- and middle-income individuals. It is far more appealing to believe that all individuals should stand equally before the tax law and be subject to the same statutory rate of taxation on their efforts. □

THE FREEMAN
IDEAS ON LIBERTY

Vouchers: Competition or Conformity?

by Sarah Erdmann

The public is aware of the problems plaguing the public schools, and increasingly it has little faith that the system will improve. In fact, in a 1992 Gallup poll, people were asked to assign a letter grade to the public school system as a whole, and only two percent responded with an "A" grade, while 20 percent of those polled gave the system a failing grade. Over 80 percent were dissatisfied.[1] Public school teachers in California are twice as likely as the general public to put their children into private schooling. Apparently many teachers do not even believe in the system that employs them.

One widely held belief is that crumbling foundations of public education could be rebuilt if competition were introduced. Public schools would be spurred into action to attract students. Thus, in theory, improvements would be made.

In the free market, where competition thrives, producers try to offer consumers the best possible product at the lowest possible price. Thus, the consumers choose from among the best products. Conversely, in controlled economies, the government regulates the production process to the point that producers cannot make the products desired by consumers. Since consumers have no choice as to what to buy in a monopoly, they have to settle for mediocre products, and thus the producer has no incentive to improve his products. This is precisely the condition of the public school system. It is mediocre, and subservient to state control.

One of the most widely cited schemes to increase competition within the public schools is the voucher system. The voucher system would refund to parents part of the money used in their child's education. Parents would be able to put this money toward a private education for their child, or possibly even toward education in a different public school. A 1991 survey conducted by Survey Research Center at the University of Akron indicated that, if given the choice, at least 50 percent of public school students would transfer to alternative schools.

Though this voucher arrangement may sound profitable for the non-public schools, it would, in fact, be devastating. All of the evils of the current public system would simply be transferred to the private schools.

The students associated with crime, drugs, and poor grades would most likely be the first to migrate to the private schools because their parents would undoubtedly blame the public system for their children's lack of success. If, indeed, the voucher system were implemented, public officials would surely demand a strong guarantee of open admissions in the private schools to protect the rights of everyone. Therefore, private and non-public schools would be forced to reflect the community they serve, with correct quotas of minority representation. In discussing the voucher system, the public school officials have, at times, expressed concern about the public sector being completely depleted of students, and as a result, funds. On the contrary, "A voucher system, far from destroying the public sector, would greatly expand it, since it would force large numbers of schools, public and private, to open their doors to outsiders if they wanted to get funds."[2] Unfortunately, the problems do not end here.

Under the voucher system, if private schools become filled with public school students, these schools will also indirectly be filled with money coming from the public system. Government funds will be supporting private schools. This is dangerous. Eventually, when the voucher schools are

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saturated with government funds, this financial support will turn into a harness. The responsibility and commitment the government has assumed for education will suddenly become restrictive. Since government aid will be keeping these voucher schools afloat, the schools will have to be accountable to the government in order to succeed. "The government might provide vouchers free of strings for several years, only to heavily regulate the schools once they became dependent on government funds,"[3] writes David Bernstein. Thus, the government pays for the education of each child.

"Government intrusion always follows government funding," adds James Dunn of the Baptist Joint Committee of Public Affairs, "If [the voucher's] purpose is to channel public money to private and parochial schools, we're opposed, because those schools are supposed to be beyond the reach of government."[4]

Government agencies would develop a panoply of regulations to apply to the voucher-supported schools, should the system ever be fully instituted. First the school would receive the voucher; next it would send the voucher to an appropriate oversight office, which would review the school and its adherence to the rules set up by the agency. Some of these regulations might include the following: the school must accept the voucher as full payment of tuition; the school must have open admission, with an acceptable number of minorities; it must utilize the standardized textbooks provided by the state; it must provide a completely approved financial report, and may not use voucher money to support religious instruction. "Both publicly- and privately-managed voucher schools would soon be entangled in the usual bureaucratic and political jungle, in which everything is either required or forbidden,"[5] concludes James Mecklenburger.

If a school chose to continue its religious instruction, the money used would have to be raised separately, with a separate accounting system, providing this would be approved by a government agency with the authority to institute new regulations as needs are presented. If the school fit the standards, the voucher agency would then cash the voucher. To prevent "hucksterism"—the process of a new school opening, collecting funds, and then immediately closing—the agency would withhold the right to return the voucher funds at intervals. This, in effect, would control how the school spends its money. "The [educational voucher agency] would soon develop a regulatory system as complex and detailed as that now governing the public schools."[6]

Moreover, the state could withhold funds from schools that it deemed educationally dangerous. Basically, this could apply to any school that the state believes to be nonconforming. This might apply to all religious instruction. At every angle religious education is being attacked and the non-public schools are basically made into carbon copies of the most restricted public schools.

Thus, under the voucher system, schools would become assimilated, with diversity becoming practically nonexistent. In fact, the American Civil Liberties Union has promised to "Lobby and litigate vigorously to make sure that the full panoply of regulations and constitutional safeguards that apply to public schools will apply to the recipients of vouchers as well."[7] This means that all of the public school courses that teach sex education, values clarification, and other a-religious or even anti-religious classes may, under the voucher system, soon appear even in religious private schools.

Though some believe healthy competition will be the result of the voucher system, on the contrary, voucher-supported schools will become part of the monopoly of education by the government. Today, the salvation of free, non-politicized education in the United States rests on home-educators and those private schools that are willing and able to resist this socialist movement. □

1. "The 24th Annual Gallup," *Phi Delta Kappan*, Sept., 1992, p. 42.
2. James A. Mecklenburger, *Education Vouchers: From Theory to Alum Rock* (Homewood, Ill.: ETC Publications, 1972), p. 116.
3. David Bernstein, "Religion in School," *Current*, May 1992, p. 15.
4. James Dunn, as quoted in John H. Dukakis, "Should Government Help Kids Attend Private Schools?" *Christianity Today*, May 15, 1987, p. 53.
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6. Mecklenburger, p. 43.
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THE FREEMAN
IDEAS ON LIBERTY

Maria Montessori, Who Gave Children Everywhere Freedom to Achieve Independence

by Jim Powell

What did inventor Alexander Graham Bell, philosopher Bertrand Russell, actor Cary Grant, actress Vanessa Redgrave, singer Bing Crosby, comedian Bob Hope, cellist Yo-Yo Ma, and Britain's Princess Diana have in common? They all sent their children or grandchildren to schools inspired by Maria Montessori, the courageous woman who showed why freedom is absolutely essential for creativity and independence.

Despite sharp differences on political issues, people of every major culture and religion appreciate how Montessori schools set children free to learn. There are Montessori schools throughout Europe and the Americas. Montessori schools are well-established in India. There are Montessori schools in mainland China. They are in Russia. They are expanding fast in Japan. There's a Montessori school in remote Cambodia. Both Israel and the United Arab Emirates have Montessori schools. A Montessori school reportedly is being built in Somalia. Altogether, there are Montessori schools in 52 nations around the world.

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Montessori schools thrive because children and parents love them. More than 90 percent of U.S. Montessori teachers, for instance, are in private schools where revenue comes from parents voluntarily—not from bludgeoned taxpayers. By contrast, the major U.S. teachers' colleges, from Columbia on down, do their best to ignore Maria Montessori, treating her as a historical figure of little relevance now. Vast government teachers' unions are uneasy about the freedom in Montessori classrooms.

This has always been a maverick movement. Defying "progressive" educators who molded children to fit a collectivist vision, Maria Montessori declared that the purpose of education is to help individuals fulfill their destiny. She rebelled against regimented schooling and insisted that children must have freedom to grow. She showed that children learn mainly by teaching themselves, not by having teachers drum knowledge into passive heads. Montessori established that children begin learning practically from birth, and education—the right kind—could start offering benefits much sooner than had been thought.

"The fundamental principle," she wrote, "*must be the liberty of the pupil*;—such liberty as shall permit a development of individual, spontaneous manifestations of the child's nature. If a new and scientific pedagogy is to arise from the study of the individual, such study must occupy itself with the observation of free children."

Montessori was a formidable presence when, in 1906, she began making epic discoveries about how children learn. "In her late thirties," wrote biographer Rita Kramer, "she was a somewhat portly figure, still handsome but putting on weight, still self-assured but a shade more dignified. She would come into a classroom wearing a simple but stylish dark-colored dress or shirtwaist, her dark hair piled neatly on top of her head, and smile at the children." She had a "smooth, unwrinkled face and bright, clear eyes . . . poise and serenity."

Montessori was born August 31, 1870, in Chiaravalle, Italy—the very year Italian states combined to form a new nation. Her father, Alessandro Montessori, was an official who managed the finances of a government-owned tobacco factory. Her mother, Renilde Stoppani, was the bookish daughter of a landed aristocrat.

When Maria was about five, Alessandro Montessori got a job as an accountant in Rome and moved the family there, so she would have access to a better education. She was encouraged to set her sights on teaching, since that was among the few professions available for women. Stubborn Maria, however, considered professions which were closed to women: first engineering, then biology and medicine. In 1896, she became Italy's first woman doctor, but she wasn't permitted to practice because it was unthinkable to have a woman examining a man's body.

Montessori accepted an appointment as assistant doctor at the Psychiatric Clinic, University of Rome. This gave her an opportunity to observe "defectives"—children who, in modern parlance, were retarded, learning-disabled, or difficult for other reasons. These children were kept in crowded rooms without toys or much else to work with. As she observed them, she became convinced that their lives might be improved if they were treated more thoughtfully. Searching for ideas, she discovered the writings of Jean Itard and Edouard Seguin, French doctors who had spent their lives looking for better ways to educate such children.

In 1899, she spoke on the subject before a teachers' conference, and it caused quite a stir. She was invited to become a lecturer at the University of Rome and director of the new Orthophrenic School for "defective" children. For two years, 1899 to 1901, Montessori searched feverishly for teaching techniques that could help these children. She spent about 12 hours a day observing them, working with them, trying out various ideas. She visited institutions for "defective" children in London and Paris. Incredibly, the children she taught learned to read and write as well as ordinary children.

Then came the anguish and joy of her life that led to a new career helping children around the world. At the Orthophrenic School, she worked with a Dr. Giuseppe Montesano. One thing led to another, and they had an affair. She gave birth to a son, Mario. It appears that Dr. Montesano refused to marry her—he soon married another woman. Her mother was certainly horrified that scandal could destroy her daughter's career. Mario was sent to live with country cousins near Rome, and the whole business was hushed up. Biographer Kramer concluded that pregnancy as well as breaking up with Dr. Montesano must have occurred in 1901 when Maria suddenly resigned from the Orthophrenic School, dropped out of sight for about a year, and abandoned her successful work with "defective" children.

Imagine the anguish of this woman who was pressured to give up her own child, unable to share with him the benefits of her extraordinary insights that would help other people's children around the world. For more than a decade, she visited him periodically without identifying herself. He thought of her as a mysterious "beautiful lady." Not until after Maria's mother died in 1912 did Mario come live with her.

Meanwhile, Montessori transformed her grief into a new vision for her life—improving education for normal children. She enrolled as a *student* at the University of Rome. She studied everything that might help her better understand how children learn. She took courses in psychology, anthropology, hygiene, and teaching. She visited elementary schools and noticed what teachers did and how children reacted. These schools had adopted the military-style method promoted in Prussia, the United States, and elsewhere: large numbers of students seated in rows before a teacher who instructed everyone at the same time. She reacted instinctively against the regimented teaching, the passivity of students, the system of rewards and punishments.

Casa dei Bambini

Montessori wrote magazine articles expressing her views, and one of them got the attention of Edouardo Talamo, an executive with a residential real-estate developer, the Institutio Romano dei Beni Stabili. Two of the firm's new apartment buildings were being vandalized by young children living there, whose parents were away at work. Talamo concluded it was in the self-interest of the firm to start a school within each building, so the children would have constructive things to do and be properly supervised. He asked Montessori for advice. This was no plum job, because the buildings were in the impoverished, squalid, violent San Lorenzo section of Rome.

She offered to take on the project herself, despite objections from friends who considered it demeaning for a doctor to be teaching young children. Instead of the usual school desks, Montessori acquired child-sized chairs and tables for 50 or more three- to six-year-olds. She brought along self-correcting instructional materials which she had created for "defective" children, to help them learn sorting, fitting things together, and other skills essential for independence. Her observations suggested the need for additional materials, and gradually her repertoire expanded. She found that children learned abstract concepts more readily when materials involved all of a child's senses, touch as well as sight and sound. Known as Casa dei Bambini—"Children's House"—the school opened January 6, 1907.

The children were an unpromising lot—sullen, withdrawn, rebellious. Yet Montessori made a series of startling observations as she worked with them. She discovered children have a powerful, inborn desire to learn and to achieve independence. She saw how children learned spontaneously where they had enough freedom. They developed remarkable concentration on tasks that they chose. They preferred exploring real things—the world of grown-ups—rather than conventional toys. Classroom order was maintained without rewards and punishments when children were happily engaged. Children blossomed in an atmosphere of dignity, respect, and freedom.

Freedom, Not License

Although Montessori gave children considerable freedom, this didn't mean they could do anything they wanted. She insisted children conduct themselves properly and treat others with respect. "The first idea that the child must acquire," she wrote, "is that of the difference between *good* and *evil*; and the task of the educator lies in seeing that the child does not confound *good* with *immobility*, and *evil* with *activity*, as often happens in the case of old-time discipline. And all this because our aim is to discipline *for activity*, *for work*, *for good*; not for *immobility*, not for *passivity*, not for *obedience*. . . . A room in which all the children move about usefully, intelligently, and voluntarily, without committing any rough or rude act, would seem to me a classroom very well disciplined indeed."

Montessori observed that children thrived when the teacher—whom she termed a "directress"—showed how to do something, then encouraged free exploration. She emphasized practical life skills to help children develop self-confidence and become more independent. Such skills included personal hygiene, putting materials back where they belonged, cleaning the classroom, preparing meals, taking care of plants and pets.

Like most people, Montessori had assumed that children wouldn't be receptive to reading and writing until age six. But the young children in her classroom asked for instruction. She and her assistant made sets of script letters with markers enabling the children to tell which way was up. She devised exercises to help children learn the shapes and sounds of letters.

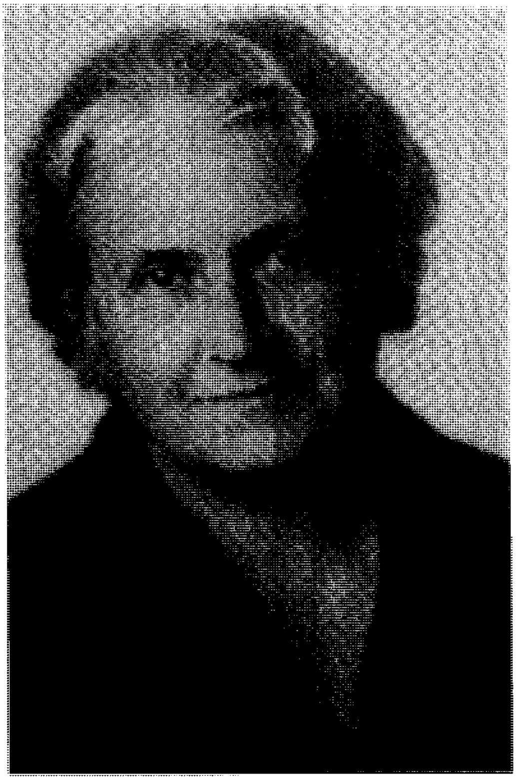
Within two months, she witnessed an explosion of writing. By Christmas, while government school children were still struggling with their letters, two of Montessori's children—four-year-olds—wrote holiday greetings to building owner Edouardo Talamo. Montessori reported triumphantly: "These were written upon note paper without blot or erasure, and the writing was adjudged equal to that which is obtained in the third elementary grade."

Contrary to prevailing doctrines, Montessori found that children best learned how to read after learning how to write. She prepared cards to label everyday objects, and she showed how to sound them out—the children already knew the sounds of individual letters. *Within days*, they were reading street signs, store signs, package labels, and just about everything else around them as well as books.

The Montessori Method

She began training teachers, opening more schools and writing books. Her first book was *Il Metodo della Pedagogia Scientifica applicato all'educazione infantile nelle Case dei Bambini*. In 1912, it appeared in English as *The Montessori Method* and became an American bestseller. She was no abstract philosopher like her contemporary John Dewey. Rather, she was a doer who provided a specific model to help children learn and achieve independence. Her book was translated into Chinese, Danish, Dutch, French, German, Japanese, Polish, Romanian, Russian, and Spanish.

Montessori was a sensation. Aspiring teachers crossed the continent to be trained by her. In December 1913, she visited the United States where she met telephone inventor Alexander Graham Bell, electrical genius Thomas Edison, social worker Jane Addams, and Helen Keller who, though blind and deaf, had made herself a remarkably cultivated woman. During the next four decades, Montessori traveled throughout Europe and Asia—she trained over a thousand teachers in India alone.



Maria Montessori (1870–1952)

Although Montessori schools sprung up around the world, her influence waned after the initial publicity about the Casa dei Bambini. Concerned that her work was being oversimplified, she insisted on total control of teacher training and of Montessori materials, and this alienated many supporters. She encountered ferocious opposition from academics, especially in the United States. The most influential adversary was William Heard Kilpatrick, a "progressive" follower of John Dewey and professor at prestigious Columbia University Teachers College.

Montessori surely encountered opposition because she was a woman when school administrators and education professors were men. She was Catholic, which made a lot of Americans suspicious. Her academic training was as a medical doctor, not an educator. Finally, she was Italian. Americans had become disillusioned with President Woodrow Wilson's intervention in World War I, which failed to "make the world safe for democracy" as he had promised, and they turned inward, away from Italy and just about everything else European.

Maria and her son and his family left Italy in 1936 when fascist dictator Benito Mussolini imposed government control over schools. They settled in Amsterdam, then spent World War II in India and returned to Amsterdam afterwards, promoting her ideas every step of the way. Most famous student of an Amsterdam Montessori school: a Jewish girl named Anne Frank whose poignant diary was published after she died in Hitler's Bergen-Belsen concentration camp.

While chatting with friends in Noordwijk aan Zee, a North Sea Village not far from the Hague, Maria Montessori suffered a cerebral hemorrhage and died May 6, 1952. She was almost 82. Mario, who had become her training associate, was by her side. She considered her place wherever she happened to be, so she was buried at a Catholic church cemetery in Noordwijk.

When the obituary notices appeared, few Americans had any idea who she was. Rejecting failed "progressive" education and rooting around forgotten doctrines, though, some enterprising individuals rediscovered Montessori.

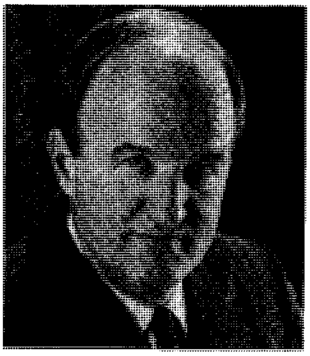
In Greenwich, Connecticut, a feisty, outspoken educator named Nancy McCormick Rambusch wasn't satisfied with the offerings from local schools. She had read about how Montessori got great results giving children freedom to learn. Rambusch went to London for Montessori teacher training. Friends asked her to educate their children, and in 1958 she opened the Whitby School which sparked the American revival of Montessori.

Four years later, at Santa Monica (Calif.) Montessori School, former government school teacher Ruth Dresser led the revival on the West Coast—attracting celebrity parents like Robert Mitchum, Yul Brynner, Michael Douglas, Sarah Vaughn, and Cher.

Now there are 155 American schools accredited by Association Montessori Internationale (AMI), the group established by Maria Montessori in 1929 to uphold her standards. Another 800 schools are accredited by the American Montessori Association (AMS) which, started by Rambusch in 1960, considers some variations appropriate for American culture. About 3,000 more schools call themselves "Montessori." In a dramatic turnabout, 200 government schools, embarrassed by revelations of their costly failures, have established "Montessori" programs.

My own son, Justin, goes to The Montessori School (AMI, Wilton, Connecticut), which is a wonder. It goes through the sixth grade. Tuition is around $5,000 versus the $10,000 per student local government schools spend. Like Montessori schools everywhere, mine welcomes parent classroom observations—discouraged in local government schools. You can see for yourself how children thrive when they are free to move about. You can see the intense, joyous concentration of children who freely choose their work. You can see children teach themselves important skills with Montessori materials. You can see children gain independence with the liberating spirit of Maria Montessori. □

The Age of Confusion



"There's a great deal of agreement among economists, contrary to what people may think."

—Milton Friedman, interview in *Reason*, June 1995

Is the economics profession moving toward consensus or away from it? In a recent interview in *Reason* magazine, Professor Friedman happily proclaims that most economists agree on certain fundamentals. "You won't find much difference of opinion on the proposition that raising the minimum wage will cost jobs. You won't find much difference of opinion on the desirability of free trade."

I wish Professor Friedman were right, but unfortunately, I'm afraid the profession is moving further away from consensus toward an Age of Confusion. Judging from recent conflicting studies, they apparently can't even agree on the evils of the minimum wage and protectionism.

Will increasing the minimum wage cost jobs? Economic theory asserts that if you raise the cost of labor, the demand for workers will decrease. Yet in a recent study of the minimum wage at fast-food restaurants in New Jersey and Pennsylvania, economists David Card and Alan Krueger claim just the opposite. Surprisingly, they conclude, "We find that the increase in the minimum wage increased employment."[1] Both teach at Princeton University, and Professor Card was recently honored with the John Bates Clark Award for the most outstanding economist under the age of 40. The article has created a furor, however, with counter-studies questioning the reliability of the Card-Krueger data, which was based entirely on telephone interviews with restaurant managers. A similar study based on actual payroll records contradicts the Card-Krueger conclusions.[2] Nevertheless, the Clinton administration's support for an increase in the minimum wage is based in part on the controversial Card-Krueger study.

Academic economists are also taking pot shots at another sacred cow, the virtue of free trade. A recent work by Paul Bairoch, professor of economic history at the University of Geneva, claims that protectionism is not at all bad and in fact has generally had a positive impact on economic growth. After surveying the relationship between tariff rates and GDP data for industrial nations since 1846, he asserts that many industrial nations often suffered recessions when free trade was adopted and recovery when protectionism was imposed. Great Britain is the only major exception, he notes.[3]

The Flaw in Empirical Studies

The problem with these historical studies is not just the data, but the whole issue of linking one set of data with another. In logic, it's known as the *post hoc ergo propter hoc* fallacy. Just because one observation occurs at the same time as another doesn't necessarily mean one causes the other. It is sheer folly to isolate one factor among the complex mix of factors playing a role in economic activity. Correlation does not mean causation.

For example, several years ago, in the

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midst of a recession, the state of Utah raised taxes. Since then, the economy has boomed. Did the tax increase cause the recovery in the Utah economy? In fact, it was outside forces that stimulated economic growth—in particular, a huge transfer of people and wealth from California to Utah and other Western states. Earthquakes, bad weather, crime, taxes, and a host of other problems caused Californians to flee the state. California's loss was Utah's gain. In other words, Utah recovered in spite of, not because of, the tax increase. No doubt Utah's economy would have grown faster had it not raised taxes.

The debate over deficit spending is another example of the *post hoc* fallacy. Sound economic theory states that deficit spending by the federal government raises interest rates and crowds out private investment, thereby retarding growth. Yet apologists for the deficit, including some supply-siders, use the 1980s to repudiate this view. During the 1980s the deficits ballooned but interest rates fell. Therefore, they argued, deficits don't matter.

They miss the point. Crowding out still took place. The economy could have grown significantly faster in the 1980s if government spending had been cut sharply, eliminating the deficit and even running a surplus. Interest rates could have fallen much more than they did, thereby stimulating more growth.

The Battle Enjoined

Back to the minimum wage issue. Even if we accept as valid the data from Messrs. Card and Krueger, how is it possible for employment to rise following an increase in the minimum wage? One possible explanation—and I emphasize the word "possible" because there could be a variety of explanations—is that New Jersey raised its minimum wage in early 1992, just when it was emerging from a recession. A sufficiently strong recovery in the New Jersey economy could easily mask the ill-effects of an 18 percent jump in the minimum wage.

Similarly, in Professor Bairoch's defense of protectionism, the fact that Great Britain is a glaring exception to his thesis demonstrates the complexity of the issues involved. Interestingly, he chooses the period 1870–92 in the United States as his best example: the U.S. increased its protectionism while enjoying one of the most rapid periods of growth in its history. Yet he forgets that 1870–92 followed after a devastating civil war, where no growth occurred at all and over 600,000 soldiers lost their lives. During the post-war environment, the federal government shifted from an inflationary greenback period to a gold standard, interest rates fell sharply, the population grew rapidly, transportation exploded, and manufacturing output increased dramatically. How can Professor Bairoch tie tariff legislation to the vast changes in economic activity during this period, especially given the relatively small role of foreign trade in U.S. output?

Beware of False Relationships

The above challenges to free-market fundamentals demonstrate a serious flaw in the way some economists conduct their research. As I have shown, trying to prove or disprove a theory through empirical observation is highly problematic. It was Ludwig von Mises who first raised this fundamental methodological issue. "The truth is that the experience of a complex phenomenon . . . can always be interpreted on the ground of various antithetic theories."[4]

Laboratory experiments are proper in the physical sciences, but they are practically impossible to duplicate in economics. History cannot prove a theory, only deductive logic can. □

1. David Card and Alan B. Krueger, "Minimum Wages and Employment: A Case Study of the Fast-Food Industry in New Jersey and Pennsylvania," *American Economic Review* (September 1994), p. 792.
2. Richard B. Berman, "Dog Bites Man: Minimum Wage Hikes Still Hurt," *Wall Street Journal,* March 29, 1995.
3. Paul Bairoch, *Economics and World History: Myths and Paradoxes* (University of Chicago Press, 1993), pp. 44–55.
4. Ludwig von Mises, *Human Action*, 3rd ed. (Regnery, 1966), p. 41.

BOOKS

The American Economy in the Twentieth Century

by Gene Smiley

South-Western Publishing Co. • 1994 • 442 pages • $38.85

Reviewed by Mark Skousen

Uncork the champagne! It's time to celebrate! The first free-market economic history textbook is now available for college students. *The American Economy in the Twentieth Century* is written by Gene Smiley, economics professor at Marquette University, and published by South-Western, a major college textbook publisher.

There is much to applaud. Smiley's textbook is lucid, interesting, well-documented, and replete with charts and graphs.

Professor Smiley views it as a supplemental text because it covers only the twentieth century. But, as any student knows, pre-twentieth-century economic history is somewhat dry, and most professors don't spend enough time on the twentieth century, where the hot issues of economic theory and government policies surface.

Smiley doesn't just recount economic history, he addresses all the major debates. He does a masterful job of expounding on the theories and policies surrounding the two world wars, the Roaring Twenties, the Great Depression, and the post-war modern economy, giving fair treatment to all points of view.

What makes this text so different from all others? Lots of things. I particularly like chapters six through eight on government intervention in the economy during the critical period 1920–40.

- Chapter 6, "The Role of Government, 1920–1940: Monetary and Fiscal Policies and the New Deal," reveals new research on the booming 1920s, the evolution of monetary policy under a flawed international gold standard, and the pros and cons of the New Deal.
- Chapter 7, "What Caused the Great Depression?," is the most comprehensive piece ever written on the subject. It includes a full Austrian explanation, normally missing from standard textbooks. But it doesn't shortchange Monetarist, Keynesian, and other explanations. Instructors need not be concerned about bias in this textbook. Smiley really does offer equal time for all schools of thought. Moreover, he doesn't ignore any of his critics, a chronic disease among many academics.
- Chapter 8, "The American Economy During the 1940s," includes new research questioning the magnitude of the recovery during World War II, based on breakthrough research by historian Robert Higgs and others.

In addition, Smiley gives an objective analysis of public-sector unionism, the agricultural shortages and energy crises of the 1970s, and the farm debt and banking crises. In all these controversial issues, the author focuses on the role of government.

I also found fascinating his extensive coverage of the dramatic changes in technology and industry during the twentieth century. He has an entire chapter on the communications revolution, including radio and TV, often overlooked in mainstream textbooks. Another chapter is devoted to developments in retail trade. He covers finance, banking, international trade, labor, agriculture, and manufacturing. Finally, Smiley has a thought-provoking chapter on the distribution of income.

I recommend this textbook to all economic historians and students who desire a full and fair examination of what Paul Johnson labels the century of "superpower and genocide" and Carroll Quigley calls the generation of "tragedy and hope." □

Dr. Skousen, an economist at Rollins College and editor of Forecasts & Strategies, *writes a monthly Freeman column.*

Taxation and Confiscation

with an introduction by Hans F. Sennholz

The Foundation for Economic Education, Irvington-on-Hudson, New York • 1993 • 208 pages • $14.95 paperback

Reviewed by Daniel J. Pilla

Washington lawmakers are slowly beginning to admit a fact many of us have known for some time: our tax system is broken beyond repair. The grumblings have led to a stream of major tax-change proposals such as I have not seen in 15 years. Some advocate a flat tax, and others seek an even steeper graduated tax. Some call for a European-style value added tax and still others hope to create a pure consumption-based sales tax.

The center of the debate is the question of what type of tax system will raise the revenue demanded by the federal government. Lawmakers wrestle with increasing deficits and what appears to be a decreasing tax base. Since wages and income are the base upon which 80 percent of all federal revenue is raised, and since real wages are in decline, the genuine question of "*what* to tax and *in what* amounts" seems difficult to answer.

Throughout the entire debate, however, we have not seen the joinder of what I believe is the seminal question. The questions of *what* to tax and in *what* amounts are, in fact, secondary. The principal question America should be asking is, *whether* to tax in the first place. Taxation, after all, is the primary means by which the functions of government are carried out. If we do not address the seminal question of whether to tax, the supposition is that any action the government undertakes is legitimate, providing it can be funded. This supposition is not only erroneous, it is most dangerous, as evidenced by our current federal debt.

The essays presented by FEE in *Taxation and Confiscation* are particularly relevant to this debate. Not only do the various authors address the secondary questions of what to tax and in what amounts, but the crucial threshold question is reached. In this regard, I am particularly impressed with Clarence Carson's discussion of the "general welfare" clause of the United States Constitution. I am well satisfied it is the single most misunderstood phrase in the Constitution, if not the entire body of American law.

The "general welfare" clause has been used, or rather misused, to erect a welfare state which our Founding Fathers clearly never intended. In *Taxation and Confiscation*, Carson establishes the true meaning of the phrase, then skillfully answers the question "whether to tax." Until we all understand what he teaches, I fear there is little hope of dismantling the costly federal leviathan.

The collection of essays which comprise the pages of *Taxation and Confiscation* go well beyond this issue. From the pen of various authors, including William Henry Chamberlin and Ridgway K. Foley, Jr., we are taught important lessons about the nature of a fair tax system and the elements of the economy which form a sound tax base.

Another issue which is treated extensively in the book is the question of whether and to what extent a tax system should impose burdens upon capital. Authorities including Hans F. Sennholz, Robert G. Anderson, and John Semmens paint a clear and unmistakable picture of the relationship between capital and strong, sustainable economic growth. The case is plainly made for relieving the tax burden on America's capital.

The one drawback to the book is the fact that some of the essays present economic statistics which are out of date. For example, the essay by Christopher Witzky and Rolf Wubbels addresses the negative effects our tax system has on national rates of savings and investment. The article, entitled "Government Policies and Capital Growth," appeared originally in the October 1981 issue of *The Freeman*. It is important to note the principles outlined in this essay, and throughout the book, are timeless. Still, I would have liked to see more up-to-date numbers to illustrate the points made.

Overall, *Taxation and Confiscation* is a tremendously important guide to those of us who will shape tax policy over the coming years for the United States. It provides the solid support needed to help agitate in favor of a non-graduated tax system, a system which is simple, fair and efficient, and one which encourages savings and investment, as opposed to the current system in which none of these elements is present. Even better, the guide helps to measure the current proposals coming from Washington against these critical yardsticks. □

Mr. Pilla, a tax litigation consultant from St. Paul, Minnesota, is author of eight books dealing with taxpayers' rights issues and tax policy and editor of a monthly newsletter, Pilla Talks Taxes. *He is also the co-founder and executive director of the Tax Freedom Institute. His radio commentary,* The Tax Rescue Minute, *is syndicated nationally by the U.S.A. Radio Network.*

The Theme Is Freedom: Religion, Politics, and the American Tradition

by M. Stanton Evans

Regnery Publishing • 1994 • 352 pages • $24.00

Reviewed by Gregory P. Pavlik

The sources of the freedoms and form of government that Americans once enjoyed are often a subject of dispute. One side claims that the American republic was the product of the Enlightenment and the spirit of the times. The other holds that the break from Britain was essentially a conservative affair provoked by usurpations of liberties by the British crown. Since each thesis is radically at odds with the other in its political implications, the truth of the matter is of the utmost importance.

M. Stanton Evans' new book, *The Theme Is Freedom*, is a popularly written discussion of the elements of British history and culture that contributed to the American Founding. Actually, the book touches on a range of topics that relate directly or indirectly to Mr. Evans' thesis. He argues that not only was the Founding a product of British civilization, it was a product of a specifically medieval heritage, imbued with political notions derived from the history and religion of that era. His case is strong, although the wide-ranging nature of his examination injects a few problematic elements into the text.

The first chapters of the book revolve around a critique of liberalism, which is juxtaposed with a discussion of Christian traditionalism. Evans argues correctly that liberalism, being empty of absolute value content, can never sustain its promises of liberation or freedom. In fact, he suggests that liberalism will ultimately reduce itself to totalitarian tendencies in the absence of a conception of authority beyond the state.

This has been borne out by historical example. The transformation of liberalism toward socialism was fueled by the impetus of its own premises. The classical liberal world view was motivated by belief in an ideology of liberation and based on a theory of atomized individualism. These elements of liberalism necessarily promote an ideology of change. When the end of the liberal program is met, satisfaction cannot be reached for two reasons: the utopian nature of the liberal vision and the perpetual desire for human liberation. Hence, the need to move beyond the capitalist society that formed the original vision of liberalism.

As an alternative, Evans offers a vision of American liberty based on the Anglo-American tradition, rooted in religious axioms. This requires a detailed discussion of medieval law and political structures, the contractual basis of the feudal order, the origins and applications of the common law, British history, the nature of monarchy in Britain, the role of the church in society and politics, theologians' views of the state, and a plethora of other factors. In fact, the book is worth reading for its educational value on these issues alone. Mr. Evans goes far to document the basis of John Adams' claim that "The patriots of this province desire nothing new; they wish only to keep their old privileges."

An important element of this interpretation rests on the issue of contract. Much emphasis in what Mr. Evans calls the "standard treatment" of our history is laid on social contractarian theories of the state that are rooted in liberal and Enlightenment thought. A sizable discussion in *The Theme Is Freedom* revolves around the issue of contract. Mr. Evans points out that the notion of contract between king and subject derives from the practice of the feudal system, that the colonies were bound by charter to the crown, and many of the early religious settlers formed communities based on compact. This raises the question as to the depth of influence of liberal thought on the birth of our nation. The record of history and the written legacy of the men who laid the groundwork for the republic suggests that it was minimal.

Despite the overall strength of the book, Mr. Evans' discussion of the contractarian John Locke is flawed. He spends some time suggesting that Locke's use of social contract theory was not an innovation based on the precedent of the widespread idea of contract. Borrowing from the lexicon of the day, however, does not obscure the radical underpinnings of Locke's theory. Central to understanding this is the recognition that Locke's social contract did not revolve around the relationship between the people and the monarchy through a history of agreement and concession. Instead, Locke was a republican, and his *social* contract was an abstraction agreed to by tacit consent amongst the people. His discussion was wholly theoretical, based on logic and a set of *a priori* assumptions. If this were not the case, Mr. Evans would not have to provide a lengthy discussion salvaging the Declaration of Independence from the influence of Locke.

This is unfortunate because it can only serve to obscure the message of Mr. Evans' work. The multiculturalist assault on the civilization derived from England and the diminution of faith, public and private, can serve only one end: the destruction of our legacy of freedom. □

Mr. Pavlik is director of The Freeman *Op-Ed program at The Foundation for Economic Education.*

Out of Focus: Network Television and the American Economy

by Burton Yale Pines
(with Timothy W. Lamer)

Regnery Publishing, Inc. • 1994 • 384 pages • $24.00

Reviewed by Raymond J. Keating

On the evening I finished reading *Out of Focus*, ABC television coincidentally ran a program entitled "The Blame Game." I watched in amazement as reporter John Stossel developed a story about the United States becoming a nation of victims. Stossel explored how various government programs, such as welfare, and regulations like the Americans with Disabilities Act, create dependency, generate frivolous lawsuits, and degrade individual responsibility by fostering the notion that we are all, in some way or another, victims.

Through various interviews, Stossel illustrated how a government check for not working creates disincentives for working. He also looked at the costs of more government regulation, including lost jobs.

Unfortunately, the source of my amazement was that this program actually aired on prime-time, network television—not exactly known as a medium tough on government programs and intervention in the economy. Burton Yale Pines' *Out of Focus* confirms what many of us have thought for some time—namely, that television reporting on the economy is riddled with myths and clichés. In a sense, this book helps to explain why I and, I am sure, many others were amazed at ABC's "The Blame Game."

Out of Focus offers the results of a year-long study, conducted in 1992 by the staff of the Free Enterprise and Media Institute, analyzing morning and evening newscasts and magazine shows on ABC, NBC, CBS, and CNN, as well as twelve weeks of prime-time entertainment television. The researchers evaluated the kinds of economic information, signals, and lessons being communicated.

Unsurprisingly Pines offers worrisome findings. While television executives strongly support capitalism and free enterprise in polls, more often than not, a fundamental misunderstanding of how the economy works makes its way onto the television screen.

For example, Pines points out that "the notions that high profits created incentives for risk taking, for savings, and even for hard work were ignored or implicitly slighted by network TV." In highlighting a randomly chosen week (January 25–31, 1992), Pines observes: "At least sixteen of the week's stories dealt directly with the federal government's role in the economy—through taxation, regulation, or spending. Almost every one of these stories took as its premise that when the marketplace created problems only the government had the answer. Rarely were possible nongovernment solutions mentioned."

The author notes that this philosophy held sway throughout 1992. He states: "Regulation has a friend in television. Network reporters seem to believe that government officials and bureaucrats have the information, ability, and tools to regulate economic matters effectively."

Particularly egregious was network reporting on health care. The idea that government was capable of providing cost-efficient, quality health care seemed to be accepted as an economic verity. This misguided notion served as the foundation upon which most health-care television news reports were built. Pines found that "viewers had less chance of seeing a balanced story on health than on taxes, regulations, the environment, or any other economic subject."

However, a glimmer of hope could be found on the reporting front. Pines notes that "viewers watching reports on tax issues, in contrast to those about all other economic topics, had a better than even chance of learning something about how their free enterprise economy functioned and how the tax structure affected it." On April 15, CBS "This Morning" even interviewed Paul Craig Roberts, allowing him to explain how lower marginal tax rates on capital would generate "more investment, higher productivity, while simultaneously shifting the average tax burden from labor to capital."

Perhaps the two most informative chapters in *Out of Focus* identify the ten worst and best news stories on the economy in 1992. These stories were ranked by a panel of free-market economists—Bruce Bartlett, Christopher Frenze, Edward Hudgins, Marvin Kosters, and Stephen Moore. The comments from these individuals cited by Pines provide the reader with sound analysis of where economic reporting was buttressed or undercut by market principles.

Out of Focus also offers a glimpse of how entertainment television treats free enterprise. Pines finds that generally "entertainment TV in 1992 portrayed businessmen and women as unfeeling and cruel bosses and managers, as criminals or otherwise evil, and as taking advantage of the public."

However, the author does report an unusual exception. A character on the NBC program "Sisters" failed in her attempt at selling cosmetics at Kaffee-Klatsch gatherings. However, she found a market at these events for the self-designed, hand-painted sweatshirt that she was wearing. Pines sees a supply-side message in this episode—supply creating demand.

If supply-side economics can find its way onto a network entertainment program, and John Stossel can address the downside of government intervention in the economy on an ABC magazine show, then all is not lost. By pointing out the current weaknesses, *Out of Focus* provides the first step on the path to improving television news and entertainment treatment of free enterprise and the economy. □

Mr. Keating is chief economist with the Small Business Survival Foundation.

Property Rights

Edited by Ellen Frankel Paul, Fred D. Miller Jr., and Jeffrey Paul

Cambridge University Press • 1994 • 291 pages • $19.95

Reviewed by Tibor R. Machan

Most of us turn to philosophy only when problems arise with using our common sense. For instance, we are seldom troubled about determining what belongs to whom as we go through a normal day in our lives, but there are those occasions when just trusting our customary beliefs won't suffice. I know pretty well that the car parked in my garage, the flower growing in my garden, or the furniture on my porch is mine. But what about the sidewalk in front of my house, the land Indians claim is theirs because their ancestors are buried there, or the portion of earnings declared as tax by officials of the Internal Revenue Service? Are they mine? If not, why not? Then again, in what sense would my arm, my heart, my lungs, my body, even my self be my property, if any? After all, I can speak of my height, my weight, my age, and my hair color and in none of these cases am I talking about items that belong to me. What about my team? My child? Your share in a company's stocks? What about the public park—in what sense is it both yours and mine?

Political theorists have addressed these issues for centuries and they will probably continue to do so for as long as human beings inhabit the universe. Some have blamed all the troubles of the world on the emergence of private property, while others see property rights as the solution to many problems. Others have defended a view of ownership that precludes any reference to rights or wrongs, to matters of justice or virtue, and concerns only who has power to do what—roughly the legal-positivist position. Still others think ownership cannot even be conceived of without considering rightfulness versus wrongfulness—the natural rights approach. And there are always those who want a bit of both—for example, limited ownership rights, limited powers to use and dispose of various goods and services. Finally, there are some who see ownership falling on very hard times when it comes to certain very pressing issues, usually related to the ecosystem (water or air masses) or the intellectual products or creations (inventions, novels, musical arrangements, computer programs, etc.).

In each age some have also argued, more or less successfully, for excluding some types of prospective property on grounds that these do not qualify or meet the proper standards for rightful, valid ownership. Slavery was overthrown, in part, because ownership of blacks was successfully excluded, whereas the argument that cows or chickens cannot be rightfully owned is advanced less successfully in our time by animal rights advocates.

The book before us is invaluable as a contribution to the ongoing debate. Paul, Miller, and Paul have been collecting into separate volumes discussions on various topics in political economy, usually derived from conferences they have held at their increasingly prestigious Social Philosophy and Policy Center at Bowling Green State University in Ohio. This particular product is especially valuable to classical liberal theorists. It presents for them a wide variety of both champions and critics of proper rights. Nearly every position is, if not fully developed and defended, at least touched upon. And in each case there is reasonable thoroughness, with only minor omissions of significant contributions to the debate. (For example, none of the contributors seemed to find the Randian and neo-Randian doctrines worth examination.) Some treatments are a bit too didactic, paying little attention to possible or extant objections. (For example, David Friedman's presentation of the positivist position takes little notice of arguments which maintain that his stance is untenable.) Yet in each case the exposition is rich in nuance and very informative, even if incomplete.

Beware, however, for this work is not bedside reading material for those who like their philosophy in a breezy and easy style. Every essay is loaded with complex vocabulary and complex sentence construction. Nonetheless, if one is serious about figuring out how the topic of property rights might be best thought about, what the most sensible approach is to dealing with the ordinary phenomenon of ownership—especially when it confronts hard cases with legal, moral, and historical muddles surrounding property—one must dip into this book. There is a wealth of insight here, providing much food for thought and creative development in the area of property rights theorizing.

The one lapse in this work is a paper by Alan Ryan, whose glib treatment of many theories of ownership, specifically Rothbard's and Nozick's, does not deserve to be included in a serious volume. There is a principle in scholarship that every contributor to a discussion ought to practice conscientiously. It is the principle of charity: giving the strongest representation to the views which one criticizes. Ryan seems not to have heard of that principle. Of course, there are many others who have not, but fortunately in this book no other contributor gets a chance to engage in scholarly malpractice along such uncivil lines.

This book belongs on the shelf of anyone who is serious and disciplined about the study of property rights. Even lay persons will benefit from studying some of the essays—e.g., by Richard Epstein, David Schmidtz, and Gary Lawson—if only by way of the lessons they learn about how complicated problems of political economy can be and how intensely those who want to address them successfully need to work in order to approach some measure of success. After studying these essays, no one will walk away making glib declarations about property rights or, indeed, about political philosophy in general. □

Dr. Machan is Professor of Philosophy at Auburn University, Alabama. He is a contributing editor of The Freeman.

A Nation Under Lawyers: How the Crisis in the Legal Profession Is Transforming American Society

by Mary Ann Glendon

Farrar, Straus, and Giroux • 1994 • 331 pages • $24.00

Recapturing the Constitution: Race, Religion, and Abortion Reconsidered

by Stephen B. Presser

Regnery Publishing, Inc. • 1994 • 397 pages • $24.95

Reviewed by William J. Watkins, Jr.

The second part of the twentieth century has witnessed a marked decline in the rule of law. The legal profession appears to be out of control as society becomes ever more litigious and the guarantees of the Constitution are ignored. What happened to the United States Tocqueville visited where "that numerous and turbulent multitude does not exist who, regarding the law as their natural enemy, look upon it with fear and distrust"? Professor Mary Ann Glendon of the Harvard Law School in her new book, *A Nation Under Lawyers*, does much to answer this vexatious question.

In order to ascertain when and how the rule of law was lost, Glendon looks to the past. She ties the litigiousness and judicial activism of our time to the legal conventions of immigrants. The gentleman's ethic which prevailed at the turn of the century stressed ascendancy of the rule of law even if it meant refusing the wishes of a client. This was replaced with an old-world ethic that placed greater emphasis on the lawyer's loyalty to his client than to the system.

Glendon marks the 1954 school desegregation case, *Brown v. Board of Education*, as the beginning of the present era of judicial activism. From this landmark decision that took the courts into the ordinary affairs of local governments, the "Warren Court children" were born. This generation that entered law school in the late '50s and early '60s no longer saw the law as the collected wisdom of the past that safeguarded our scheme of ordered liberty. On the contrary, they viewed the law as a means to bypass the political process and effect radical social change.

Glendon sees the media as exacerbating the problem by glorifying the judges and lawyers, who through the judicial process, sought to engineer a better world. Judges, in Glendon's words, "began to taste the once-forbidden fruit of emancipation from the constraints" posed by the rule of law. Qualities such as impartiality and an adherence to precedent that made a good judge at the beginning of the century gave way to a new set of principles that called for the courts to be the champions of the underdog.

Glendon ends the book on a high note, recounting how today's law students are spurning the utopianism of the Warren Court children for a more traditional legal system. And it is only tradition that Glendon sees as the means to recover the impartiality and restraint that have been lost over the years of radical experimentation.

Though radical experimentation has come from all members of the legal profession, the most damage to the rule of law has been wrought by the Supreme Court through constitutional interpretation. Since FDR's New Deal Court let the genie out of the bottle, scarcely has the law restrained the action of the federal government. This demise of constitutional government is examined in Stephen B. Presser's new book, *Recapturing the Constitution: Race, Religion, and Abortion Reconsidered.*

Rather than appeal to the "original intentions" of the Framers as many conservative members of the academy do, Presser advocates "original understanding." Though at first this sounds like semantic hairsplitting, Presser bases his view of the Constitution cogently around this doctrine. Instead of simply looking at the text of the Constitution, one must look "to the context in which it was drafted." Thus, the attitudes and understanding of the ratifiers are paramount.

For example, the First Amendment's prohibition against the establishment of religion does not erect a great wall between church and state. After giving a fine history of the changes in the wording of the First Amendment as it was being drafted in the first Congress, Presser concludes, as did the legendary Justice Joseph Story, that the amendment was only to "exclude all rivalry among Christian sects. . . ." Insofar as the founding generation was overwhelmingly Christian and recognized the inseparability of religion and morality, they would not have countenanced the Jeffersonian wall of separation.

Rather than stopping with the doctrine of original understanding, Presser goes on to embrace natural law in the form of substantive due process. Substantive due process, in the words of legal historian Kermit L. Hall, means that there exists an irreducible sum of rights with which government cannot interfere. Under substantive due process, the courts struck down much legislation dealing with the regulation of the public's health, welfare, and morals as well as part of the New Deal.

By embracing this doctrine, Presser violates his own principle of original understanding. Rather than recapturing the Constitution, ambiguous doctrines of natural law and substantive due process, despite their salutary results until 1937, give the courts *carte blanche* to make the Constitution mean whatever they want. The acceptance of this doctrine is the only major flaw in the book.

As does Glendon in her book, Presser marks *Brown v. Board of Education* as a watershed event. From this case onward, Presser outlines how the social sciences became more important in adjudication than an understanding of constitutional law. This absence of a traditional understanding of the Constitution naturally results in decisions like *Roe v. Wade.*

Presser concludes that Justice Blackmun's declaring abortion to be a fundamental right in that landmark case caused a deep rift in society that should have been settled through the political process as the Framers intended. Presser sees abortion, like school prayer, as falling within the gamut of state and local authority. The Court's usurpation of legislative authority in matters dealing with race, religion, and abortion have, according to Presser, moved us further away from the rule of law and towards the rule of man.

In short, Presser provides a thought-provoking examination of the perversion of the Constitution that the layman can comprehend. Like Glendon, he sees the restoration of the rule of law resting with tradition. It was, after all, for our traditional rights as Englishmen that the colonists fought. And only a clear understanding of this tradition can restore our republican form of government and the corresponding rule of law. □

Mr. Watkins, an assistant editor for The Freeman, *begins law school this month.*

The Abuse Excuse

by Alan M. Dershowitz

Little, Brown & Company • 1994 • 341 pages • $22.95

Reviewed by David Brown

It would be tough to dispute the thesis of this book, which is that being a victim of abuse hardly entitles one to become an abuser in turn.

One wonders a little, then, why Alan Dershowitz felt entitled to inflict this collection on the reader. Surely not because he himself has been similarly assaulted by other writers who slapped together editorial collections with only marginal literary or journalistic warrant.

Still, I'm fairly glad this book was published. We do need to be told again and again that we are responsible, really responsible, for our actions. And the author tells us again and again. Take those Menendez brothers, for instance, who sneaked up on their parents and gunned them down so as to precipitate their inheritances. Then in court the boys claimed they were only retaliating against past, or protecting themselves from future child abuse. That horrific instance of the abuse excuse led to hung juries despite the brothers' admission of the killings and the skit-fodder phoniness of their courtroom histrionics.

Skater Tonya Harding was abused by her former boyfriend/husband, ergo her ruthlessness in seeking Olympic Gold was seen as partly pardonable, and definitely plea-bargainable. Observes Dershowitz: "Ordinarily, it is the 'soldiers' or the 'mules' who get favorable plea bargains in exchange for helping to put the boss in prison. Here, the primary beneficiary of the crime—known in advance to her, according to prosecutors—got the best deal."

An inebriated woman driver who tried to kick a police officer in the groin (without provocation), and who later assaulted the breathalyzer, claimed the scourge of premenstrual syndrome as her excuse. She was acquitted. Victory for women—or for the abuse excuse?

Black rage, adopted-child syndrome, battered husband syndrome ("At times I have felt like a battered husband or boyfriend," wrote O.J. Simpson in what was to be his parting epistle), the minister, the Super Bowl, the Holocaust, Twinkies, the wrong self-help book, or the oppressive system made me do it. Dershowitz enumerates excuse after excuse. He seems to waffle, however, about the propriety of jailing Judge Sol Wachtler, the Chief Judge of the New York Court of Appeals convicted of harassing and extorting a former girlfriend, and whose "expansive view of civil liberties I deeply admired."

These pieces, not all of which illustrate the title theme, refresh our memories of stuff we read in the papers at the time and remind us of how commonplace these excuses have become. The most analytical and interesting item is the introduction, which mentions the first excuse ever, something about a serpent. So what's the impetus to all the contemporary abuse-excuse mongering? It's convenient for defendants, for one thing. But if you want to trace it back to philosophic and social theorizing and engineering, better books to read would be FEE's own *Criminal Justice?*, edited by Bob Bidinotto, with its scholarly analyses of criminal behavior and of the "excuse-making industry"; or Charles Sykes' culturally perceptive *Society of Victims*.

Dershowitz, himself a high-profile criminal lawyer of liberal inclination, laments and catalogs the trend, sheds light on the legal angles, rebukes the rebukes of liberal colleagues over these issues, provides a glossary of abuse excuses, and urges the legal system "to confront the issues of responsibility in a rationally calibrated manner that is comprehensible to jurors and citizens. . . . We must stop making excuses and start taking responsibility." At stake, he says, is "the very nature of our experiment with democracy."

Also justice. □

Mr. Brown is a freelance writer.

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IDEAS ON LIBERTY

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THE FREEMAN
IDEAS ON LIBERTY

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PERSPECTIVE

The Other Washington

There are two Washingtons. One is in gleaming white, a magnificent sight for the tourist flying into National Airport and catching glimpses of the Capitol Building, White House, Supreme Court Building, Jefferson Memorial, Washington Monument, and so on. The other Washington is one the tourist rarely gets to see. This Washington epitomizes the Welfare State.

To be sure, there's still a seamy side to the glistening Washington, the Shining City on the Hill, even though high officials get duly glorified in Washington's statuary. There they stand: Noble figures in parks, circles, squares, and government buildings in the mode of Greek and Roman temples. Oversized heroic gods in bronze or stone—presidents, speakers, senators in friezes or on pedestals with eyes peering and forefinger raised.

My favorite statue is in white granite, in Mussolini modern. It stands before the Federal Trade Commission Building on Pennsylvania Avenue. The statue is a powerful 12-foot-tall horse representing "Trade" being held back by an equally powerful 10-foot-tall man representing "Government," probably a bureaucrat. The sculptor knew his onions.

To my knowledge, though, there is no statue of a Washington official pocketing an unmarked envelope but there are many of those who have *legally* collected loot in the form of votes or political action committee (PAC) campaign funds for privileging somebody or some group with tax, regulatory, spending, or welfare goodies. Loot-seeking-and-bestowing far outpaces tourism as Washington's leading industry—an industry peopled mostly by thousands of lawyers who lobby for their clients across America.

Yet it is the Welfare State that dominates Washington, that also comes in two forms. The first is the traditional one for the poor. It involves public housing, Aid to Families with Dependent Children, food stamps, Medicaid, and so forth. The second form is estimated by Washington economist Herbert Stein to be five times bigger, and it includes Social Security, Medicare, and low-cost loans to college students—welfare then for the non-poor including the rich. Welfare for the rich—truth indeed stranger than fiction.

Tax something and you get less of it, subsidize something and you get more of it. D.C., with the highest per capita property and individual income taxes in the land, causes residents and businesses to flee mainly to nearby Maryland and Virginia and lower income, property, and sales taxes. D.C.'s 1991 per capita tax burden comes to \$4,037; New York City's, in contrast, \$2,190.

So taxes plus high crime and poor schools have driven 200,000 mostly middle-class people out of D.C., cutting the population by 25 percent (from 800,000 to under 600,000), shrinking the tax base accordingly. Currently, the \$3.4 billion D.C. budget is short by \$722 million for a 42,000 workforce in a maze of bureaucracies and programs that is not only broke, but broken.

But then D.C., with Uncle Sam's big helping hand, richly subsidizes welfare for some 200,000, with 130,000 on Medicaid alone. Thus the welfare cornucopia's bitter fruit: In convicts per capita, murder rate, low SAT math scores, one-parent families, infant mortality, low-birth-weight babies—in other words, in depressing category after depressing category—Washington, the capital of the United States, if not of the world, leads America. At one point, then-D.C. Mayor Sharon Pratt Kelly pleaded with President Clinton to call out the National Guard to patrol Washington's crime-torn streets.

Ideas have consequences. The Welfare State is an idea whose time has long fled but whose misery goes on. Its authors, the distinguished members of Congress, sit atop Capitol Hill whose shadow falls across D.C.'s social dissolution—the other Washington, America's Welfare State in microcosm. A state of utter failure.

—WILLIAM H. PETERSON

Dr. Peterson, a contributing editor of The Freeman, *is the Distinguished Lundy Professor of Business Philosophy Emeritus at Campbell University in North Carolina.*

For further information on the statistics cited, see D.C. by the Numbers: A State of Failure *by Thomas N. Edmonds and Raymond J. Keating.*

The Blessings of Liberty

A free market is out of the question except among a people who prize liberty and know the imperatives of liberty. Liberty is not a one-man term but, like the free market, finds its complete realization in universal practice: every man on earth is born with as much right to his life, his livelihood, his liberty as I. No one can rationally prize liberty for himself without wishing liberty for others.

To realize liberty, to tear ourselves loose from political rigging, to unshackle creative energy, to achieve freedom in transactions, does not, as many contend, require that the individual wait until all others take these steps in unison with him. Implicit in such a council of delay is the taking of no steps by anyone, and this is fatal to liberty. An individual can stand for liberty all by himself; a nation can practice liberty to its own glory and strength though all other states be slave. The blessings of liberty are conferred on all who live by her credo; and basic to liberty is the unrigged market.

—LEONARD E. READ 1898–1983
Anything That's Peaceful, 1964

Cover illustration: Men counting gold and treasures, woodcut by Jost Amman (1539–1591) of Nuremberg. Courtesy, Dover Publications.

THE FREEMAN
IDEAS ON LIBERTY

Taking Money Back

by Murray N. Rothbard

Money is a crucial command post of any economy, and therefore of any society. Society rests upon a network of voluntary exchanges, also known as the "free-market economy"; these exchanges imply a division of labor in society, in which producers of eggs, nails, horses, lumber, and immaterial services such as teaching, medical care, and concerts, exchange their goods for the goods of others. At each step of the way, every participant in exchange benefits immeasurably, for if everyone were forced to be self-sufficient, those few who managed to survive would be reduced to a pitiful standard of living.

Direct exchange of goods and services, also known as "barter," is hopelessly unproductive beyond the most primitive level, and indeed every "primitive" tribe soon found its way to the discovery of the tremendous benefits of arriving, on the market, at one particularly marketable commodity, one in general demand, to use as a "medium" of "indirect exchange." If a particular commodity is in widespread use as a medium in a society, then that general medium of exchange is called "money."

The money-commodity becomes one term in every single one of the innumerable exchanges in the market economy. I sell my services as a teacher for money; I use that money to buy groceries, typewriters, or travel accommodations; and these producers in turn use the money to pay their workers, to buy equipment and inventory, and pay rent for their buildings. Hence the ever-present temptation for one or more groups to seize control of the vital money-supply function.

Many useful goods have been chosen as moneys in human societies. Salt in Africa, sugar in the Caribbean, fish in colonial New England, tobacco in the colonial Chesapeake Bay region, cowrie shells, iron hoes, and many other commodities have been used as moneys. Not only do these moneys serve as media of exchange; they enable individuals and business firms to engage in the "calculation" necessary to any advanced economy. Moneys are traded and reckoned in terms of a currency unit, almost always units of weight. Tobacco, for example, was reckoned in pound weights. Prices of other goods and services could be figured in terms of pounds of tobacco; a certain horse might be worth 80 pounds on the market. A business firm could then calculate its profit or loss for the previous month; it

Murray N. Rothbard (1926–1995) was the S.J. Hall Distinguished Professor of Economics at the University of Nevada, Las Vegas, and Academic Vice President of the Ludwig von Mises Institute. Parts 2 and 3 of this article will appear in the October and November issues of The Freeman.

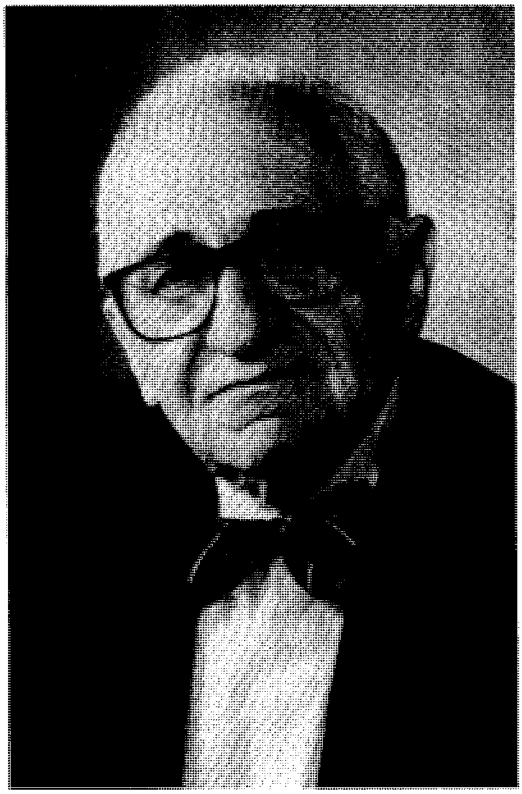
could figure that its income for the past month was 1,000 pounds and its expenditures 800 pounds, netting it a 200 pound profit.

Gold or Government Paper

Throughout history, two commodities have been able to outcompete all other goods and be chosen on the market as money; two precious metals, gold and silver (with copper coming in when one of the other precious metals was not available). Gold and silver abounded in what we can call "moneyable" qualities, qualities that rendered them superior to all other commodities. They are in rare enough supply that their value will be stable, and of high value per unit weight; hence pieces of gold or silver will be easily portable, and usable in day-to-day transactions; they are rare enough too, so that there is little likelihood of sudden discoveries or increases in supply. They are durable so that they can last virtually forever, and so they provide a sage "store of value" for the future. And gold and silver are divisible, so that they can be divided into small pieces without losing their value; unlike diamonds, for example, they are homogeneous, so that one ounce of gold will be of equal value to any other.

The universal and ancient use of gold and silver as moneys was pointed out by the first great monetary theorist, the eminent fourteenth-century French scholastic Jean Buridan, and then in all discussions of money down to money and banking textbooks until the Western governments abolished the gold standard in the early 1930s. Franklin D. Roosevelt joined in this deed by taking the United States off gold in 1933.

There is no aspect of the free-market economy that has suffered more scorn and contempt from "modern" economists, whether frankly statist Keynesians or allegedly "free market" Chicagoites, than has gold. Gold, not long ago hailed as the basic staple and groundwork of any sound monetary system, is now regularly denounced as a "fetish" or, as in the case of Keynes, as a "barbarous relic." Well, gold is indeed a



Murray N. Rothbard

"relic" of barbarism in one sense; no "barbarian" worth his salt would ever have accepted the phony paper and bank credit that we modern sophisticates have been bamboozled into using as money.

But "gold bugs" are not fetishists; we don't fit the standard image of misers running their fingers through their hoard of gold coins while cackling in sinister fashion. The great thing about gold is that it, and only it, is money supplied by the free market, by the people at work. For the stark choice before us always is: gold (or silver), or government. Gold is market money, a commodity which must be supplied by being dug out of the ground and then processed; but government, on the contrary, supplies virtually costless paper money or bank checks out of thin air.

We know, in the first place, that all government operation is wasteful, inefficient, and serves the bureaucrat rather than the consumer. Would we prefer to have shoes produced by competitive private firms on the free market, or by a giant monopoly of the federal government? The function of supplying money could be handled no better by government. But the situation in money is far worse than for shoes or any other commodity. If the government produces shoes, *at least* they might be worn, even though they might be high-priced, fit badly, and not satisfy consumer wants.

Money is different from all other commodities: other things being equal, more shoes, or more discoveries of oil or copper benefit society, since they help alleviate natural scarcity. But once a commodity is established as a money on the market, no more money at all is needed. Since the only use of money is for exchange and reckoning, more dollars or pounds or marks in circulation cannot confer a social benefit: they will simply dilute the exchange value of every existing dollar or pound or mark. So it is a great boon that gold or silver are scarce and are costly to increase in supply.

But if government manages to establish paper tickets or bank credit as money, as equivalent to gold grams or ounces, then the government, as dominant money-supplier, becomes free to create money costlessly and at will. As a result, this "inflation" of the money supply destroys the value of the dollar or pound, drives up prices, cripples economic calculation, and hobbles and seriously damages the workings of the market economy.

The natural tendency of government, once in charge of money, is to inflate and to destroy the value of the currency. To understand this truth, we must examine the nature of government and of the creation of money. Throughout history, governments have been chronically short of revenue. The reason should be clear: unlike you and I, governments do not produce useful goods and services which they can sell on the market; governments, rather than producing and selling services, live parasitically off the market and off society. Unlike every other person and institution in society, government obtains its revenue from coercion, from taxation. In older and saner times, indeed, the King was able to obtain sufficient revenue from the products of his own private lands and forests, as well as through highway tolls. For the State to achieve regularized, peacetime taxation was a struggle of centuries. And even after taxation was established, the kings realized that they could not easily impose new taxes or higher rates on old levies; if they did so, revolution was very apt to break out.

Controlling the Money Supply

If taxation is permanently short of the style of expenditures desired by the State, how can it make up the difference? By getting control of the money supply, or, to put it bluntly, by counterfeiting. On the market economy, we can only obtain good money by selling a good or service in exchange for gold, or by receiving a gift; the only other way to get money is to engage in the costly process of digging gold out of the ground. The counterfeiter, on the other hand, is a thief who attempts to profit by forgery, e.g., by painting a piece of brass to look like a gold coin. If his counterfeit is detected immediately, he does no real harm, but to the extent his counterfeit goes undetected, the counterfeiter is able to steal not only from the producers whose goods he buys. For the counterfeiter, by introducing fake money into the economy, is able to steal from *everyone* by robbing every person of the value of his currency. By diluting the value of each ounce or dollar of genuine money, the counterfeiter's theft is more sinister and more truly subversive than that of the highwayman; for he robs everyone in society, and the robbery is stealthy and hidden, so that the cause-and-effect relation is camouflaged.

Recently, we saw the scare headline: "Iranian Government Tries to Destroy U.S. Economy by Counterfeiting $100 Bills." Whether the ayatollahs had such grandiose goals in mind is dubious; counterfeiters don't need a grand rationale for grabbing resources by printing money. But all counterfeiting is indeed subversive and destructive, as well as inflationary.

But in that case, what are we to say when the government seizes control of the money supply, abolishes gold as money, and establishes its own printed tickets as the only money? In other words, what are we to say when the government becomes the legalized, monopoly counterfeiter?

Not only has the counterfeit been detected, but the Grand Counterfeiter, in the United States the Federal Reserve System, instead of being reviled as a massive thief and destroyer, is hailed and celebrated as the wise manipulator and governor of our "macroeconomy," the agency on which we rely for keeping us out of recessions and inflations, and which we count on to determine interest rates, capital prices, and employment. Instead of being habitually pelted with tomatoes and rotten eggs, the Chairman of the Federal Reserve Board, whoever he may be, whether the imposing Paul Volcker or the owlish Alan Greenspan, is universally hailed as Mr. Indispensable to the economic and financial system.

Indeed, the best way to penetrate the mysteries of the modern monetary and banking system is to realize that the government and its central bank act precisely as would a Grand Counterfeiter, with very similar social and economic effects. Many years ago, the *New Yorker* magazine, in the days when its cartoons were still funny, published a cartoon of a group of counterfeiters looking eagerly at their printing press as the first $10 bill came rolling off the press. "Boy," said one of the team, "retail spending in the neighborhood is sure in for a shot in the arm."

And it was. As the counterfeiters print new money, spending goes up on whatever the counterfeiters wish to purchase: personal retail goods for themselves, as well as loans and other "general welfare" purposes in the case of the government. But the resulting "prosperity" is phony; all that happens is that more money bids away existing resources, so that prices rise. Furthermore, the counterfeiters and the early recipients of the new money bid away resources from the poor suckers who are down at the end of the line to receive the new money, or who never even receive it at all. New money injected into the economy has an inevitable ripple effect; early receivers of the new money spend more and bid up prices, while later receivers or those on fixed incomes find the prices of the goods they must buy unaccountably rising, while their own incomes lag behind or remain the same. Monetary inflation, in other words, not only raises prices and destroys the value of the currency unit; it also acts as a giant system of expropriation of the late receivers by the counterfeiters themselves and by the other early receivers. Monetary expansion is a massive scheme of hidden redistribution.

When the government is the counterfeiter, the counterfeiting process not only can be "detected"; it proclaims itself openly as monetary statesmanship for the public weal. Monetary expansion then becomes a giant scheme of hidden taxation, the tax falling on fixed income groups, on those groups remote from government spending and subsidy, and on thrifty savers who are naive enough and trusting enough to hold on to their money, to have faith in the value of the currency.

Spending and going into debt are encouraged; thrift and hard work discouraged and penalized. Not only that: the groups that benefit are the special interest groups who are politically close to the government and can exert pressure to have the new money spent on them so that their incomes can rise faster than the price inflation. Government contractors, politically connected businesses, unions, and other pressure groups will benefit at the expense of the unaware and unorganized public. □

THE FREEMAN
IDEAS ON LIBERTY

Free Market Economists: 400 Years Ago

by Llewellyn H. Rockwell, Jr.

Students of free enterprise usually trace the origins of pro-market thinking to Scottish professor Adam Smith (1723–90). This tendency to see Smith as the fountainhead of economics is reinforced among Americans because his famed book *An Inquiry into the Nature and the Causes of the Wealth of Nation* was published the year of American independence from Britain.

There is much that this view of intellectual history overlooks. The real founders of economic science actually wrote hundreds of years before Smith. They were not economists as such, but moral theologians, trained in the tradition of St. Thomas Aquinas, and they came to be known collectively as the Late Scholastics. These men, most of whom taught in Spain, were at least as pro-free market as the Scottish tradition came to be much later. Plus, their theoretical foundation was even more solid: they anticipated the theories of value and price of the "marginalists" of late-nineteenth-century Austria.[1]

If Italian city-states began the Renaissance of the fifteenth century, Spain and Portugal explored the new world in the sixteenth, and emerged as centers of commerce and enterprise. Intellectually, Spanish universities spawned a revival of the great Scholastic project: drawing on ancient and Christian traditions to investigate and expand all the sciences, including economics, on the firm ground of logic and natural law.

Because natural law and reason are universal ideas, the Scholastic project was to search for universal laws that govern the way the world works. And though economics was not considered a separate discipline, these scholars were led to economic reasoning as a way of explaining the world around them. They searched for regularities in the social order and brought Catholic standards of justice to bear on them.

Francisco de Vitoria

The University of Salamanca was the center of Scholastic learning in sixteenth-century Spain. The first of the moral theologians to research, write, and teach there was Francisco de Vitoria (1485–1546). Under his guidance, the university offered an extraordinary 70 professorial chairs. As with other great mentors in history, most of Vitoria's published work comes to us in the form of notes taken by his students.

In Vitoria's work on economics, he argued that the just price is the price that has been arrived at by common agreement among producers and consumers. That is, when a price is set by the interplay of supply

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and demand, it is a just price. So it is with international trade. Governments should not interfere with the prices and relations established between traders across borders. Vitoria's lectures on Spanish-Indian trade—originally published in 1542 and again in 1917 by the Carnegie Endowment—argued that government intervention with trade violates the Golden Rule.

Yet Vitoria's greatest contribution was producing gifted and prolific students. They went on to explore almost all aspects, moral and theoretical, of economic science. For a century, these thinkers formed a mighty force for free enterprise and economic logic. They regarded the price of goods and services as a consequence of the actions of traders. Prices vary depending on the circumstance, depending on the value that individuals place on goods. That value in turn depends on two factors: the goods' availability and their use. The price of goods and services are a result of the operation of these forces. Prices are not fixed by nature, or determined by the costs of production; prices are a result of the common estimation of men.

Martín de Azpilcueta Navarrus

One student was Martín de Azpilcueta Navarrus (1493–1586), a Dominican monk, the most prominent canon lawyer of his day, and eventually the adviser to three successive popes. Using reasoning, Navarrus was the first economic thinker to state clearly and unequivocally that government price-fixing is a mistake. When goods are plentiful, there is no need for a maximum-set price; when they are not, price control does more harm than good. In a manual on moral theology (1556), Navarrus pointed out that it is not a sin to sell goods at higher than the official price when it is agreed to among all parties.

Navarrus was also the first to fully state that the quantity of money is a main influence in determining its purchasing power. "Other things being equal," he wrote, "in countries where there is a great scarcity of money, all other saleable goods, and even the hands and labor of men, are given for less money than where it is abundant."

For a currency to settle at its correct price in terms of other currencies, it is traded at a profit, an activity which was controversial among some theorists on moral grounds. But Navarrus argued that it was not against the natural law to trade currencies. This was not the primary purpose of money, but "it is nonetheless an important secondary use." He made an analogy with another market good. The purpose of shoes, he said, is to protect our feet, but that doesn't mean they shouldn't be traded at a profit. In his view, it would be a terrible mistake to shut down foreign exchange markets, as some people were urging. The result "would be to plunge the realm into poverty."

Diego de Covarrubias y Leiva

The greatest student of Navarrus's was Diego de Covarrubias y Leiva (1512–1577), considered the best jurist in Spain since Vitoria. The emperor made him chancellor of Castile, and he eventually became the bishop of Segovia. His book *Variarum* (1554) was the clearest explanation on the source of economic value to date. "The value of an article," he said, "does not depend on its essential nature but on the estimation of men, even if that estimation is foolish." It seems like such a simple point, but it was missed by economists for centuries until the Austrian School rediscovered this "subjective theory of value" and incorporated it into microeconomics.

Like all these Spanish theorists, Covarrubias believed that individual owners of property had inviolable rights to that property. One of many controversies of the time was whether plants that produce medicines ought to belong to the community. Those who said they should pointed out that the medicine is not a result of any human labor or skill. But Covarrubias said everything that grows on a plot of land should belong to the owner of the land. That owner is even entitled to withhold valuable medicines from the market, and it is a violation of the natural law to force him to sell.

Luís de Molina

Another great economist in the Vitoria-line of thinkers was Luís de Molina (1535–1601), among the first of the Jesuits to think about theoretical economic topics. Though devoted to the Salamancan School and its achievement, Molina taught in Portugal at the University of Coimbra. He was the author of a five-volume treatise *De Justitia et Jure* (1593 and following). His contributions to law, economics, and sociology were enormous, and his treatise went through several editions.

Among all the pro-free market thinkers of his generation, Molina was most consistent in his view of economic value. Like the other Late Scholastics, he agreed that goods are not valued "according to their nobility or perfection" but according "to their ability to serve human utility." But he provided this compelling example. Rats, according to their nature, are more "noble" (higher up the hierarchy of Creation) than wheat. But rats "are not esteemed or appreciated by men" because "they are of no utility whatsoever."

The use-value of a particular good is not fixed between people or with the passage of time. It changes according to individual valuations and availability. This theory also explains peculiar aspects of luxury goods. For example, why would a pearl, "which can only be used to decorate," be more expensive than grain, wine, meat, or horses? It appears that all these things are more useful than a pearl, and they are certainly more "noble." As Molina explained, valuation is done by individuals, and "we can conclude that the just price for a pearl depends on the fact that some men wanted to grant it value as an object of decoration."

A similar paradox that befuddled the classical economists was the diamond-water paradox. Why should water, which is more useful, be lower in price than diamonds? Following Scholastic logic, it is due to individual valuations and their interplay with scarcity. The failure to understand this point led Adam Smith, among others, off in the wrong direction.

But Molina understood the crucial importance of free-floating prices and their relationship to enterprise. Partly this was due to his extensive travels and interviews with merchants of all sorts. "When a good is sold in a certain region or place at a certain price," he observed, so long as it is "without fraud or monopoly or any foul play," then "that price should be held as a rule and measure to judge the just price of said good in that region or place." If the government tries to set a price that is higher or lower, then, it would be unjust. Molina was also the first to show why it is that retail prices are higher than wholesale prices: consumers buy in smaller quantities and are willing to pay more for incremental units.

The most sophisticated writings of Molina concerned money and credit. Like Navarrus before him, he understood the relationship of money to prices, and knew that inflation resulted from a higher money supply. "Just as the abundance of goods causes prices to fall," he wrote—specifying that this assumes the quantity of money and number of merchants remain the same—so too does an "abundance of money" cause prices to rise—specifying that quantity of goods and number of merchants remain the same. He even went further to point out how wages, income, and even dowries eventually rise in the same proportion to which the money supply increases.

He used this framework to push out the accepted bounds of charging interest, or "usury," a major sticking point for most economists of this period. He argued that it should be permissible to charge interest on any loan involving an investment of capital, even when the return doesn't materialize.

Molina's defense of private property rested on the belief that property is secured in the commandment, "thou shalt not steal." But he went beyond his contemporaries by making strong practical arguments as well. When property is held in common, he said, it won't be taken care of and people will fight to consume it. Far from promoting the public good, when property is not divided, the strong people in the group will take advantage of the weak by monopolizing and consuming all resources.

Like Aristotle, Molina also thought that common ownership of property would guarantee the end of liberality and charity. But he went further to argue that "alms should be given from private goods and not from the common ones."

In most writings on ethics and sin today, different standards apply to government than to individuals. But not in the writings of Molina. He argued that the king can, as king, commit a variety of mortal sins. For example, if the king grants a monopoly privilege to some, he violates the consumers' right to buy from the cheapest seller. Molina concluded that those who benefit are required by moral law to offset the damages they cause.

Vitoria, Navarrus, Covarrubias, and Molina were four of the most important among more than a dozen extraordinary thinkers who had solved difficult economic problems long before the classical period. Trained in the Thomist tradition, they used logic to understand the world around them, and looked for institutions that would promote prosperity and the common good. It is hardly surprising, then, that many of the Late Scholastics were passionate defenders of the free market.

The members of the School of Salamanca would not have been fooled by the fallacies that dominate modern economic theory and policy today. If only our modern understanding could once again arrive at that high road paved for us more than 400 years ago. □

1. The scholar who rediscovered the Late Scholastics was Raymond de Roover (1904–1972). For years, they had been ridiculed and sloughed off, and even called pre-socialists in their thought. Karl Marx was the "last of the Schoolmen," wrote R. H. Tawney. But de Roover demonstrated that almost all the conventional wisdom was wrong (*Business, Banking, and Economic Thought*, edited by Julius Kirchner [Chicago: University of Chicago Press, 1974]).

Joseph Schumpeter gave the Late Scholastics a huge boost with his posthumously published 1954 book, *History of Economic Analysis* (New York: Oxford University Press). "It is they," he wrote, "who come nearer than does any other group to having been the 'founders' of scientific economics." About the same time there appeared a book of readings put together by Marjorie Grice-Hutchinson (*The School of Salamanca* [Oxford: Clarendon Press, 1952]). A full-scale interpretive work appeared later (*Early Economic Thought in Spain, 1177–1740* [London: Allen & Unwin, 1975]).

In our own time, Alejandro Chafuen (*Christians for Freedom* [San Francisco: Ignatius Press, 1986]) linked the Late Scholastics closely with the Austrian School. In the fullest and most important treatment to date, Murray N. Rothbard's *An Austrian Perspective on the History of Economic Thought* (London: Edward Elgar, 1995) presents the extraordinarily wide range of Late Scholastic thought, and offers an explanation for the widespread misinterpretation of the School of Salamanca, plus an overarching framework of the intersection between economics and religion from St. Thomas through the mid-nineteenth century.

THE FREEMAN
IDEAS ON LIBERTY

The Ethics of War: Hiroshima and Nagasaki After 50 Years

by Gregory P. Pavlik

The first use of an atomic bomb in warfare took place on August 6, 1945. The weapon was dropped on the Japanese city of Hiroshima by the U.S. bomber *Enola Gay*, instantaneously destroying four square miles in the middle of the population center. The blast killed 66,000 men, women, and children, and injured an additional 69,000. A full 67 percent of Hiroshima's buildings, transportation systems, and urban structures were destroyed.

The next (and only other) atomic bomb to be dropped in warfare was detonated over the Japanese city of Nagasaki three days later. That blast killed 39,000 civilians and injured another 25,000; 40 percent of the city was destroyed or unrepairable. The Japanese government surrendered to the U.S. government on August 10, 1945.

Since the last "good war," a debate has ensued over the moral legitimacy of the use of nuclear weapons, particularly against civilians. The critics hold that it is a crime to incinerate civilians en masse; defenders commonly claim that the bombing was necessary to bring the war to a close, thereby saving countless American lives.

Most of those who make this claim do so in earnest. The problem is that this defense is both historically false, and taken to its logical conclusion, extremely dangerous.

But a discussion of the bombing of Hiroshima and Nagasaki cannot proceed without an overview of the imperialist motives for Japanese military aggression, which reflected the age-old drive for power through military intimidation and conquest. The Japanese desired a series of conquests, to constitute the Greater East Asian Co-Prosperity sphere. This involved, most importantly, penetration into Korea, Manchuria, China, French Indochina, Malaya, and Burma.

What was clearly not their goal was a prolonged conflict with the United States or any of the other Allied Powers. After establishing their Asian imperium and a defensive perimeter, the Japanese expected to reach a negotiated peace.

It should be clear that the attack on the American military base at Pearl Harbor was not a part of the long-term planning of the Japanese government. Indeed, conservatives and isolationists have long held the view that the Roosevelt administration provoked the Japanese into their aggressive stance as a back door to war in Europe.

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Consider the facts leading up to the attack: Roosevelt had made a commitment to Churchill that the United States would enter into the Asian conflict if the British were attacked; the United States was shipping munitions to both Russia and Great Britain; Roosevelt had placed an embargo on oil and metals against Japan; and in the most egregious example, had sent the "unofficial" Flying Tigers to attack the Japanese in China in 1941. All were violations of U.S. neutrality and acts of belligerency.

Vocal critics on the Old Right—such as John T. Flynn and Harry Elmer Barnes—held that the Roosevelt administration was aware of the attack in advance, both from decoded transmissions and intelligence reports. The weight of history has ironed out the appearance of radicalism from the latter contention. Whatever the truth of the Pearl Harbor affair, an extended war with the United States was not a desire of the Japanese.

Japanese Objectives

Apologists for the bombing of Hiroshima and Nagasaki need to consider the overall thrust of the Japanese objectives. These objectives do not square with the notion that Japan was intractably set into a policy of mortal combat with the Americans. Not that the Japanese were not willing to fight—they did so for four bloody and grueling years. Yet the oft-repeated claim that the Japanese were willing to sacrifice every last individual before ending the war is nonsense.

In reality, the Japanese were willing to end hostilities with the United States as quickly as they began. Startlingly neglected is the January 1945 offer of the Japanese government to surrender. As the eminent English jurist Frederick J.P. Veale pointed out in *Advance to Barbarism*,

> Belatedly it has been discovered that seven months before it [the atomic bomb] was dropped, in January 1945, President Roosevelt received via General MacArthur's headquarters an offer by the Japanese Government to surrender on terms virtually identical to those accepted by the United States after the dropping of the bomb: In July 1945, as we know, Roosevelt's successor, President Truman, discussed with Stalin at Bebelsburg the Japanese offer to surrender.

Clearly, then, the bomb did not have to be dropped to save the lives of American soldiers. The war in the Pacific could have ended prior to the European conflict. One suspects that the conflagration's extension beyond the confines of necessity had more to do with the politics of war than military strategy. The fact that consultation with Stalin played a key role in the decision tends to implicate both what historian William L. Neumann pointed to as "the historic ambitions of Russia in Asia" and "the expansionist element in Stalinist Communism."

The Japanese offer to surrender came at a time when surrender made sense. Consider the strange apology for the bombing offered by the historian Robert R. Smith, the logic of which may escape even the most alert reader:

> Allied air, surface, and submarine operations had cut the home islands from all sources of raw materials. The effective and close blockade of the Allies established around the home islands would ultimately have made it impossible for the Japanese to supply their military and civilian components with even the bare essentials of life. An early surrender was inevitable, probably even without the impetus supplied by the atomic blasts. It was better for both the Allies and the Japanese the end came when it did.

Even if the Japanese had showed no signs of surrender and had remained obstinate in belligerency, the notion that the most human carnage possible must be inflicted on the civilians of an enemy government to force a surrender and minimize the losses of one's own troops is perverse. Consider the consequences of adopting a policy of total war. Logically, if you expect an enemy to pursue this strategy, you will do everything in your power to do the same before the enemy has the opportunity to annihilate you.

It's a step beyond the Cold War policy appropriately referred to as Mutually Assured Destruction. These doctrines place their backers alongside such military strategists as Ghengis Khan, Attila the Hun, and the Assyrian King Tigleth Pileser who delighted in the erection of pyramids of human skulls. To adopt this justification for the bombing is to ask any putative future enemy to assume we mean to destroy him and to alert him to the necessity of killing as many American civilians as is possible before we do the same to him.

Indeed, by this logic, the United States should have dropped nuclear weapons in the heart of Christendom to bring Germany to her knees as quickly as possible, a prospect that any civilized person must contemplate with horror. Yet, this was how many of the scientists working on the bomb, including Albert Einstein, hoped the American government would use it.

The Canons of Warfare

Many opponents of the use of the bomb point to the canons of civilized warfare in Europe, developed over 1,500 years. Again, Veale explains: "the fundamental principle of this code was that hostilities between civilized people must be limited to the armed forces engaged," and in his book he lists a splendid array of examples of European leaders holding to these principles, even at the price of victory.

In fact, the professional conduct of European soldiers was such that in 1814 Marshal Davout was reproached sternly and threatened with a "war crime trial" for his ugly treatment of the residents of Hamburg before his surrender—not by the Prussians, but by his own people. He was charged with having "rendered the name of Frenchman odious."

The crucial flaw in relying on the European military codes as an attack on the bombing of the Japanese is implicit in the explanation provided by Veale. By "civilized people," the European codes referred only to Europeans. That is, the rules and restrictions of civilized warfare applied only to so-called "secondary" wars, or intra-European wars, and not to "primary" wars that involved the clash of European and non-European powers. In the latter case, the limitations on aggression against civilians literally had no bearing on the conduct of the belligerents.

A number of cases that have a special bearing on our subject come to mind. The Japanese city of Kagoshima was destroyed by the British Navy under Admiral Kuper in 1863 for the sole purpose of winning trade concessions. So the rules of conduct in war only extended so far. Nor was America shy about using military aggression against the Japanese. The United States had a long history of belligerent tactics against Japan, starting with the "gunboat diplomacy" of Commodore Perry in 1854. U.S. ships were also involved in the destruction of the city of Shimonoseki in 1864, an operation essentially directed in the interests of British imperialism.

In 1908, President Theodore Roosevelt was not above sending the United States fleet to the very shores of Japan. This type of militaristic diplomacy formed the basis of the foreign policy of Franklin Roosevelt, who was also a committed Sinophile. Much of the administrations early Naval build-ups and movements in the Pacific, starting as early as 1934, were aimed at intimidation of the Japanese. Roosevelt's policy rested on Western and U.S. precedent.

In fact, it seems plausible at first glance to argue that by the centuries-old standards of European civilized conduct in war, the bombing of Japan was an acceptable method of battle. (Incidentally, the use of atomic weapons against Germany was not and could never be.) For obvious reasons, contemporary defenders of the bombing are loath to broach this defense, as it smacks of the twentieth-century heresy of racism. But there is also a caveat to this argument.

However much the doctrine of the sanctity of noncombatant life was limited in practice, there existed a long tradition in European ethics that held that the killing of noncombatants was morally offensive and wrong. Christianity, the faith of the West, is a religion imbued with a limited universalism in content, derived from the belief that

Christ died on the cross for all men. Hence, the moral teachings of the Christian faith regarding the sanctity of human life can reasonably be understood to have been intended to apply universally.

Saint Augustine, Huguccio, and Grotius

Saint Augustine held that taking the life of a noncombatant was murder. Even before Christianity had begun its penetration into the Northern lands of Europe, fundamental teachings regarding the conduct of war were being developed. Nor did these doctrines change with the development of Catholic teaching throughout Europe and the emergence of Thomistic Scholasticism. As early as the twelfth century, Huguccio, a professor at Bologna, had revised the patristic teachings regarding natural law in his Summa of 1188. There he developed the notion that private property was a natural right, not subject to the interference of private persons or the state, under normal conditions.

This fundamentally libertarian teaching laid the groundwork for the ethical considerations of the rights of noncombatants in war. Indeed, the early twentieth-century international agreements regarding the rules of war were an outgrowth of this doctrine, based largely on the natural law analysis of the Dutch Scholastic Hugo Grotius. In fact, the work of Grotius is foundational to understanding both the Hague and Geneva Conventions.

Grotius identified four fundamental precepts of natural law, from which he developed his theory of international law. They were: (1) no person or body of persons, including the state, may legitimately initiate violence against another person or body of persons; (2) no person or body of persons may seize the property of another; (3) both persons and bodies of persons are bound by contracts or treaties that they might enter into; (4) no person or body of persons may commit a crime.

These libertarian postulates were extremely influential. Through practice and judicial development, nuances and adaptations were made in the rules of conduct. However, they were derived from Christian teachings that were meant to apply universally.

Critics of the bombing have made a strong moral case against the action. This is why the defenders of the bombing use strongly moralistic terms themselves. One of the results is possibly the most bizarre and obviously wrong.

Most veterans and defenders of the bombing of Hiroshima and Nagasaki claim that whatever the reasons for the bombing and its support, racism was not among them. This is simply not true. The U.S. War Department and related agencies that specialized in producing hate propaganda and lies developed specifically racialist attacks on the Japanese.

Propaganda films, shown to theaters across the country, whipped Americans into war hysteria with films attacking the Japanese with their "grinning yellow faces." American movie audiences were encouraged to cheer as they watched images of the "upstart yellow dwarfs" meeting their timely ends. The government played on and encouraged prejudice and specifically racial animosity against the Japanese. To be fair, the Japanese held—and still hold—similar views of Americans, views not discouraged by their government.

The most revealing aspect of this latter point is not that racism was involved in drumming up the war spirit, but rather that the truth of the matter has been so thoroughly obscured.

Oddly enough, many apologists are conservatives, who should be the first to recognize that the essence of government is its monopoly on violence. This is a paramount consideration in their analysis of the role of the government in domestic affairs. Consistency demands that conservatives begin to apply their principles across the board—to foreign policy as well as domestic policy. The alternative is the road we now travel, and it leads to total war and the total state. □

THE FREEMAN
IDEAS ON LIBERTY

The Attack on Grassroots Liberty

by William J. Watkins, Jr.

Since the framing of the Constitution there has been a great debate surrounding the role of the federal judiciary. Jeffersonians from the agrarian South saw the federal courts as mechanisms for consolidation and thus dangerous to liberty, whereas the Northern commercial and manufacturing interests saw the courts as their partners in national economic integration.

Though Hamilton described the federal judiciary as the weakest of the national government's three branches "with no influence over either the sword or purse, no direction of either the strength or the wealth of society . . . ," history has told a different story. What was to be the protector of constitutional government has played the critical role in its demise.

Nevertheless many respected scholars have called for an expanded role for the federal judiciary in securing individual liberty.[1] Such proponents of "principled judicial activism" often use the Ninth Amendment (which declares that the people retain other rights than those enumerated in the Constitution), or the privileges and immunities and due process clauses of the 14th Amendment to support their positions. Rather than interpreting the text of the Constitution strictly, they rely on natural rights or similar doctrines for a broad interpretation. For example, Stephen Macedo writes, "The Constitution is better read in terms of the aspirations set out in the preamble. . . ." than in terms of original intentions.[2]

The design of such an approach is the protection of individual liberty against the tyranny of local majorities that regulate "almost every aspect of personal behavior."[3] But rather than furthering the cause of liberty, an expansion of the judiciary's role inevitably leads to greater governmental consolidation, which has been liberty's greatest enemy.

An example of the consolidationist leanings of those who profess to be friends of liberty can be found by examining their critique of a landmark Supreme Court decision. In *Lochner v. New York* the Court struck down New York's regulation of the number of hours bakery employees were permitted to work. The Court declared: "The general right to make a contract in relation to his business is part of the liberty of the individual protected by the 14th Amendment."[4]

Rather than simply examining the classes of governmental power in question, the Court examined the consequences of the use of the police power (the power of the state to provide for the public's health, safety, and morals) and found the regulation to have "no reasonable foundation." Though the

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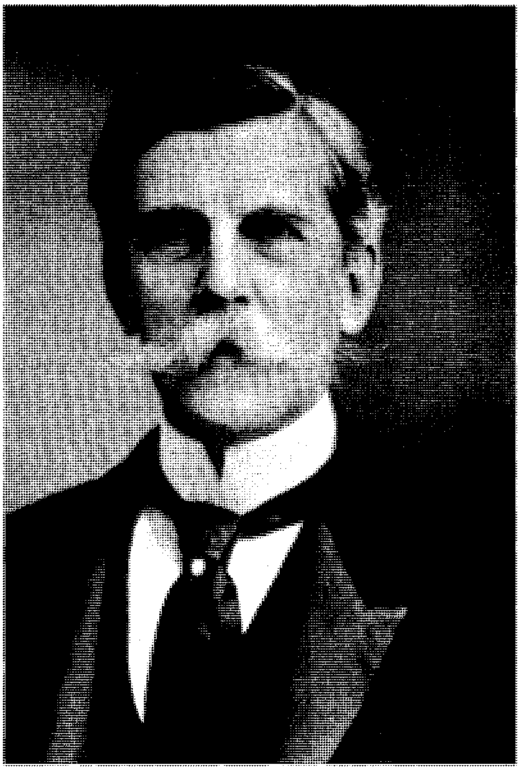


Oliver Wendell Holmes (1841–1935)

Constitution does not speak to liberty of contract, by using the 14th Amendment the Court was able to strike down what once would have been considered a normal exercise of a state's police power.

In his dissent, Justice Oliver Wendell Holmes censured the majority for deciding the case "upon an economic theory which a large part of the country does not entertain." Where there is no specific prohibition in the Constitution, Holmes asserted that the majority has the right to "embody their opinions in law."[5]

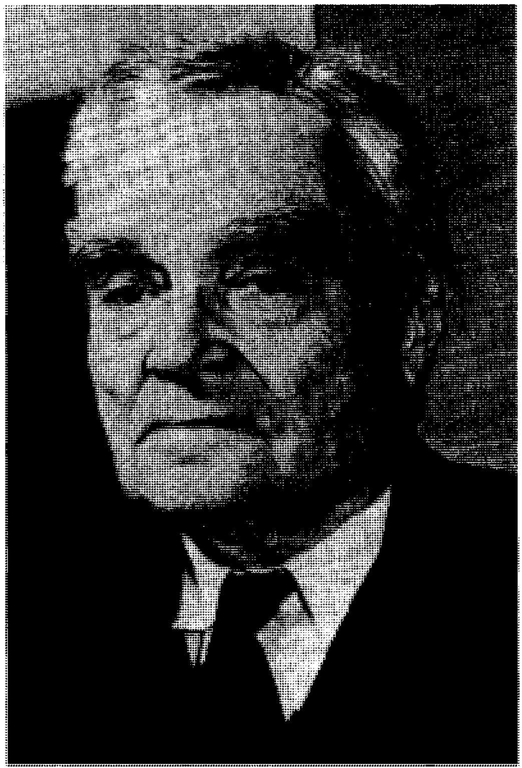
The proponents of judicial activism in defense of individual liberty accuse Holmes of ignoring "a number of . . . substantive clauses . . . from the takings, to the contracts, to the privileges and immunities, to the due process of law clauses . . . which would have given additional weight to this substantive understanding"[6] that led the majority to strike down New York's maximum hour regulation. "Substantive understanding," of course, refers to substantive due process. Substantive due process is defined as "an irreducible sum of rights . . . vested in the individual with which government could not arbitrarily interfere."[7]

At first blush, most friends of the private property order would agree that *Lochner* was correctly decided, applaud the Court's substantive understanding of the Constitution, and chide Holmes for his dissent. However, rather than protect or expand individual liberty, *Lochner* and the reasoning behind it actually diminish liberty.

It must be remembered that the Framers created a limited national government that was only to defend the states against foreign invaders and internal convulsions, and regulate interstate and foreign commerce. If one thing was learned from British rule it was the dangers of centralized power. In the Declaration of Independence one of the central complaints of the colonists was that the King had abolished "our most valuable Laws" and had suspended "our own Legislatures." The colonials placed such a high value on local self-government that they were willing to war against the mighty British Empire.

Though the 14th Amendment, which was ratified in 1868, did alter the federal system to a degree, it did not make the Constitution and the history behind the document a blank letter, as many of our modern judicial activists would allege. No doubt many radical Republicans did see the amendment as an embodiment of the vague intricacies of natural rights,[8] but many of their contemporaries saw things otherwise. For instance in the *Slaughterhouse Cases* (1873) the Supreme Court declared that the purpose of the Amendment was not "to destroy the main features of our general system. . . . [O]ur statesmen have still believed that the existence of the States with powers for domestic and local government . . . was essential to the perfect working of our complex form of government. . . ."[9]

In light of the historical context of the Union and the dangers of centralized power, Holmes, in upholding New York's regulation, was actually acting as more of a friend to liberty than the other justices who struck down New York's regulation. Holmes' un-



BETTMANN ARCHIVE

Learned Hand (1872–1961)

derstanding of liberty was in line with a traditional American understanding—the right of a corporate body to make its own laws.

Certainly Holmes would agree that there are subjects on which a majority ought not be permitted to legislate. But those subjects are and should be made explicit in state and national constitutions. Were natural rights or mere constitutional aspirations to be the guides, then the meaning of the Constitution would rest on the fancy of the federal courts' interpretations of the vague "penumbras and emanations" of the document.

In reality, what the proponents of judicial activism and substantive understanding support is a return to the days when the King exercised a negative over all of the legislation emanating from the colonial legislatures. They would replace George III with but another unelected official—a judge.

One of the greatest critics of such a role for the courts was the great jurist Learned Hand. Of such an activist judiciary Hand wrote: "For myself it would be most irksome to be ruled by a bevy of Platonic Guardians, even if I knew how to choose them, which I assuredly do not. If they were in charge I should miss the stimulus of living in a society where I have, at least theoretically, some part in the direction of public affairs."[10]

A branch of the national government that acts as a Council of Revision for all state legislation goes against the grain of American tradition. Moreover, it is dangerous insofar as it consolidates power in Washington. "When all government, domestic and foreign, in little as in great things, shall be drawn to Washington as the center of all power," warned Jefferson, "it will . . . become as venal and oppressive as the government from which we are separated." Liberty at the price of consolidation is not liberty at all, but rather centralized tyranny.

By calling for heightened activity of the federal judiciary in protecting individual rights, proponents of judicial activism promote the eradication of local self-government and thus the diminution of liberty. Under a substantive understanding of the Constitution rather than strict construction, no line can be drawn to stop the courts from acting as unrestrained national legislatures at the expense of the states and localities.

Though decisions such as *Lochner* are appealing, one must be cognizant of the fact that no matter what those who have good intentions say, any decision that consolidates power in the national government is an attack on the foundation of self-government and liberty. □

1. See, for example, Stephen Macedo, *The New Right v. The Constitution* (Washington, D.C.: The Cato Institute, 1986), chapters V, VI, VII; Bernard H. Siegan, *The Supreme Court's Constitution* (New Brunswick N.J.: Transaction, Inc., 1987); Clint Bolick, *Grassroots Tyranny* (Washington, D.C.: The Cato Institute, 1993).
2. Macedo, *op. cit.*, p. 58.
3. Bolick, *op. cit.*, p. 8.
4. *Lochner v. New York*, 198 U.S. 45 (1905).
5. *Ibid.* at 75.
6. Roger Pilon, "On the Foundations of Economic Liberty," *The Freeman*, September 1988, p. 344.
7. Kermit L. Hall, *The Magic Mirror: Law in American History* (New York: Oxford University Press, 1989), p. 232.
8. For a history of the 14th Amendment's natural rights linkage, see Bernard H. Siegan, *op. cit.*, chapter 3.
9. *Slaughterhouse Cases*, 16 Wallace 36 (1873).
10. Learned Hand, *The Bill of Rights: The Oliver Wendell Holmes Lectures* (Cambridge: Harvard University Press, 1958), p. 73.

Just Say No to Farm Subsidies

Congress is busy tying itself in knots of anguish over the future of federal farm subsidies. Many lawmakers are unwilling to stand up to the farm lobby and do what's right. But exactly 100 years ago, one Secretary of Agriculture had the courage to do just that. His name was J. Sterling Morton, and he served in the second administration of President Grover Cleveland.

With the encouragement of his grandfather and uncle, young Morton devoured the writings of economist Adam Smith and statesman Thomas Jefferson. He became a staunch proponent of their ideas of free markets and limited government by the time he went to college in his home state of Michigan. The notion that no free society could survive if government started redistributing the people's wealth became a lifelong guiding principle for Morton. A strong advocate of voluntarism, not more centralized political power, he was the man who originated Arbor Day in 1872 to encourage private citizens to plant trees.

In the late 1890s, when the Democrats were the party of free trade, Morton was three times the Democratic candidate for Governor of Nebraska. In 1892, when Grover Cleveland recaptured the White House for the Democrats, he chose J. Sterling Morton to be his Secretary of Agriculture and gave him a free hand to liberate farming from the federal dole.

Noted economic historian Burton Folsom has written that Morton proved to be as principled a free market advocate as the President who appointed him. "In his four years as Secretary," Folsom observes, "he chopped almost 20 percent from his department's budget. He fired unproductive bureaucrats, starting with a man who held the job of federal 'rainmaker.'" Then he slashed the travel budget: if farmers wanted to hear a spokesman from Washington, they would have to pay the bill to send him.

"If the Department of Agriculture is to be conducted in the spirit of paternalism, the sooner it is abolished the better for the United States," Morton declared. Accordingly, he cut farm subsidies wherever the law gave him the authority. He reduced the government's role in beet sugar production with these words: "Those who raise corn should not be taxed to encourage those who desire to raise beets. The power to tax was never vested in a Government for the purpose of building up one class at the expense of other classes."

In 1895, Morton ended the free seed program. For 60 years, the government had sent free seed to farmers. But many farmers didn't even use the seeds; in fact, fewer than one person per thousand even acknowledged receiving them. "Is it a function of government to make gratuitous distribution of any material thing?" Morton asked. He called free seeds a "gratuity, paid for by

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money raised from all the people, and bestowed upon a few people."

In a biography of Morton, historian James C. Olson writes:

> Every bill to appropriate money for special purposes was looked upon suspiciously by the Secretary. If it could not run the gamut of rigid laissez faire, if there was the slightest danger that it would extend the functions of the government, if it was paternal in any aspect, the Secretary of Agriculture was against it. When, for example, J. Z. George, Chairman of the Senate Committee on Agriculture and Forestry, asked his opinion on a bill to appropriate money for the extermination of the Russian thistle in the states of the Northwest, Morton asked in return whether it was "the business of the Government of the United States to make appropriations out of which men, women, and boys are to be hired, at wages fixed by law, to exterminate weeds, called Russian thistles, any more than it is the business of that Government to prescribe the manner of plowing, planting, and cultivating cereals, cotton, and tobacco, and to limit the wages to be paid cultivators?"[1]

Those who favored subsidies and business as usual were aghast at Morton. They wrote him vitriolic letters and filled newspapers with their attacks on him. Many urged President Cleveland to fire Morton, but the President was elated with the cost savings his agriculture secretary was achieving. This was the President who had once vetoed a $10,000 appropriation for drought-stricken farmers in Texas by declaring, ". . . though the people support the government, the government should not support the people."

Morton himself challenged his critics. He called the pro-subsidy Granger Society a "bunko establishment." He urged a farmer in Iowa to quit "plowing with preambles, planting with resolutions, and gathering by legislative enactment" and get on with the business of an honest day's work. His battles with lobbyists and the millions of dollars he saved became almost legendary in Washington.

When Morton left the nation's capital in 1897, the subsidy crowd slowly returned. Free seeds were again distributed. By the 1930s, the federal government was paying some farmers not to produce at all. By the 1950s, even mohair producers were getting federal handouts. Today billions are doled out to subsidize a wide range of farm commodities, and it seems farmers sometimes produce as much for the government as they do for the market. Many agricultural economists believe that farm subsidy programs actually *increase* instability in the industry because the rules governing them change so often.

The experience of New Zealand is instructive: after that country abolished all farm subsidies in 1986 with a mere eight months' notice, the farm economy improved and output rose. The awful predictions of the subsidy-seekers that disaster would ensue never materialized.

Author Osha Gray Davidson, writing in the January 4, 1993, *New York Times*, termed the U.S. farm subsidy program "hopelessly outdated, exorbitantly expensive and environmentally and socially devastating." Far from "saving the family farmer," they price American produce out of world markets, hurt low income families, and swamp the farmer with endless regulations. "A whopping 73 cents of every farm program dollar," Davidson noted, "ends up in the pockets of 15 percent of the nation's superfarms." In other words, the large and well-off get the biggest checks, while their smaller competitors get a pittance in cash for the strangling controls subsidy brings. Because of these realities, there may be considerably more support for the abolition of subsidies among farmers themselves than is generally believed.

As Congress tries to muster the courage to challenge the government's destructive role in agriculture, its members ought to look to J. Sterling Morton for inspiration. One hundred years ago, he didn't waffle on the issue; he knew what had to be done, and to the extent the law allowed him, he did it with a flourish. □

1. James C. Olson, *J. Sterling Morton: Pioneer Statesman, Founder of Arbor Day* (Lincoln, Nebraska: University of Nebraska Press, 1942), pp. 358–9.

THE FREEMAN
IDEAS ON LIBERTY

The Crusade for Politically-Correct Consumption

by Thomas J. DiLorenzo

Neo-puritanism seems to be running amok in the United States. The federal excise tax on alcohol was doubled in 1991; many states have sharply increased tax rates on tobacco products and have enacted myriad smoking bans; the *Washington Post* reports a growing movement to ban the wearing of perfume in the workplace; and the *New York Times* recently promoted the idea of imposing new "sin taxes" on high-fat foods. In the past year, "reports" issued by various Washington-based, neo-puritanical political activists have condemned hot dogs, Chinese, Italian, and Mexican food, beer, steak, milk(!), and even golf courses (too many lawn chemicals).

The various nonprofit organizations that are promoting politically-correct consumption, such as the American Cancer Society (ACS), the American Heart Association (AHA), the American Lung Association (ALA), and the Center for Science in the Public Interest, all describe themselves as "public interest" advocates. Despite their altruistic rhetoric, however, these organizations benefit financially from their attack on smoking, drinking, and general consumer enjoyment. They typically lobby for "sin taxes" that earmark revenues *to them* so that they can continue to hector the public into adopting "politically-correct" lifestyles. There is much evidence, moreover, that the expenditure of these funds has done nothing to improve public health, and may even have been harmful to it in some cases. A case in point is California's tobacco tax.

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California's Tobacco Tax Pork Barrel

California voters passed a referendum in 1988 (Proposition 99) that increased the state's cigarette tax by 25 cents a pack and earmarked the funds for anti-smoking education in schools and communities, hospital and physician treatment of indigent patients, research on tobacco-related diseases, and "environmental concerns." The last category was apparently established to buy the political support of environmental groups. Over $500 million per year was initially raised from the tax.

The way in which the new tax was promoted—as a constitutional amendment—illustrates that the main priority was always to create a revenue source for neo-puritanical political activists, not to deter smoking.

A lobbyist for the California Medical Association, for example, proclaimed that "the principal reason for the tax is not to raise money. The principal reason is to stop smoking." And, "if a tax were imposed and it raised nothing, we would be delighted—that would mean nobody would be buying cigarettes."[1] The facts, however, present a very different picture.

The proposed cigarette tax increase could have been approved by the California legislature if the coalition's only objective was to reduce the incidence of smoking by raising the price of cigarettes—a straightforward application of the economic law of demand. There was a "problem" however, in that in 1979 California voters passed Proposition 4, a constitutional amendment that limited state spending. If the state were to reach its spending limit, then tax revenues from cigarette taxes *would have to be refunded* to smokers in particular and to the public in general. The ACS, ALA, AHA, and the California Medical Association would get nothing, even though the tax's supposedly salutary effects on cigarette consumption, which the coalition claimed were its only concern, would still prevail.

The coalition could not countenance such an outcome, so it pushed for a statewide referendum, Proposition 99, that would add another constitutional amendment. This strategy was necessary, according to state assemblyman Lloyd Connely, the coalition's legislation "connection," because of "the so-called Gann spending limit passed by voters in 1979." Without a constitutional amendment, "the legislature could be forced to refund the tax if the state reaches its spending limit."[2] Thus, the main objective of the coalition was *to capture the revenue from the cigarette tax*, not to discourage smoking.

A Pork Barrel for Neo-Puritans

Proposition 99 created a giant pork barrel for a vast network of public-health bureaucrats, public schools, and nonprofit political activists under the umbrella group, "Americans for Nonsmokers' Rights" (ANR) whose spokesman, Glenn Barr, has stated his goal as to "force [smokers] to do the right thing for themselves."[3]

The law has showered the public schools and local chapters of the American Cancer Society, American Lung Association, and American Heart Association with more than $150 million ostensibly to teach children to be nonsmokers. But in reality much of the money has simply been squandered on student "gift" programs that give away backpacks, gift certificates, movie tickets, compact discs, radios, sports equipment, and even lottery tickets as "rewards" for a promise to quit smoking.[4]

Some school districts used the funds for pool parties, carnivals, trips to Yosemite National Park, and to sponsor "outrageous stunt" contests that award prizes to whoever performs the weirdest feat to shock a loved one into stopping smoking. Past winners include a girl who consumed an entire can of Mighty Dog dog food.

Since no serious effort is made to verify whether students have taken up smoking or not, the program is simply a giant giveaway of tax dollars and another make-work program for nonprofit sector "activists," government health department bureaucrats, and public school administrators. A survey by the California Department of Health Services failed to detect any decline in adolescent smoking, and some health researchers believe the program may actually have *increased* teenage smoking by making it such an official taboo.[5] A state-funded evaluation of the anti-smoking education efforts by University of California professor John P. Pierce concluded that they had "no effect on tobacco use."[6]

Proposition 99 forbids the use of tax funds "to promote partisan politics or candidates" or "to promote the passage of any law." But the tax-funded political activists have blatantly flouted this law from the beginning by lobbying for hundreds of anti-smoking ordinances. For example, Contra Costa County published minutes from a public meeting in which it promised to "play a crucial role in mobilizing community support" for a proposed ordinance.[7] Sacramento County sent out flyers urging voters to pass an anti-smoking ordinance, and government employees from Butte County spent work time lobbying for an ordinance there.[8] Government officials and political activists have gotten away with violating the laws prohibiting tax-funded politics by claiming that the funds are used for "education," not politics.

Most of the "research" funded by Proposition 99 is so useless that even the legislative sponsor of the law, state assemblyman Philip Isenberg, demanded a reallocation of funds away from research and toward indigent and prenatal care in 1994. He became skeptical of the value of "research" on how quickly one's teeth turn yellow from smoking or "discovering" that teenage "troublemakers" tend to smoke.[9] Some of the research money is used for political intelligence gathering and "doesn't deserve to be classified as research," according to former California Assembly Speaker Willie Brown. Brown was referring to the more than $4 million in grants given to University of California at San Francisco Professor Stanton Glantz for his work "tracking tobacco industry activities in California," which Brown says is what politicians do to each other when running for re-election and has nothing to do with disease research.

The California state assembly defunded Glantz and diverted the money (and other "research" money) to indigent care, prenatal care for poor women, and medical care for people with inherited diseases. Under the umbrella of Americans for Nonsmokers' Rights, of which he is president, Glantz then sued California for devoting too much money to medical care for indigents and too little for his political spying operation.

In addition to suing the California legislature because of his apparent belief that his research grants from the state should be considered an entitlement, Glantz applied for and received federal grants for his "research." According to Freedom of Information Act information received by the author, the National Cancer Institute (NCI) awarded Glantz $223,214 in 1994, the first installment on a three-year grant.

NCI is using taxpayers' funds to pay Glantz to spy on both the producers and consumers of cigarettes. Among the items listed on his proposed research agenda:

- Collecting data on campaign contributions by the tobacco industry since 1975;
- Studying "the role of coalition politics" in passing tobacco excise taxes so that more taxes can be passed in other states;
- Producing "how to lobby" manuals for other neo-puritanical political activists;
- Conducting "opposition research" and spying on various "smokers' rights" groups that have sprung up.

"Preliminary research" has revealed that these groups seem to rely on arguments related to freedom, individual rights, liberty, the U.S. Constitution, and the paternalistic nature of government. They also seem to encourage tolerance, respect for others, peaceful coexistence, and good will toward others, according to Glantz's grant application.

One purpose of Glantz's tax-funded research is to try to discredit all these principles and to construct counterarguments, utilizing his "extensive database of media contacts," which he says includes all the major television networks.

Glantz and other anti-smoking zealots from California have already proven that they care little for civil liberties in their crusade for politically-correct behavior. For example, they used taxpayers' money in California to pay (other people's) children to conduct "sting" operations against convenience store owners, an activity condemned by local police as "vigilantism." The teenagers were paid to try to buy cigarettes to "spotlight" the illegal sale of cigarettes to minors. When the practice was criticized by law enforcement officials, the activists justified the "sting" operation by saying, "a lot of people [other activists, presumably] agree with what we're doing."[10] What a lesson to be teaching children: the ends justify the means as long as "a lot" of people agree with them.

Coercion and Elitism

Federal, state and local governments have funded an entire industry of anti-smoking crusaders, but smoking is just the first target of these neo-puritans. As ANR vice-president Julia Carol told the *Washington Post*, if tobacco disappeared, they'd "simply move on to other causes."[11]

The neo-puritan movement is composed of elitists who seek to use the coercive powers of the state to express their pet peeves and to force others into politically-correct consumption patterns. In the case of smoking, all the restrictions, bans, and taxes are justified on two basic grounds: so-called second-hand smoke is a health hazard; and smoking imposes a financial burden on the rest of society by increasing health care costs. Both rationales are bogus.

There is no scientific evidence that second-hand smoke causes cancer, period. And researchers at the Rand Corporation and elsewhere have pointed out that the costs that smokers may impose on others is more than counterbalanced by the taxes they pay and by the fact that, because they have a higher chance of dying earlier because of cancer or heart disease, they require lower pension and Social Security benefits.[12] Smokers subsidize the rest of society.

But there is more than economics at stake, as nineteenth-century writer Lysander Spooner showed in *Vices Are Not Crimes*.[13] On the matter of criminalizing such activities as taking a puff on a cigarette in one's own private office, which is now illegal in Maryland and a number of other states, Spooner pointed out that "it is a maxim of the law that there can be no crime without a criminal intent; that is, without the intent to invade the person or property of another. But no one ever practices a vice with any such criminal intent. He practices his vice for his own happiness solely, and not from any malice toward others."

Thus, the criminalization of the pet peeves of neo-puritanical elitists turns one of the most important maxims of the law on its head. Unless we make this very important distinction between vices and crimes, moreover, then "there can be on earth no such thing as individual right, liberty, or property." For every human being has his or her vices. And "if government is to take cognizance of any of these vices, and punish them as crimes, then, to be consistent, it must take cognizance of all, and punish all, impartially." The consequence would be that "everybody would be in prison for his or her vices," whether they be "gluttony, drunkenness, prostitution, gambling, prize-fighting, tobacco-chewing, smoking, and snuffing, opium-eating, corset-wearing, idleness, waste of property, avarice, hypocrisy, etc., etc."

Ludwig von Mises added, some 70 years later, that once government determines man's consumption, the question becomes, "why limit the government's benevolent providence to the protection of the individual body only?" Why not prevent us, Mises continued, from "reading bad books and seeing bad plays, from looking at bad paintings and statues and from hearing bad music?" If one abolishes one's freedom to consume, Mises concluded, then one takes all freedoms away. "The naïve advocates of government interference with consumption delude themselves when they neglect what they disdainfully call the philosophical aspect of the problem. They unwittingly support the cause of censorship, inquisition, religious intolerance, and the persecution of dissenters." □

1. Richard Paddock, "Health Care Groups Join to Push Cigarette Tax Hike," *Los Angeles Times*, February 2, 1987.
2. Sandra N. Michiouku, "Health Coalition Urges 35-Cent Cigarette Tax," United Press International, February 23, 1987.
3. From the transcript of a three-day conference, "Revolt Against Tobacco," held in Los Angeles in September 1992.
4. Examples are published in Stanislaus County (Ca.) *Tobacco Control Education Incentive Plan* (Stanislaus County, Ca., 1992).
5. California Department of Health Service, *Tobacco Use in California, 1992* (San Diego: University of California, San Diego, 1992).
6. *Ibid.*
7. Lisa Mcilink, "Is it Education or Lobbying," *Paradise* (Ca.) *Post*, March 17, 1992.
8. *Ibid.*
9. University of California, *Tobacco-Related Disease Research Program* (San Diego: University of California at San Diego, 1990.)
10. Kate Taylor, "Use of Teenagers in Cigarette-Buying Sting Upsets Novato Police," *San Francisco Chronicle*, January 11, 1994, p. A-18.
11. John Schwartz, "California Activists' Success Ignites a Not-So-Slow-Burn," *Washington Post*, May 30, 1994, p. 1.
12. Jane Gravelle and Dennis Zimmerman, "The Marlboro Math," *Washington Post*, June 5, 1994, p. C-1.
13. Lysander Spooner, *Vices Are Not Crimes: A Vindication of Moral Liberty* (Cupertino, Ca.: TANSTAAFL, 1977).
14. Ludwig von Mises, *Human Action: A Treatise on Economics* 3rd ed. (Chicago: Henry Regnery, 1966), pp. 733–34.

THE FREEMAN
IDEAS ON LIBERTY

Legislation and Law in a Free Society

by N. Stephan Kinsella

Libertarians and classical liberals have long sought to explain what sorts of laws we should have in a free society. But we have often neglected the study of what sort of legal system is appropriate for developing a proper body of law.

Historically, in the common law of England, Roman law, and the Law Merchant, law was formed in large part in thousands of judicial decisions. In these so-called "decentralized law-finding systems," the law evolved as judges, arbitrators, or other jurists discovered legal principles applicable to specific factual situations, building upon legal principles previously discovered, and statutes, or centralized law, played a relatively minor role. Today, however, statutes passed by the legislature are becoming the primary source of law, and law tends to be thought of as being identical to legislation. Yet legislation-based systems cannot be expected to develop law compatible with a free society.

Certainty, which includes clarity of and stability in the law, is necessary so that we are able to plan for the future. Often it is thought that certainty will be increased when the law is written and enunciated by a legislature, for example in the civil codes of modern civil-law systems.

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As the late Italian legal theorist Bruno Leoni pointed out, however, there is much more certainty in a decentralized legal system than in a centralized, legislation-based system. When the legislature has the ability to change the law from day to day, we can never be sure what rules will apply tomorrow. By contrast, judicial decisions are much less able to reduce legal certainty than is legislation.

This is because the position of common-law or decentralized judges is fundamentally different from that of legislators in three respects. First, judges can only make decisions when asked to do so by the parties concerned. Second, the judge's decision is less far-reaching than legislation because it primarily affects the parties to the dispute, and only occasionally affects third parties or others with no connection to the parties involved. Third, a judge's discretion is limited by the necessity of referring to similar precedents. Legal certainty is thus more attainable in a relatively decentralized law-finding system like the common law, Roman law, or customary law, than in centralized law-making systems where legislation is the primary source of law.

Negative Effects of Uncertainty

Legislation tends to interfere with agreements that courts would otherwise have enforced and thereby makes parties to contracts less certain that the contract will ultimately be enforced. Thus, individuals tend to rely less on contracts, leading them to develop costly alternatives such as structuring companies, transactions, or production processes differently than they otherwise would have.

Another pernicious effect of the increased uncertainty in legislation-based systems is the increase of overall time preference. Individuals invariably demonstrate a preference for earlier goods over later goods, all things being equal. When time preferences are lower, individuals are more willing to forgo immediate benefits such as consumption, and invest their time and capital in more indirect (i.e., more roundabout, lengthier) production processes, which yield more and/or better goods for consumption or for further production. Any artificial raising of the general time preference rate thus tends to impoverish society by pushing us away from production and long-term investments. Yet increased uncertainty, which is brought about by a legislation-based system, causes an increase in time preference rates because if the future is less certain, it is relatively less valuable compared to the present.

In addition to materially impoverishing society, higher time preference rates also lead to increased crime. As a person becomes more present-oriented, immediate (criminal) gratifications become relatively more attractive, and future, uncertain punishment becomes less of a deterrent.

Central Planning and Economic Calculation

Ludwig von Mises showed that, without a decentralized private property system, the free market prices which are essential in economic calculation cannot be generated. As Leoni has explained, Mises' criticism of socialism also applies to a legislature attempting to "centrally plan" the laws of a society. The impossibility of socialism is only a special case of the general inability of central planners to collect and assimilate information widely dispersed in society. The widely dispersed, decentralized character of knowledge and information in society simply makes it too difficult for centralized legislators to rationally plan the laws of society.

Legislators' inescapable ignorance also makes them less able to truly represent the general will of the populace and likely to be influenced by special interests. Because of their ignorance, they have no reliable guide for knowing what statutes to enact, which makes them more likely to be influenced by lobbyists and special interest groups. This leads to statutes that benefit a select few at the expense of others and, in the long run, at the expense of all of society.

Decentralized law-finding systems like the common law, on the other hand, are analogous to free markets in that a natural order, unplanned by government decrees, arises in both. Additionally, as pointed out by Richard Epstein, because alteration of legislation and regulation is likely to have more of a payoff for lobbyists than convincing a judge to change common-law type rules, judges are also less likely to be the target of special interests than are legislators.

The Proliferation of Laws

Because of the systematic ignorance that legislators face, legislation often disrupts the delicate economic, legal, and social order of society, leading to unintended consequences. And invariably, because of government propaganda combined with public ignorance and apathy, the inevitable failures of legislation are blamed, not on interventionist government, but on freedom and unregulated human conduct, leading to even more meddlesome legislation.

Such a continual outpouring of artificial laws has many insidious effects. As special interest groups become successful, others become necessary for self-defense, and soon a legal war of all against all begins to emerge. Thus we are led into conflict rather than cooperation. Additionally, when so many laws exist, and with such arcane, vague, complex language as is common today, it becomes impossible for each citizen to avoid being a law-breaker—especially given the perverse rule that "ignorance of the law is no excuse." Almost everyone has violated a tax law, securities regulation, "racketeering" law, gun law, alcohol law, customs regulation, or at least traffic ordinance. But when we are all lawbreakers the law is discredited and, what is worse, the government can selectively and arbitrarily enforce whatever law is convenient against any "trouble-maker."

Furthermore, as another Italian theorist, Giovanni Sartori, has pointed out, when legislation is thought of as the primary source of law, citizens become more accustomed to following orders, and thus become more docile, servile, and less independent. Once people lose their rebellious spirit, it is easier and more likely for the government to become tyrannical.

Because of the danger of legislation, several constitutional safeguards should accompany its exercise. Supermajority and referendum requirements are one way to limit the legislature. Another way would be for all legislation to be constitutionally limited to replacing the opinion of a given court decision with a new decision. Then, if a given case or line of cases were issued that had particularly egregious reasoning or results, the legislature could rewrite the unfortunate opinion in better form, and enact this into law, as if the court had first issued the rewritten decision. The rewritten opinion would then assume the status of a judicial precedent, at least for that court.

This limit on the legislature's ability would prevent it from enacting huge legislative schemes like the Americans with Disabilities Act out of whole cloth. To the extent the legislated "substitute opinion" strayed from the facts of the particular case, it would be merely *dicta*, of no binding force.

Sunset provisions that automatically repeal legislation unless re-enacted after a given number of years are also useful. Another prophylactic measure would be an absolute right to jury trials in *all* cases, civil or criminal, so that government could not escape the jury requirement by calling truly criminal sanctions "civil." This should be combined with a requirement that the jury be made aware of their right to judge the *law's* validity as well as the defendant's liability or guilt.

The Role of Commentators and Codes

Law codes are essential in the development, systematization, and promulgation of law. Modern civil codes of civil-law systems are one example of very impressive and useful codifications that developed under the largely decentralized Roman law system. However, the dangers of legislation also counsel that legal codifications not be *legislated*. There is no reason that law codes cannot be privately written. Indeed, Blackstone's *Commentaries on the Law of England* was private and very successful in codifying the law, and we today have successful, private treatises such as the *Restatements* of the law. Law codes would be far more rational and systematic, and shorter, if they did not have to take an unwieldy and interfering body of legislation into account; if they could focus primarily on common-law developments.

Both private and statutory codification of existing case law can make mistakes. But if the code is private, judges can ignore the lapses in the codifier's reasoning. This has the extra benefit of giving an incentive to private codifiers not to engage in dishonest reasoning or meddlesome social planning. If a codifier wants his work to be used and acknowledged, he will attempt to accurately describe the existing body of law when he organizes and presents it, and will likely be explicit when recommending that judges adopt certain changes in future decisions.

Both the Roman law and common law have been corrupted into today's inferior legislation-dominated systems. The primacy of legislation should be abandoned, and we should return to a system of judge-found law. Scholars who codify naturally-evolved law have a vital function to serve, but they should not ask for the governmental imprimatur on their scholarly efforts.

Of course, the form of a legal system does not guarantee that just laws will be adopted. We must always be vigilant and urge that individual freedom be respected, whether by legislator or judge. □

THE FREEMAN
IDEAS ON LIBERTY

Mergers and Acquisitions: Why "Greed is Good"

by Peter G. Klein

In 1989 the New York investment banking firm of Kohlberg Kravis Roberts & Co. (KKR) shocked the corporate world by acquiring RJR-Nabisco, the food and cigarette giant ranking nineteenth on the Fortune 500 with $17 billion of annual sales. The final purchase price—an unheard-of $24.7 billion—was (and remains) the largest sum ever paid by one firm to buy out another. What's more, KKR financed the acquisition through debt, by issuing high-risk, high-yield bonds. Highly visible "leveraged buy-outs" (LBOs) such as this one became the defining feature of the takeover wave of the 1980s. Suddenly, everyone was talking about LBOs, divestitures, repurchases, free cash flows, and other formerly exotic activities. Takeover specialists like Michael Milken and Ivan Boesky became regulars on the nightly news. Accompanying the unprecedented volume of takeover activity during this period was a new "official" name: the "Decade of Greed."

Pundits and politicians, and even some professors, charged that these corporate restructurings did little but shuffle assets on paper, lining the pockets of clever financiers at the expense of workers and the average shareholder. The critics invented a new, colorful language to describe the proceedings: takeover specialists were "raiders"; high-yield bonds became "junk bonds"; tender offers resisted by incumbent management were deemed "hostile takeovers." Popular books like Bryan Burrough and John Helyar's *Barbarians at the Gate* (on the RJR-Nabisco deal) and James Stewart's *Den of Thieves* became best sellers.

In Oliver Stone's *Wall Street,* the financier Gordon Gecko (played by Michael Douglas) summarizes the ethical philosophy of the raiders with the famous words: "Greed is good." This, we are told, was the spirit of the times. And the bigger the deal, the harder the criticism. The RJR buy-out is the one "people regard as the most symptomatic of the excesses on Wall Street," according to one more sober account. It was "the culmination of a process that had gone badly out of control."[1]

Not surprisingly, the truth about mergers and acquisitions is very different from what is portrayed in these accounts. Takeovers, LBOs, and other reorganizations are simply changes in the ownership of assets. As such, they serve an important social purpose; indeed, they are essential to the smooth operation of a market economy. When productive assets are privately owned and traded, these assets will tend to move toward their highest valued uses. Changes in the ownership of corporations, then, are just part of the market process of adjusting the structure of production to meet consumer wants. Resources are shifted from owners whose stewardship is poor to those the market believes can do a better job.

Corporate takeovers are an important part of this process. When a firm wants to expand, it can either increase its existing operations or acquire another firm. It will choose the latter if it believes it can buy and redeploy the assets of an existing firm more cheaply than it can purchase new capital equipment.

In this sense, a merger or takeover is a response to a valuation discrepancy: acquisition occurs when the value of an existing firm's assets is greater to an outside party

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than to its current owners. This difference in valuation may be because the buying firm believes its management or a new management team it installs can operate the target firm more effectively than the target firm's incumbent management. Hence we can also think of mergers as a kind of monitoring institution: takeover, or the threat thereof, serves to discipline managers. If they fail to maintain the market value of the firm, new owners will quickly arrive and replace them.

The Disciplinary Role of Takeovers

Since Adolph Berle and Gardiner Means published their 1932 book *The Modern Corporation and Private Property*, critics of the corporation have increasingly maintained that because the large modern firm is run not by its owners (the shareholders) but by salaried managers, these firms will not be run efficiently. Shareholders want the firm to maximize its profits, but the managers dislike hard work and prefer other things, like executive perks, prestige, paid vacations, and similar rewards. Because of this "separation of ownership and control"—what economists now call a *principal-agent problem*—managers will pursue their own goals at the expense of profits. Since the average stockholder owns few shares in any given firm, no owner will have sufficient incentive to engage in (costly) monitoring of these managers or to take action to replace them. The Berle-Means thesis implies that advanced market economies must be inefficient, even by the market's own standard of profit maximization.

Henry Manne, then a young law professor and now Dean of the Law School at George Mason University, addressed the Berle-Means thesis in a seminal 1965 article, "Mergers and the Market for Corporate Control."[2] Manne argued that managerial discretion will be limited as long as there exists an active market for control of corporations. When managers pursue their own goals at the expense of profit maximization, the share price of the firm falls. This invites takeover and subsequent replacement of incumbent management. Hence while managers may indeed hold considerable autonomy over the day-to-day operations of the firm, the stock market places strict limits on their behavior.[3]

Interestingly, the Austrian economist Ludwig von Mises had expressed the same basic insight sixteen years earlier, in his great work *Human Action*.[4] In a passage distinguishing what Mises calls "profit management" from "bureaucratic management," he pointed out that despite the importance of the salaried manager in modern business life, the shareholders make the ultimate decisions about allocating resources to the firm in their decisions to buy and sell stock:

> [The Berle-Means] doctrine disregards entirely the role that the capital and money market, the stock and bond exchange, which a pertinent idiom simply calls the "market," plays in the direction of corporate business. . . . The changes in the prices of common and preferred stock and of corporate bonds are the means applied by the capitalists for the supreme control of the flow of capital. The price structure as determined by the speculations on the capital and money markets and on the big commodity exchanges not only decides how much capital is available for the conduct of each corporation's business; it creates a state of affairs to which the managers must adjust their operations in detail.[5]

Mises does not identify the takeover mechnism per se as a means for capitalists to exercise control—takeovers were less popular before the late 1950s, when the tender offer began to replace the more cumbersome proxy contest as the acquisition method of choice—but his point is clear. The heart of a market system is not the consumer-goods market, the labor market, or even the market for managers. Instead, it is the *capital market*, where entrepreneurial judgments are exercised and decisions carried out.

Are Mergers Efficient?

Mergers and acquisitions, like other business practices that do not conform to textbook models of "perfect competition," have long been viewed with suspicion by antitrust and regulatory authorities. The problem is that the notion of perfect competition is a hugely inappropriate guide to public policy. In the real world of uncertainty, error, and constant change, "efficiency" means nothing other than directing resources toward higher-valued uses. This can only be measured by the successes and failures of firms as determined by the market. What is good for the firm, then, is good for the consumer. Any merger that is not known to be a response to legal restrictions or incentives must be assumed to create value.

At the same time, several studies have found a sharp divergence between market participants' pre-merger expectations about the post-merger performance of merging firms, and the firms' actual performance rates. David Ravenscraft and F. M. Scherer's (1987) large-scale study of manufacturing firms, for example, found that while the share prices of merging firms did on average rise with the announcement of the proposed restructuring, post-merger profit rates were unimpressive. Indeed, they find that nearly one-third of all acquisitions during the 1960s and 1970s were eventually divested.[6] Ravenscraft and Scherer conclude that mergers typically promote managerial "empire building" rather than efficiency, and they support increased restrictions on takeover activity. Michael Jensen, founder of the *Journal of Financial Economics*, suggests changes in the tax code to favor dividends and share repurchases over direct reinvestment, thus limiting managers' ability to channel "free cash flow" into unproductive acquisitions.[7]

Public Policy and the Stock Market

But the fact that some mergers—indeed, many mergers, takeovers, and reorganizations—turn out to be unprofitable does not imply "market failure" or prescribe any policy response. Errors will always be made in a world of uncertainty. Even the financial markets, which aggregate the collective wisdom of the entrepreneurs, capitalists, and speculators who are the very basis of a market economy, will sometimes make the wrong judgment on a particular business transaction. Sometimes the market will reward, in advance, a proposed restructuring that has no efficiency rationale. But this is due not to capital market failure, but to imperfect knowledge. Final judgments about success and failure can be made only after the fact, as the market process plays itself out.[8]

Certainly, there is no reason to believe that courts or regulatory authorities can make better judgments than the financial markets. The decisions of courts and government agencies will in fact tend to be far worse: unlike market participants, judges and bureaucrats pursue a variety of private agendas, unrelated to the desires of market participants. Furthermore, the market is quick to penalize error as it is discovered; no hearings, committees, or fact-finding commissions are required. In short, that business often fails is surprising only to those committed to textbook models of competition in which the very notion of "failure" is defined away. Such models are surely no guide to public policy. □

1. Sarah Bartlett, *The Money Machine* (New York: Wagner Books, 1991), p. 237.
2. Henry G. Manne, "Mergers and the Market for Corporate Control," *Journal of Political Economy* 73 (April 1965), pp. 110–20.
3. There are other mechanisms to limit managers' discretionary activities, such as the market for managers itself. On this see Eugene F. Fama, "Agency Problems and the Theory of the Firm," *Journal of Political Economy* 88 (April 1980), pp. 288–307. This article, along with Manne's and several other important papers on this topic, are collected in Louis Putterman, ed., *The Economic Nature of the Firm: A Reader* (Cambridge: Cambridge University Press, 1986).
4. Ludwig von Mises, *Human Action: A Treatise on Economics* (New Haven, Conn.: Yale University Press, 1949; third revised edition, Chicago: Henry Regnery, 1966).
5. *Ibid.*, pp. 306–07.
6. David Ravenscraft and F. M. Scherer, *Mergers, Sell-Offs, and Economic Efficiency* (Washington, D.C.: Brookings Institution, 1987).
7. Michael C. Jensen, "Agency Costs of Free Cash Flow, Corporate Finance, and Takeovers," *American Economic Review* 76 (May 1986), pp. 323–29.
8. Paradoxically, some critics also charge that unregulated financial markets engage in too *few* takeovers, due to a "free-rider" problem associated with tender offers. Even when an acquiring firm makes an attractive offer to the target firm's shareholders, asking them to "tender" their shares for a substantial premium over the current share price, some shareholders will refuse to sell their shares, anticipating further share price increases accompanying a bidding war. These critics conclude that regulation, not the takeover market, should be used to discipline incumbent managers.

THE FREEMAN
IDEAS ON LIBERTY

The Minimum Wage's Dirty Little Secret

by David N. Laband

The current Administration and their pals in the Congress only too obviously think that boosting the minimum wage by 90 cents per hour over the next two years is good politics (if bad economics). They are demonstrably wrong. This battle plan for "helping" lower-income Americans in the class warfare that dominates a partisan retro-1960s mind-set is in reality a blueprint for failure and worse. The inevitable results of an increase in the minimum wage will be to further disadvantage the least-skilled, lowest-paid workers in America and increase employment and earnings among the most-skilled, well-paid workers.

Let's start with the obvious: an increase in the minimum wage is not going to directly help many of the least-skilled workers. Only 4 percent of hourly workers in America currently earn minimum wage. These individuals bring few, if any, skills to the workplace; they acquire job skills via on-the-job training provided by their employers. In the face of a 21 percent increase in their unit labor cost, some employers of unskilled labor will react by unhiring these individuals. No doubt, the individuals who do not get fired will appreciate the political effort as their nominal wages will increase. However, the unfortunate ones who end up in the ranks of the unemployed may feel differently.

While this disemployment effect among unskilled labor of increases in the minimum wage is widely recognized among economists, what is not so apparent is that the employability of these workers has been diminished, by virtue of reduced opportunities to develop job skills. It is harder to get a *second job* based on skills developed on one's first job, if one doesn't get a first job. This surely will result in an increased *duration* of unemployment among unskilled workers.

The redistributive effects among unskilled workers of an increase in the minimum wage are, in the aggregate, trivial in comparison to the redistributive effects among more-skilled workers and providers of capital. Consider the reaction of an individual who has been working for several months or years and who has developed job skills that an employer finds valuable enough to justify paying him $5.15 per hour. After the proposed increases are fully in place, this individual will be paid the same as someone with no job skills. From his perspective, there appears to have been no differential reward to acquiring his job skills. Upset about this, he petitions his employer (or his union petitions the employer) to raise his wages. In so doing, of course, another round of wage increase requests by workers earning $6.00 per hour will be touched off, and so on. In

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a nutshell, an increase in the minimum wage incites a ratcheting up of wages that affects millions of workers earning more than minimum wage.

There are three principal effects of this general increase in wage compensation:

1. Employers will tend to reduce non-wage compensation in an effort to minimize their overall production costs. That is, employer-provided benefits are a casualty of increases in the minimum wage.

2. As labor costs (generally) rise, producers will hire less labor and more capital. There is no worse time for labor generally (and unskilled labor specifically) to contemplate an increase in the minimum wage than when technological advances are reducing the cost of capital. The high cost of middle-management labor combined with rapid reductions in the cost of computer-processed information was the driving force behind the corporate restructuring of the late 1980s and early 1990s that put hundreds of thousands of white-collar workers in the unemployment lines.

3. Although it may appear that ratcheted-up wages benefit lower-wage employees, the appearance is deceptive. In the long run, less-skilled workers are disproportionately harmed by artificially induced increases in wages. An example illustrates the argument.

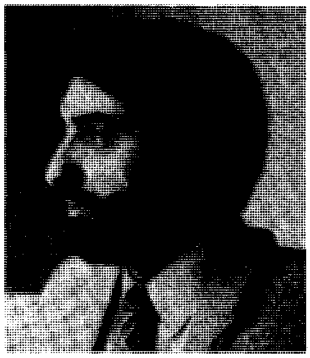
Suppose the minimum wage rises from $4.25 per hour to $5.15 per hour (a slightly more than 21 percent increase). Assume that the increase does not trigger offsetting cuts in employer-provided benefits and that wages "ratchet-up" the labor force in an amount exactly equal to the increase in the minimum wage. That is, workers who used to earn $9.00 per hour before the increased minimum wage earn $9.90 per hour after the minimum wage has officially been raised; those who earned $18.00 per hour before earn $18.90 after, and so on.

From the standpoint of employers, a 90-cent per hour increase in wages represents a proportionately larger increase in labor costs of unskilled or low-skilled workers than of high-skilled workers. The increase from $9.00 per hour to $9.90 represents a 10 percent increase in labor costs; the increase from $18.00 per hour to $18.90 per hour reflects a 5 percent increase in labor costs. If the productivity of labor has not changed at all (and none of the discussion of the benefits of raising the minimum wage even touches on the subject of productivity), employers have every incentive to substitute more productive, higher-wage labor for less productive, lower-wage labor.

Both the substitution of lower-cost capital for higher-cost labor and the substitution of higher-skilled labor for lower-skilled labor seriously mitigate any purported benefits of a hike in the minimum wage. With respect to the substitution of capital for labor, there is both a direct effect on labor markets and a resulting indirect effect. As firms increasingly use machines in their production processes, the production and management of the new technology require an increasingly skilled labor force. This drives employers on the margin to favor highly educated and skilled workers over less well-educated, less-skilled workers, since the former are *more productive* than the latter.

Separately, the differential (proportionate) cost impact of a hike in the minimum wage causes employers to favor highly-educated and skilled workers over less well-educated, less-skilled workers; the former are *less costly* than the latter. Both tendencies add fuel to the job-market emphasis on highly-educated, highly-skilled labor, to the *detriment* of the uneducated, unskilled component of the labor market (i.e., the very component liberal politicians and theorists profess so much compassion for, so much so that they claim this compassion *defines* the difference between them and their conservative counterparts).

Put bluntly, the politically sponsored increases in the minimum wage are partly responsible for the much-ballyhooed increasing income inequality in America, which politicians then claim demands corrective action. This is a case of medicine causing a disease that politicians then seek to cure with more of the same medicine. A better course of treatment would be to fire the doctors. □



Persuasion or Popularity?

Someone once said that his purpose was to "comfort the afflicted, and afflict the comfortable." That might not precisely describe my own motives as a columnist, but in one respect I sympathize.

Like most writers, I sometimes get letters from readers offended by my views. This is especially true of columns in which I challenge the views of anyone supposedly sharing "our side" of the ideological spectrum. The gist of these correspondents' objections is that, in criticizing alleged allies, I am spreading "disunity" in "the movement."

Such critics misconceive the purpose of a column in a magazine of ideas.

If a writer's primary aim is to entertain and be liked, he will aim to *comfort* his readers—embodying, expressing, and ratifying only what they already believe. He will give voice solely to popular values, standards, and ideas, even if these are in error. In doing so, he will change no minds. But for his efforts, he may achieve much popularity.

However, if a writer's primary aim is persuasion, he must *challenge* his readers—saying new and different things, not just the old and familiar. Persuasion is predicated upon *disagreement*: to persuade means to lead someone away from old and familiar ways of thinking, and to a new and different perspective. In trying to persuade, a writer may achieve little popularity; after all, no reader likes to be told, "you're wrong." But for his (often thankless) efforts, he may change minds. Perhaps even the world.

The main goal of a magazine of ideas is persuasion—to change minds. It is not the job of any of its writers to comfort readers, but rather to challenge views which he believes to be mistaken, and make his disagreements clear. No, in doing so, he should not be intemperate and nasty; boorishness and bad manners are not badges of independence. But if a writer of ideas leaves all of his readers smiling and nodding all of the time, he has failed. He succeeds only to the extent that he elicits frowns of thoughtful consideration.

Anyone dissatisfied with the *status quo* therefore faces an inescapable choice. To avoid disagreements, he can keep silent, resigning himself to popular fallacies and follies—or he can seek to challenge and change them by voicing his dissent. But if he dares to challenge popular notions, he will necessarily "afflict the comfortable," and must accept the likelihood of being *un*popular—at least for a time.

This is the psychological difference between the individualist and the conformist.

Conformity is the process of avoiding the possibility of offending anyone, by resembling everyone. Conformists do not change others: *they* are the ones who do the changing. Rather than educate, they simulate. The result? The morally repugnant *status quo*

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remains in place, unchallenged and unchanged.

Years ago, in the January 1984 *Notes from FEE*, I wrote: "Suppose valid ideas are altered to *seem* acceptable by irrational standards. Then the audience, unchallenged, would actually continue to believe in its mistaken perspective. And if valid ideas are altered to *be* compatible with irrational standards, then it is the audience—not the speaker—that has found a new convert."

Regrettably, to gain public support over the years, many on "our side" have been willing to conform—to water down their arguments, compromise their principles, and betray their ideals.

In his recent book, *Dead Right*, David Frum provides ample evidence that sadly, many on "our side" have adopted this latter course of appeasement and betrayal. Many traditional critics of big government have come to realize that opposing popular welfare-state programs is . . . well, *unpopular.* They now grasp that most government "entitlements"—Social Security, Medicare, public education, college loans, farm subsidies, etc.—go to the *middle class.* So to curry favor and win votes, they have begun to recast their political philosophy to be more appealing to "middle Americans."

". . . [T]he conservative movement was born in revolt against the size, cost, and arrogance of the modern state," Frum writes. "[B]ut . . . as part of the price for its emergence as America's dominant ideology, conservatism has quietly walked away from that founding principle. Instead, all too many conservatives have developed a startling tolerance for the use of government power to reform society along traditionalist lines."

In their pursuit of political influence and office, they now reject the very basis of liberty—individualism—and have abandoned any effort to dismantle the welfare state and to limit government. Forsaking the struggle for *fundamental* change, they instead resign themselves to conformity to the political *status quo*, on grounds that "if ya can't lick 'em, join 'em." As one of their number put it, the "Right" should no longer "dwell on limiting the size of government but rather on the issue of who and what controls government."

But if individual rights is the standard, are such people truly on "our side"? Should the ideas they put forth be immune from our public scrutiny? Should the statist goals they seek be exempt from our public criticism?

The truly great thinkers on "our side" have long understood that a poorly framed and argued case for individual liberty is worse than no case at all. An argument for human freedom that is ungrounded, incoherent, compromised, or riddled with logical inconsistencies, is fruitless. Either it will be rejected by intelligent people, or if implemented, will fail in practice.

Certainly, it's a lot more fun evoking smiles rather than provoking frowns—whether from avowed adversaries or alleged allies. But writing for a magazine devoted to discovering the truth about socio-political ideas, my responsibility is to challenge ideas I believe to be in error, to raise objections whenever I believe that good ideas are being undermined or ill served—and to let the chips fall where they may.

We stand at a crucial crossroads in our nation's history. We have a rare, and probably fleeting, opportunity to enact a *fundamental* political change of direction: a change away from governmental encroachments on human freedom, and toward guaranteeing to each person his own inviolate sphere of sovereignty. We have a unique chance to begin to erect a fire wall between collective might and individual rights.

But we won't do it if we compromise our identity as *individualists*. If, by our silence, we allow politicians allegedly representing "our side," to sell out our freedoms and our future. If we try to maintain a fraudulent and futile "united front" with open and avowed collectivists.

And if, "to tease a smile from some cold face"—as Cyrano put it—we become meek followers instead of bold leaders of public opinion. □

THE FREEMAN
IDEAS ON LIBERTY

It's Time to Privatize Unemployment Insurance

by David Honigman and George Leef

Our present unemployment insurance system was established during the New Deal and was certainly a child of its times. The extremely high levels of unemployment during the Depression provided the justification for a governmental takeover of what had previously been a matter of private initiative, namely income maintenance during unemployment. As with many other issues, the assumption at the time was that only the coercive power of the government could solve the problem. Rather than allowing individuals to make the best arrangements for maintaining a stream of income during unemployment, either through their own actions or through voluntary, cooperative efforts, the federal government mandated that the states set up centrally administered programs to provide relief to those out of work.

This approach was very much in keeping with the collectivist philosophy of the era. Unfortunately, it has saddled us with a system that prevents workers from customizing income-security plans for their needs. It is a system rife with inequitable cross-subsidies between workers, and it is inimical to the nation's economic health. Of all the federal mandates that Congress could repeal, this one should be near the top of the list.

How the System Works

The Social Security Act compels the states to establish unemployment insurance systems. They are given considerable latitude in setting tax rates, benefit levels, eligibility criteria, and so on, but all must follow the same basic design. Employers pay a payroll tax, a certain percentage of each employee's taxable wage base. In Michigan, for example, employers can pay anywhere from 10 percent to .5 percent of a taxable wage base of $9,500. Tax rates vary widely because they are based to a considerable degree on each firm's "experience rating," which means the extent to which it has laid workers off and caused benefits to be paid. Even in highly experience-rated systems, however, benefits paid seldom match exactly with employer taxes.

Workers who become unemployed may qualify to receive benefits. To qualify, a worker must have earned at least a certain threshold amount, a means of limiting the system to those workers who have a fairly regular attachment to the labor force. An eligible claimant receives, usually after an administrative delay of several weeks, a check that usually replaces about half of his pre-tax earnings while employed, up to a given maximum. The unemployed worker

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must certify each week to the administering agency that he is able to and actively seeking work. Ordinarily, the maximum period of time for which benefits are paid is 26 weeks.

Many unemployed people do not, however, qualify for benefits. Those who quit their jobs, were fired for good cause, or did not have enough earnings, to give some common reasons, cannot collect.

The Inequities of the System

Whenever the government levies a tax on business, it creates a problem of tax incidence. That is, who actually bears the burden of the tax? Business taxes are borne by people in their capacities as workers, consumers, and stockholders. Who actually pays the payroll taxes that fund the unemployment insurance system? Mainly, the workers do. Unemployment insurance taxes represent part of the employee's total compensation package. What employers are willing to offer in wages and other benefits is reduced by the cost of benefits that the government has mandated. If the addition of a worker to the payroll will cost the company $500 in unemployment insurance taxes, that worker will be paid approximately $500 less in cash or other benefits.

Just as the employer's "contribution" to FICA really comes at the expense of the employee, so is it with unemployment insurance taxes. Although commonly thought of as a free benefit to workers, the system is in reality a means of allocating their income in a way dictated by the state. Because the system is involuntary, however, workers are deprived of the chance to evaluate the benefits of participation in relation to its costs.

For some workers, the unemployment insurance system is a bad deal. There are many who experience little or no unemployment during their careers, yet they pay—in the form of forgone wages or benefits—throughout their working lives for something they may not want or need. For other workers, the system is a good deal. Workers who experience frequent periods of unemployment may receive benefits significantly in excess of their costs. As we mentioned above, experience rating is imperfect, and this means that workers who don't make much or any use of the system are forced to subsidize those who use it frequently.

This is not necessarily a case of the wealthy subsidizing the poor. Some of those who frequently draw unemployment benefits are high-wage, relatively wealthy workers; some of those who are in stable employment and never collect are low-wage workers. The reverse is also true. The system capriciously redistributes income from stable-employment workers to unstable-employment workers. There is no justification for this coerced redistribution.

The Economic Damage Done by the Unemployment Insurance System

By providing American workers with a safety net in the event of unemployment, albeit one with several holes, the unemployment insurance system discourages that time-honored means of dealing with the possibility of loss of income—saving. People save less than they otherwise would since they believe that the unemployment system will be there to support them in time of need. If people made provisions for the possibility of unemployment by saving, there would be a greater supply of loanable funds, thus tending to lower interest rates and stimulate capital investments. Conversely, the funds accumulated in the system are "invested" by the Treasury in U.S. government debt obligations, which does little—to put it mildly—to help the economy grow.

Not only does the present system discourage saving, it also leads to inefficient use of resources. It does so in several ways. First, it allows employers in businesses characterized by frequent periods of unemployment to externalize some of their labor costs. Seasonal firms, for example, would have to

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A $5 Trillion National Debt

By the time you read these lines the debt of the federal government will have passed the $5 trillion mark. Does it surpass your imagination and ability just to write the number? How many digits does it take? Are you aroused and alarmed about the ever–rising debt? Many Americans are fearful that it will lead to bankruptcy in one form or another.

They are right if we define bankruptcy in the broadest sense: the inability or unwillingness to pay legitimate debt, causing a loss of faith and reputation. In this sense, the federal government went bankrupt on the first day it resorted to inflation. After all, inflation is an insidious policy which allows government to make payment in depreciated dollars. The U.S. Government has willfully inflated the dollar ever since the 1930s, has defaulted internationally on its gold–payment obligations, and continues to plunge into domestic and foreign debt without any thought of repayment.

If we view bankruptcy as the condition of being judicially declared bankrupt, the federal government cannot go bankrupt. There is no power on earth that can force the U.S. Government to disclose all its properties and distribute them equitably to its creditors. Even if there were such a supreme authority, the American people probably would rise in anger if the authority were to liquidate the vast land holdings and countless office buildings of the U.S. Government and hand over the proceeds to foreign and domestic creditors.

There is no thought of voluntarily submitting to bankruptcy proceedings, liquidation, and distribution. Surely, no one expects the habitual spenders in government to vote for a liquidation of government property and its distribution to creditors. "The government can always meet the debt obligation," they assure us. "It has the power to tax and the right to print money." Indeed, the power to tax may prevent *government* default by placing the debt on the shoulders of taxpayers. But instead of one government defaulting, thousands of *taxpayers* may be forced to default. The number of American bankruptcies precipitated by tax exactions is legion. And the power to print legal–tender money creates the legal right to seize income and wealth from unsuspecting owners of money and monetary claims by debasing the value of money. It confers the legal right to defraud creditors.

The spenders do not see it this way. "We owe it to ourselves" is their favorite motto. If they refer to American ownership of debt, they are mistaken. The federal debt is not held just by U.S. citizens and institutions. Foreign holders are the single largest group of U.S. creditors. The Bank of Japan is by far the largest owner, financing large blocs of U.S. budget and trade deficits and lending vital support to the U.S. dollar.

Even if it were true that "Americans own it," such an attitude completely distorts the situation. It ignores the difference between a creditor and a debtor, between a lender and a borrower. Facing an insolvent debtor, a banker will not take heart from the debtor's reassurance the "we owe it to ourselves." Similarly, the creditor of a U.S. Treasury obligation cannot take comfort from the assurance of the spenders that "we owe it to ourselves."

Are we placing it on the shoulders of our children? The present generation is postponing paying for goods and services and is shifting the cost to the future. In this sense, the $5 trillion national debt becomes a huge pyramid of wealth consumed in the past and payable in the future. But the federal spenders reject such explanations. They see a flow of future income from present spending. There is no net burden shifted to the future, they contend, as long as future income exceeds the interest costs of the debt.

In reality, there is little, if any, future income from present deficit spending. A present entitlement gives rise to loud demands for future entitlements, a current subsidy for future subsidies; it does not raise productivity and earn interest on the expenditures. Even where government invests its funds, the expenditures usually are diluted by waste, corruption, and malinvestment. A public enterprise normally depends for its survival on tax exemption and taxpayer subsidies.

The economic consequences of debt depend on the age of the debt. There is old debt to which the economy has completely adjusted and new debt to which the economic structure must still adjust. The primary burden of new debt occurs in the present in the form of a reduction in private consumption. The generation that wages a war bears the primary burden. Government expenditures withdraw resources from private production and consumption. World War I withdrew some 25 percent, World War II almost 50 percent. The same is true in the case of peacetime deficit spending. It withdraws economic resources from private production and redirects them toward government consumption. Surely, the redirection differs materially from wartime direction, but the process is the same.

Deficit financing generally involves the consumption of someone's savings. Government enters the credit market and offers IOUs in the form of Treasury bills, notes, and bonds. Massive deficits consume productive capital on a massive scale. As capital lends productivity to labor, the capital consumption instantly reduces labor productivity and output. If the deficit is not promptly corrected by a budget surplus and the capital consumption replaced by capital formation, productivity and output will be reduced forever. It is impossible to fathom the costs of the $5 trillion federal debt in permanent income and wealth.

Government deficits not only consume productive capital but also cause much remaining capital to readjust toward government consumption. As wartime deficits not only consume productive capital but also cause private capital to move into ammunition and armament industries, so does peacetime deficit spending consume productive capital and cause capital to move into the favored industries. Unhampered private production and consumption thus suffer a double punishment and contraction.

Future generations which inherit the debt are wronged in several ways. They come into an economy that is enfeebled and emaciated by capital consumption. The apparatus of production is maladjusted, addicted to political spending, and susceptible to political intrigue and arbitrariness. The whole financial structure is made to rest on the pyramid of federal debt, which makes all finance rather precarious. Worse yet, they must tax themselves to cover the interest on the debt which they did not incur. Failure to bear this burden would have consequences too ominous to contemplate. To expect them to repay our debt is to indulge in airy hopes and golden dreams.

Debts, follies, and crimes are generally mixed together; the federal debt is a $5 trillion mixture.

Hans F. Sennholz

Fall Round–Table Discussions

Our series of very successful Round–Table events returns this fall with a lineup of eminent speakers. Our evenings begin with a reception at 5:00 P.M., followed by dinner at 6:00. We are then entertained by a presentation given by our featured speaker. After that, the floor is opened for an exciting exchange of ideas. Charge is $40 per person per event; certain discounts are available. Attendance is limited; call or write Dr. Barbara Dodsworth at FEE for reservations (phone 914–591–7230; address, 30 South Broadway, Irvington, NY 10533).

October 7 Round Table

Murray Sabrin, host of his own radio show on WVNJ on money matters, will present his view of taxation: "Progressive Tax? Flat Tax? How About No Tax?"

November 4 Round Table

Morris Markovitz, who is the president of the very successful Mercury Management Associates, Inc., will reflect on "The Myth of the Trade Deficit."

December 2 Round Table

Doug Bandow of the Cato Institute in Washington, D.C., will entertain us with his discussion of foreign aid in "Foreign Aid: New Bottles, Old Wines.

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pay their workers more if it weren't for the fact that the unemployment insurance system subsidizes their operations. Because of this subsidy, we get more seasonal employment than is optimal.

Second, since the system relies on a third-party payor for its benefits, it leads to greater costs than if that third party could be avoided. That is especially true where the third party is a government bureaucracy. We have an extensive unemployment insurance administrative and dispute-resolving bureaucracy. If we moved to a system that avoided much of the third-party involvement, we would save resources for more productive things.

The Voluntary Alternative

What if we allowed workers and employers to handle provisions for unemployment as they think best? How would they react?

Workers differ greatly as to their expectations on the probability of unemployment and the harm it would do them. There is an enormous range from those who are sure that they are set for life in their current employment to those who are rarely sure where the next paycheck will come from. Those in the former category might rationally decide that they don't want to give up anything in order to have a measure of income security in the event of unemployment. Those in the latter category would, in contrast, regard income security as a high priority.

Whatever their degree of concern over the possibility of unemployment, there are two ways for workers to shield themselves against it. One is saving; the other is risk-pooling (insurance).

Saving is the time-honored means of providing security against the possibility of unemployment or other adverse occurrence. What if we allowed people to set up Individual Unemployment Accounts (IUAs) analogous to IRAs? The individual would decide how much, if anything, to deposit (or have withheld from his paycheck) into the account each pay period. Taxes would be deferred until such time as funds were withdrawn. During periods of unemployment, the worker would decide how much to withdraw from the account. If there were funds in the account at the time the worker retired, he could treat it as an IRA. Given the popularity of IRAs, especially when they were fully tax-deductible, it seems likely that IUAs would catch on very quickly.

We are not fond of the tendency to encourage people to set up savings accounts for particular purposes (retirement accounts, medical savings accounts, our proposed unemployment accounts, etc.). It would be better to repeal the tax code's bias against saving and just let people save without having to pigeonhole the money. But short of that, IUAs would have several major advantages over the status quo.

First, there would be no involuntary redistribution of income among workers. With each individual saving for himself, the risk of unemployment would no longer be socialized. True, some might be improvident, but that is hardly an adequate reason to force some to subsidize others.

Second, people would have the maximum incentive to find new work after becoming unemployed, since withdrawals from IUAs would be withdrawals of personal wealth. Not all unemployed workers are as diligent as possible when it comes to finding new work now, since the checks come from the government and stops once employment has been re-established. That is, unemployment insurance subsidizes unemployment, and therefore increases its incidence.

Third, the existing bureaucracy would be unnecessary. With IUAs, the decision-making would be individual rather than bureaucratic.

Fourth, as we have already said, an increase in saving would be economically beneficial for the United States.

Risk-pooling is the other means by which people can protect themselves against calamities. People enter into insurance contracts when they choose to pool the risk of losses due to auto accidents, fire, ill-health, and so forth. Could there be a private insurance market for unemployment insurance? In the early years of this century, there were several attempts by major insurance companies to write unemployment insurance, but each time they were thwarted by state insurance regulators who claimed that unemployment was inherently uninsurable. Of course, once the government mandated that everyone have its unemployment coverage, all thoughts of private insurance disappeared.

We see no reason why voluntary risk-pooling for certain types of unemployment could not work. (It is not possible to insure against being fired for cause, since that is within the individual's will.) People already can insure that their mortgage payments will be made if they should lose their jobs. If the government got out of the unemployment insurance business, private alternatives would swiftly emerge, almost certainly giving workers more flexibility than the current system does.

Workers who had not built up sufficient funds in an IUA to feel that they had enough of a cushion would probably want to buy unemployment insurance, either individually or as an employer-provided benefit. How much insurance to have should be left up to the individual. How much to save should be left up to the individual. We have no idea what combination of insurance and/or saving would be best for people and neither does the government. That's why it should be left to personal decision.

If we could privatize unemployment insurance, what would we do with the money currently in the trust funds? Given our analsis that these taxes are borne by workers, the proper answer is that the money should be returned to them. Michigan's trust fund is now approximately $1 billion. Although it would certainly not be easy to divide this amount up among current and retired workers based on how much they "paid" into the system, it would not be impossible.

Conclusion

The collectivist approach to unemployment insurance is an anachronism. Abandoning the old system and replacing it with freedom of choice and individual contract would not only be more efficient economically, but would also be consistent with the fundamental American belief that people should be masters of their own lives, not pawns to be moved about at the will of others.

Our conviction is that we would develop a system for unemployment compensation that is both fairer and more beneficial to the economy if we stopped relying on coercion and went back to relying on voluntary cooperation. □

THE FREEMAN
IDEAS ON LIBERTY

Strike Out? Blame Fast Food

by Francois Melese

Thirty-two thousand members of the United Food and Commercial Workers (UFCW) Union recently walked off their jobs. Mostly made up of employees from the two largest grocery chains in Northern California—Lucky and Safeway—the union had an ambitious goal: to preserve current wages and benefits. While UFCW members walked the picket lines, competing chains (like Nob Hill and Albertsons) were delighted. Union sympathizers and intimidated customers alike flooded their stores. Business was great. Management was mindful, however, that as consolation for a no-strike clause in their clerks' contracts, many non-striking clerks would automatically secure concessions granted unionized employees. While the union won this battle, saving members' wages and benefits, it may have lost the war. This and similar unions across the country are likely to strike out in the future, and fast food is partly to blame.

What few realize is that the threat to wages and benefits comes from a radical restructuring in the market for groceries. Top management was late in spotting and responding to two important trends: increased competition from discount and specialty food stores, and the relentless growth of fast-food outlets. To make up for lost time, management needs concessions from union members to better position their stores. Meanwhile, the UFCW is understandably upset with any news that threatens members' wages and benefits.

It is useful to begin with the awkward position of top management. While some chains suffer from slumping market shares and share prices, they all admit to having some of the finest workers in the industry. So what happened?

The fact is that until recently Lucky and Safeway had a lock on the grocery business in Northern California. In many cases they were the only game in town. Historically, Lucky and Safeway derived their success at the expense of small grocery stores. Taking advantage of economies of scale, large grocery chains offered increased selection and lower prices than small grocers. Squeezing out "mom-and-pop" operations, Lucky and Safeway came to dominate the market.

The fast-food industry started much the same way as did traditional grocery chains. Fast-food chains opened outlets in towns across the country, offering standardized products, consistent service, convenience, and low prices. Customers literally ate it up, and shareholders were thrilled. Local "mom-and-pop" diners were no match. The economies of scale enjoyed by the chain restaurants put many locals out of business.

Today the fast-food business is "mature." It is intensely competitive, so that anyone with labor costs higher than anyone else has to cut other costs, offer a superior product or service, or go out of business. A similar future lies ahead for grocery chains.

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Squeezed by Competition

Traditional grocery chains like Lucky and Safeway are caught in a competitive squeeze. On one side is increased competition from innovative warehouse and discount chains (such as PRICE/COSTCO), and on the other side, competition from specialty and convenience stores (such as Trader Joe's and 7–11).

In exchange for bulk purchases and do-it-yourself service, warehouse stores offer great food at great prices. Meanwhile, in a busy world with little time for shopping, convenience stores charge somewhat higher prices for convenience. But just as important is the onslaught of the fast-food industry.

Increasingly, grocery stores compete with the likes of Burger King, Wendy's, Domino's, Jack-in-the-Box, McDonald's, Subway, and Taco Bell. The competition is on two levels, and it is intense. The first level is a competition for food sales; the second, a competition for workers. The grocery chains are losing the first battle at the same time they are winning the second.

Let's start with the competition for food sales. The more fast food people eat, the fewer groceries they buy. Moreover, the groceries they do buy are increasingly purchased at competing discount warehouses or convenience stores. Worse yet, large fast-food chains typically have their own distribution networks, and consequently do not depend on traditional grocery stores.

The problem of increased competition leaves any business with only three choices: improve the product, lower costs, or go out of business. The UFCW strike was a result of top management opting for lower costs. This brings us from competition for food sales to the competition for workers.

Whereas grocery chains are losing the competition for food sales, they are winning the competition for workers. But is it any wonder? Union pay at Lucky and Safeway stores ranges anywhere from $6.75 per hour for "baggers" to well over three times the minimum wage ($16.75 per hour) for "checkers." Since the companies provide dental coverage, pay 80 percent of medical premiums, and are generous with drug prescriptions (not to mention pension benefits), the effective wage is higher.

So what do baggers and checkers do for this attractive wage-benefits package? Checkers work the register, and baggers bag groceries. In some cases, baggers also take groceries to your car. The job requirements include the ability to: (1) work a cash register, (2) bag groceries. It helps to interact well with customers and to be a team player.

This suggests grocery clerks have more in common with fast-food workers than they do legal secretaries, medical technicians, or other skilled workers who in many cases earn less than the average wage of a unionized grocery clerk.

In fact, at fast-food restaurants like McDonald's and Burger King, "courtesy clerks" work the register and cook, and in other fast food establishments like Domino's Pizza, they also deliver food. The job requirements include the ability to: (1) work a cash register, (2) keep track of orders, and (3) cook. It helps to interact well with customers and to be a team player.

On the surface, grocery clerks and fast-food clerks have a lot in common. In fact, one might expect fast-food wages to be higher to compensate for less favorable working conditions. So how are fast-food workers compensated? They make anywhere from the minimum wage ($4.25 per hour) to $8 per hour, with no benefits. So where does that leave union workers? Today's success may result in tomorrow's job losses. Failing to cut labor costs, management is forced to turn to labor-saving devices, downsizing the workforce through attrition. This shrinks union membership and, along with it, their bargaining power. Time is not on their side.

Are there any winners? Of course. The big winners are consumers. Due to increased competition, grocery prices have remained remarkably constant in real terms. Meanwhile, fast-food prices have fallen (in real terms) to the point it is not significantly more expensive to eat out than to shop and prepare food. □

THE FREEMAN
IDEAS ON LIBERTY

Is There a Right to Work?

by Gary North

Back in the 1950s and 1960s, one of the most popular phrases among conservative Americans was "the right to work." It was a code phrase for "anti-labor union laws." This was recognized by both friends and foes of trade unionism. Labor union executive Gus Tyler wrote in 1967: "In almost every case, such laws are intended to bridle unbridled unions."[1]

From the point of view of political persuasion through rhetoric, the phrase was a success. By 1956, 18 states had passed right-to-work laws. Only one—Louisiana—had voted to repeal.[2] But over the next decade, the right-to-work movement stalled. In 1968, a total of 19 states had such laws.[3] But in 1968, the labor union movement in the United States peaked. The move from manufacturing to services, and the greater growth of new business formation in right-to-work-law states, have driven down the percentage of workers who belong to unions from 23 percent in 1968[4] to 16 percent in 1993,[5] and a high percentage of these are government white-collar employees.

One problem with a catchy phrase, especially one adopted in the service of a good cause, is that it will be believed as a standalone statement. People will accept it, as we say, on face value. This was a problem with "the right to work" from the beginning. The phrase was powerful because it announced what seemed to be a high moral principle. That was the intention of its promoters, who recognized that it is easier to promote a cause when that cause appears to be positioned on high moral ground.

The problem is, the phrase produced a great deal of confusion in the minds of those who employed it as a political weapon. Coming in the name of what they perceived as a higher morality, they announced a principle that, if taken literally, would undermine the moral foundation of the free market economy which they sought to defend. This is always the risk of political slogans. In their very effectiveness in changing people's minds or reinforcing opinions, they produce unintended consequences that run counter to the goals of their promoters.

Rival Interpretations

For over a century, there have been two rival applications of the phrase. It was coined by the French utopian socialist, Charles Fourier, in 1808. The slogan became popular among trade union organizers in the nineteenth century. For the socialists, the phrase meant the right to a job. Horace Greeley, the American newspaper owner and disciple of Fourier, in 1846 called for the "right to Labor—that is, to constant Employment with a just and full Recompense. . . ."[6] Eugene V. Debs, the early twentieth-century American labor-union organizer, insisted: "Every man has an inalienable right to work."[7] This interpretation was common down to the early 1950s.

A rival view began as early as 1870. Critics of the unions called attention to the

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fact that by excluding some men from membership, unions removed the right to work from those excluded.[8] This interpretation has become the dominant one in the United States since the early 1950s.

So, there has been confusion over the meaning of "work" or "labor." This confusion still exists. But there has been another confusion: the meaning of the word "right." This is the more fundamental confusion—and the more dangerous.

What Is a Right?

"I have my rights!" This announcement is a statement of principle. But what does it mean?

A right is a claim of judicial immunity. A person is granted—by someone—immunity from prosecution by the civil government whenever he commits certain specified acts. These acts are conventionally termed *rights*, but in fact it is the grant of immunity from prosecution which constitutes the right. Such a grant of immunity is a grant of privilege.

If this grant of privilege originates with civil government, then civil government may subsequently decide to revoke it. This threat was what motivated Thomas Jefferson to write his immortal words in the Declaration of Independence: "We hold these truths to be self-evident, that all men are created equal, that they are endowed by their Creator with certain unalienable Rights, that among these are Life, Liberty and the pursuit of Happiness."

God, as the Creator, was identified the source of these rights, which the typesetter printed as "unalienable." Jefferson's original manuscript said "inalienable." Either way, the meaning is clear: no one may lawfully surrender these rights. This is what "inalienable" means: not subject to transfer. This was an important assertion, given the influence in the eighteenth century of theories of social contract, which grounded all civil government in an ancient transfer of sovereignty from individuals to the civil government. Jefferson was arguing that whatever it was that men gave up in that original (hypothetical) transfer of sovereignty, certain rights were not transferred, for they are inalienable. The State is therefore not the source of these immunities. The Creator granted these immunities to all men, who cannot legally surrender them. The American Civil War to a great extent was the product of a moral and political debate over whether Jefferson's theory of inalienable rights had any legal authority in American Constitutional law, and whether it should be applied to the institution of chattel slavery.

The State, not being the source of these rights, cannot lawfully infringe on them. But the British Parliament had so infringed, which is why Jefferson announced the right of the colonies to remove themselves from the jurisdiction of the British Crown. The State cannot revoke by law those rights—inalienable legal immunities—which the State has not initiated. A grant of privilege from God is therefore a grant of privilege against its infringement by the State.

What this argument pointed to was a hierarchy. A sovereign Creator God has established certain immunities from State action around men's persons and lives. His sovereignty cannot lawfully be infringed on by other men or their political agents. Jefferson was arguing for the right of armed resistance by the colonial governments. Local units of civil government possessed the authority under God, and therefore the responsibility, to defend these immunities from encroachment by the more distant Parliament. These local governments had operated under the authority of the British government—specifically, the King. But because these local units of government were coming to the defense of men's inalienable rights, Jefferson was arguing, they now occupied the moral high ground. They, not the British Parliament, were now judicially sovereign in the colonies. They were defending God's grant of privilege, which took precedence over the British Parliament's false claim of absolute sovereignty.

A similar perspective undergirded the first ten amendments to the U.S. Constitution, called the Bill of Rights. These amendments limited the actions of the federal government. That is, they placed jüdicial immunities from Federal interference around individuals and local state governments. But there was an important difference between the Bill of Rights and the Declaration of Independence. The Bill of Rights operated under the sovereignty of the People, who the Preamble to the Constitution identified as the source of sovereignty. The problem, judicially speaking, was that sovereignty had been transferred from the Declaration's God the Creator to the Constitution's collective We the People. The People can always change their minds through their representatives—as it has turned out, five sovereign judges on the U.S. Supreme Court.

The debate over men's rights has been a debate over five related issues: (1) the sovereign source of specified rights; (2) the lawful representative agent in the defense of these rights; (3) the specification of any boundaries or limits on these rights; (4) the legitimate sanctions that can be imposed to defend these rights; (5) the appropriate application of these rights to specific cases in a changing world.

So, when a person announces, "I have my rights," he is announcing his judicial immunity from civil action. The trouble is, he may believe he is announcing more than this.

Property Rights

When a man announces his right to work, what is he really asserting? Is he announcing that he has a legal immunity from the State to take raw materials belonging to him and shape them? If so, then he is announcing a crucial right, which we call a property right. The person who owns property has rights to use it in specific ways. This was the claim by the vineyard's owner in Jesus' parable of the wages: "Is it not lawful for me to do what I will with mine own?" (Matthew 20:15a).

A person who claims such a right is also implicitly announcing his right to property in his own person. He is saying that he can do what he wants with that which belongs to him. What belongs to him is his own labor. He is allowed to take his labor, his time, and his material goods and shape them as he pleases.

The example of the gardener is appropriate. He owns the land and the seeds. He plants the seeds, digs up the weeds, and does whatever else is biologically necessary to produce a crop. The crop may or may not grow. If it does, he can lawfully eat the crop, give the crop away, or let it sit in the earth and rot. His right to the crop means that the civil government has no legal claim to the fruits of his labor. Neither does his neighbor.

But can he sell the crop? Here is where the question of rights gets so confusing. When we ask, "Can he sell the crop?" we are asking two separate questions: (1) Can he lawfully offer the crop for sale? (2) Can he lawfully demand that someone else buy it? When people insist on their "right to sell," they must be very clear in their own minds which interpretation they are putting on this phrase.

My Right to Say *No*

A man comes to me with an offer. Will I buy the output of his garden? I probably will ask a series of questions, such as whether he has harvested it yet, when did he harvest it, where has he kept the crop since he harvested it, will he deliver it to my door, and that most crucial of economic questions: at what price?

Inherent in the other man's claim of a right to sell is my equally valid right to refuse to buy. There should be no compulsion on either side of the transaction.

What is spoken of as a right to sell or a right to buy must be carefully qualified. The right to buy, like the right to sell, is better understood as the *right to make an offer*. It is not that I have a right to buy or sell. What I have is a right to *offer* to buy or sell.

This may sound like quibbling over details. It is not quibbling; it is the heart of the matter. What the owner of an asset has a right to do is to make a bid to exchange it for some other asset. No one has any legal obligation to listen to his bid. No one has to accept it or reject it. No one has to allow the person into his home or office to make the bid. The sign on the outside of many businesses, "No Solicitors," is a valid sign—as valid as the sign, "Help Wanted."

Ironically, we sometimes see both signs at the same business establishment. Yet a person offering to sell his labor services surely is soliciting. He is asking for money in exchange for his labor. But business owners initiate the "Help Wanted" solicitation, so those who respond are not seen as solicitors. A solicitor is seen as someone from outside the business who initiates an offer to sell a service or product for money.

What of the sign that says, "We reserve the right to refuse service to anyone"? That used to be a legally posted sign in American businesses. A series of civil rights acts have made such signs illegal. By opening for business, the business owner loses his right to refuse a transaction at the posted price. The State has granted the buyer a right to buy—not the right to make an offer, but the right to complete the transaction. The seller is not allowed to place an exclusion clause on the offer: "Not available to the following types of people. . . ."

Similarly, recent legislation governing the "Help Wanted" sign has created a legal obligation for the employer to consider every applicant. The employer must be able to prove in court that he has not discriminated against some prospective job applicant on the basis of race, religion, sexual life style, or even intelligence. He can be sued under the law—many laws, in fact—for refusing to hire someone. He can be sued for giving a job to someone without advertising the existence of the job in a public place. "No Irish need apply" signs used to be seen in the windows of Boston businesses in 1850—and for all I know, in 1950. No longer is such a sign legal. The right to work has been extended to members of all groups.

This brings us back to the original question: Is there a right to work? That is, has a grant of immunity from prosecution been established by a higher authority? If so, what is this immunity?

The Employment Act of 1946

One of the results of what is known as the Keynesian revolution in economic thought is the widespread acceptance of the idea that a national government has the ability to create legal and economic conditions that will lead to full employment. "Full employment" is not actually defined as full employment, but something—unspecified—approaching full employment. Because the government supposedly can establish policies that will produce high employment, academics and politicians believe that it has a moral obligation to do so. In 1946, Congress passed and President Truman signed the Employment Act of 1946. This law is still in force. It directs the President of the United States to "promote maximum employment, production, and purchasing power."

The defenders of the free market economy argued long before John Maynard Keynes that the civil government does possess the ability to create conditions favorable to the full employment of resources, including human labor. These conditions are explicitly judicial. They include the following: enforcing in the courts the terms of voluntary contracts and exchange, prosecuting fraud and violence, refusing to fix prices or the terms of exchange by law, keeping taxes low, and refusing to debase the monetary unit.

Keynes disagreed with these means but not the goal. He argued in 1936 that these judicial conditions do not always produce full employment. On the contrary, he said, they can and have led to permanent unemployment. He called for increased government spending during times of unemployment, spending above the revenues brought in by taxes, i.e., deficit spending. He called for an expansion of the money supply to clear the market of unsold goods, especially labor. In short, he called for the creation of the modern welfare-warfare State. So have most of the leading intellectuals and politicians since World War II.

The right to work is seen as an innate right for all mankind. This right is today defined as the right to receive a living wage. The Keynesian sees the worker's right to be employed as central to the operation of the economy. When workers offer their labor services, there should be someone ready to hire them, Keynesians insist. If there is not, then there must be some defect in the operation of the economy. They insist that it is the State's moral and legal responsibility to seek out the causes of unemployment. The free market has in some way failed; it must be made to work properly. "Working properly" is defined by the Keynesian as "providing employment for all those who seek employment."

The right to work has been interpreted as a right to something, namely employment. It is seen as the right of the prospective employee to have his offer to work accepted by someone. The right to work is not seen as a prospective employee's legal immunity from State coercion in making an offer to sell his services. It is surely not seen as the right of a prospective employer to refuse to accept this offer.

The Rights of Man: United Nations

The General Assembly of the United Nations Organization, better known as the UN, on December 10, 1948, passed the Universal Declaration of Human Rights. The preamble echoes the words of Jefferson—though not his typesetter—in asserting the existence of "inalienable rights of all members of the human family. . . ." Again, paraphrasing Jefferson, Article 3 announces: "Everyone has the right to life, liberty, and the security of person." The document does not comment on the source of these inalienable rights, nor on the proper agency of enforcement, nor on the appropriate sanctions for the defense of these universal rights.

Article 23 is the important one for the purposes of this study. It has four sections. It invokes the right to work; then it explains what this right means.

> 1. Everyone has the right to work, to free choice of employment, to just and favorable conditions of work, and to protection against unemployment.
> 2. Everyone, without any discrimination, has the right to equal pay for equal work.
> 3. Everyone who works has the right to just and favorable remuneration ensuring for himself and his family an existence worthy of human dignity, and supplemented, if necessary, by other means of social protection.
> 4. Everyone has the right to form and to join trade unions for the protection of his interests.

The right to work also implies the right not to work and still get paid. Article 24 announces: "Everyone has the right to rest and leisure, including reasonable limitation of working hours and periodic holidays with pay."[9]

We see here the traditional socialist application of the phrase. The right to work is understood as the right to a job, and not just a job: a job that provides an undefined but comfortable standard of living.

The Right to Exclude

In a world of scarce economic resources, exclusion is inevitable. In a world of scarcity, at zero price there is greater demand for some resources than supply of them. Someone must be therefore excluded from legal access to these scarce resources. More to the point, someone must be given the legal authority to exclude others from using a scarce resource. Exclusion is an inevitable concept. It is never a question of "exclusion vs. no exclusion." It is always a question of who gets excluded by whom, on what terms, and enforced by whom.

First, if a worker's contract has run out, and he decides to ask for more money or better working conditions from his employer, should he be subject to civil prosecution? Not if he has a right to make an offer to work.

Second, a presently unemployed worker seeks employment. Should he have the right to make an offer to an employer to exclude from employment a present worker who has no contract protecting him? That is, should he be allowed to make an offer to work, and thereby to exclude someone else, without threat of civil sanctions? If there is a right to offer to work, the answer is yes.

Third, does the employer have the right to refuse the offer without threat of civil prosecution? He does if the right to work is defined as the right to make an offer. The employer, in deciding which offer to reject, has the right to counter-offer, including the right to refuse to hire any workers at all.

The right to make an offer is inescapably the right to exclude. So is the right to refuse the offer. The worker—a seller of labor services in exchange for money—comes to an employer and says: "Hire me." This means: "Do not hire some other worker in this position." The would-be worker initiates an offer to the employer: "Exclude my competitor from this job."

The employer—a seller of money in exchange for labor services—may choose to turn down the offer. He may hire another worker. Perhaps the second worker makes the employer an even better offer. The employer excludes the would-be worker who made the initial offer to exclude.

The right to work is the right to make an offer to exclude a competitor without threat of civil prosecution. This right does not protect the person making the offer from exclusion by the employer. It merely protects him from civil prosecution for making an offer to exclude.

The modern State has repeatedly adopted the socialists' definition of the right to work. This was especially true prior to the 1950s in the United States, and is still the case in much of Western Europe. When applied to labor unions, this law recognizes the right of a group of workers to organize together and exclude other workers from making an offer to exclude. But this right is not merely immunity from State action; it is also a grant of privilege against economic retaliation by the employer. It is more than a right; it is a grant of economic privilege enforceable in a civil court. Members of the union are allowed to make the following offer to an employer: "Hire us at wages we will accept. If you refuse, we will not work for you, and we will call in the civil authorities to impose sanctions against you if you hire replacements."

This version of the right to work has become a right to a specific job. The workers who previously organized under the laws governing labor unions are said to have a right to exclude other offer-makers from the jobs they have abandoned. The employer has only two options: shut down operations until the union capitulates and its members return to work, or offer terms of employment that the union's representatives will accept. The right to exclude has shifted from the right of a worker to make an offer to exclude another worker, and the right of an employer to accept either or neither of the two offers, to the right of a group of workers to exclude their competitors from the work place. If an employer challenges this right by hiring non-union members to fill those jobs, the civil government imposes negative sanctions on him. The State has revoked his grant of immunity from State action—his right—to make his offers.

The original definition of the right to work—the right to make an offer to work in exchange for income—has become its opposite: the prohibition of employers from accepting certain offers to work. The right of the employer to exclude one worker and hire another had been the legal basis of the right of any prospective worker to make an offer: "Hire me; fire him." These rights of exclusion are correlative. If the employer has no right to exclude existing workers, the presently unemployed worker has only a limited right to work. In the name of the right to work, as defined by the United Nations, this system of correlative rights has been abolished, and a system very nearly its opposite has been substituted in its place.

Competition as Exclusion

What is not readily understood by most people is the nature of competition in an economy marked by a division of labor. Competition is always an offer to exclude. Every offer to sell is necessarily an offer to the buyer not to buy something else. Inclusion mandates exclusion in a world of scarce resources.

An offer to sell can be an offer to sell goods and services. Because of linguistic convention, we do not usually recognize that an offer to sell money is equally an offer to sell. We say that a worker *earns* his wage. This confuses the analysis. The worker *buys* his wage. He buys money by selling his services. Similarly, the employer is said to *hire* workers. This also confuses the analysis. The employer *buys* the services of workers, moment by moment.

We speak of competition between buyers and sellers. This is incorrect. Competition is between those who are selling the same or similar goods or services. Sellers compete against sellers; buyers compete against buyers.

In trying to sell this article to the editor of *The Freeman,* I am not in competition with the editor of *The Freeman.* I am in competition with all the other authors who are trying to sell their articles to the editor of *The Freeman.* The editor of *The Freeman* is not in competition with authors. He is in competition with all the other buyers of articles that could be written by those authors who might be willing to sell articles to *The Freeman.*

It is in the interests of the editor of *The Freeman* to attract as many authors of *Freeman*-type articles as he can, limited only by his ability to read all the submissions and pay for the ones he accepts. Meanwhile, it is in the interest of the authors to see as many publishers of *Freeman*-type articles as the market will bear, and maybe even more. After all, we authors may be able to sell our articles to magazines that will not survive the competition. The important thing for authors is that the checks cash before market competition does its work.

The authors have a right to work. There is no government agency that should or will impose sanctions against authors, unless they are authors of articles on how to overthrow the government by violence or how to commit crimes. What the authors do not have is a right to have their articles purchased by some publisher. No government agency threatens any publisher with sanctions if the publisher sends back a submitted manuscript, or even throws it away. The right of the publisher to reject a manuscript is correlative to the right of an author to submit it. Any tampering with these correlative rights is a threat to the freedom of authors and publishers.

But there is another threatened participant in this arrangement: the consumer.

Consumer Authority

So far, I have limited this discussion to the rights of workers and employers to exclude. This omission, if not corrected, would threaten our economic understanding.

An author must please an editor, but pleasing an editor is only a means to an end. The editor, unless he has money to pay authors or readers of his publication (preferably both), is irrelevant to the author. The editor is merely an intermediary between the author and readers. The author is interested in gaining readers. He is like an entertainer. As singer-guitarist Bob Bennett once remarked: "I appreciate an audience. Without an audience, this would be a rehearsal." Without readers, a published article is little more than an unread term paper. Nobody enjoys writing unread term papers.

(Note: this analysis does not apply to articles published in academic journals, which are rarely read by anyone except their editors. In this case, mere publication can result in continued employment or career advancement. This system of sanctions is called "publish or perish," and it rests on a vast system of taxpayer coercion, government licensing of the professions, and industry-wide certification by people whose one major skill is writing what amounts to advanced term papers.)

The consumer is the final agent of free market exclusion. He decides whether or not he wants to buy a product or support a cause with his funds. He imposes sanctions: positive and negative. His money serves both as a carrot and a stick. It is more like a carrot on a stick. The lure of carrot motivates sellers, and the threat of "no sale'' serves as a stick applied to the sellers' backsides.

The consumer has the right to refuse to buy. This is the heart of the free market principle of freedom of choice. He has the right to exclude, and he does so daily. Modern advertising techniques are employed by armies of would-be sellers, yet consumers learn to ignore a myriad of daily offers to sell. The consumer may not be a skilled buyer, but he is a highly skilled non-buyer. He may buy something he really does not need, but he excludes from consideration millions of items he does not need.

In a world of scarce economic resources, no individual can afford to buy very much of the world's productivity. If a violation of market liberty compelled him to buy even a tiny fraction of all the things offered to him, he would be bankrupt before the day was over. He would lose his ability to include and exclude. *It is his liberty to refuse to buy that is central to his life as a free man.*

The employer is an economic agent of future consumers. He hires and fires in terms of what he expects consumers to buy on the terms offered. The worker is also the paid economic agent of future consumers. Consumers deal with workers retroactively through employers, but ultimately it is consumers who hire and fire workers. They act through economic representatives, but it is they who act. Paraphrasing Hamlet, the consumer says: "To buy or not to buy; that is the question." His answer determines who wins and who loses in the world of sellers of goods (employers) and sellers of labor services (workers).

Anything that infringes on the worker's ability to make offers to consumers through employers hampers the liberty of consumers. Equally, anything that infringes on the employer's ability to make offers to consumers through workers hampers the liberty of consumers. *The right to exclude is central to the free market social order.* The worker is given the right to make an offer to an employer to exclude other workers. The employer is given the right to accept or reject such offers from workers. But these two correlative rights are subordinate to the right of consumers to accept or reject offers from sellers. Workers and employers are at the mercy of consumers.

Conclusion

The right to work is ultimately the right to make an offer to consumers. The worker who seeks employment does not make this offer directly. He makes it through his employer.

The consumers rule over the labor market through economic agents. The employer acts as the primary economic agent of consumers. His capital is at risk. His employment decisions can be rewarded or thwarted by consumers. It is his freedom to hire and fire that maintains the authority of consumers over the market for labor.

The right to work as defined by the United Nations is an assault on the authority of consumers over the labor market. The phrase "right to work" is inherently misleading. At best, it focuses attention on the right of each man as a would-be worker to seek employment wherever he will. This definition is not illegitimate, but it is dangerously incomplete. At worst, however, it redefines the employer as the economic agent of the worker.

A free society needs much more than a right to work law. It needs a comprehensive right of free contract: the worker's right, the employer's right, and ultimately the consumer's right to accept or reject offers without any threat of coercion by the civil government. □

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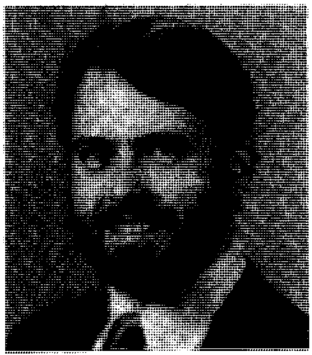

Budget Debate, Washington-Style

Only in Washington could the task of balancing a budget be perceived as so difficult. It's been 26 years since Uncle Sam ran a positive fiscal balance, and even under the most optimistic budget plan before Congress it will be another seven years before Washington does so again. And that presumes proposed budget cuts, backloaded to occur two presidential, and four congressional, elections away, will actually take effect.

Policymakers offer many explanations as to why balancing income and expenses, which most families do every year, is so hard for government. Our society and its problems are complex. It would be a waste to cancel projects already underway. Cutting spending in one area, say, prenatal health care, would raise costs elsewhere, say Medicaid. Reducing outlays would force states to spend more. A growing portion of the budget is made up of "entitlements" and isn't "controllable." And so on. Excuse-making is big business in D.C.

A far more serious problem with Washington's budget deliberation, however, is the absence of any moral component. Almost all legislators, irrespective of their party, believe that all policy outcomes are philosophically equal. To them, there is no moral difference in voting to spend, say, $10 million to subsidize American beekeepers, underwrite foreign dictators, train local activists to campaign for higher alcohol excise taxes, provide day care for middle-class parents, and to leave the $10 million with the people who earned it. One or another spending proposal may seem a better use of scarce resources or offer greater political advantage; none is viewed as being wrong in principle, an inappropriate use of political power.

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This failure to see any moral issue with the taking of taxpayers' money—something that would be recognized as theft but for the veneer of law—has proved to be the most important fuel for the growth of government over the past century and is proving to be the greatest barrier to restraining government today. The point is, people's wants are infinite. Their desire for subsidies is almost as great. So long as legislators consider tax cuts to be merely one of several alternative uses of government money, rather than recognize government spending as the coercive divestment of earnings to which taxpayers are morally entitled, Congress is unlikely to seriously restrain spending or balance the budget.

Indeed, legislators need a set of clear standards to measure any appropriation or regulation. Such guidelines would help them fulfill their obligation to uphold the Constitution and ward off lobbyists and interest groups seeking special favors. The many possibilities include:

1. The measure must serve the general welfare rather than one or another narrow interest. The original Constitutional notion of the general welfare had real meaning. The concept goes to the proper purpose of government, which is to act when, but only when, coercive, collective action is necessary. Thus, the first question to ask about any expenditure or law is, who benefits? If the answer is a handful of mohair wool producers, a score of major exporting firms, or a few thousand small businesses, then agricultural subsidies, the Export-Import Bank, and the Small Business Administration fail to make even the first cut.

Of course, everyone contends that his or her program ultimately benefits everyone. And that's obviously true in a sense—for instance, in return for a generous government grant I would happily promise to spend every cent, thereby enriching book publishers, antique dealers, and a host of other merchants. But this beneficial effect would have to be measured against the taxes taken from these very same people, as well as everyone else. There may occasionally be some close cases, but not often.

2. The purpose must justify forcing taxpayers to contribute. The mere fact that a measure would serve a fairly broad interest doesn't mean that it warrants mulcting taxpayers. A program to provide everyone with gold-plated bathroom fixtures would, after a fashion, promote the general welfare. But there is not the slightest necessity for the program, as there is for, say, a defense against foreign foes. As a matter of principle government should not threaten to jail people in order to force them to pay for their neighbors' fancy bathrooms.

This standard would weed out virtually any grant or transfer program that survived the first test. Just peruse the *Government Assistance Almanac* (published by Omnigraphics), an annual listing of available spots at the federal trough. There is, for instance, the Christa McAuliffe Fellowship program, which funds "outstanding teachers to continue their education, to develop innovative programs, to consult with or assist school districts or private school systems, and to engage in other educational activities." Conceivably these fellowships benefit someone beyond the individual recipients. But how can one seriously argue that the gains are important enough to warrant conscripting taxpayers' earnings?

3. The objective must not be achievable through private means. Even if a proposal survives the first two hurdles, that is not enough. Consider social programs such as Meals-on-Wheels and other services for the disabled and elderly. The government's goals are good, but there are manifold private alternatives. Indeed, the federal Meals-on-Wheels was actually patterned after a private initiative; families, churches, associations, and neighborhoods are all better able to meet diverse social needs. Moreover, the sinews of community will be strengthened if private people develop such solutions rather than turn problems over to a distant government bureaucracy.

4. The proposed program must be likely to do more good than harm. The final point is perhaps the most obvious yet most ignored on Capitol Hill: Government should first do no harm. A half century of expansive and expensive government intervention surely has dispelled the notion that government works well. Criticisms of alleged market failure are meaningless if not compared to government failure, given how often thoughtless state interference, through taxes, spending, and regulation, has created and exacerbated social problems.

Consider, for instance, federal antitrust and civil rights laws. Generously assume they meet the first three conditions; they still flunk the fourth. Antitrust law has turned into an utterly perverse, anti-competitive and anti-innovative regulatory miasma that causes far more economic damage than it repairs. Similarly, the civil rights laws have created a racial spoils system that is inflaming racial passions, moving us further away from the ideal of a color-blind society.

Obviously not many programs (or regulations) would pass all four tests. But that's the point. Today Republican and Democratic legislators alike tend to accept the legitimacy of most any government action. Yet a commitment to liberty and understanding of the usual consequences of state action should cause them to make government the last rather than first resort. And they should resort to it only under circumstances that are compelling both morally and practically. Until lawmakers rethink the whole purpose of government, we aren't likely to see a balanced budget in seven, ten, or even more years. □

THE FREEMAN
IDEAS ON LIBERTY

Freedom: An Endangered Species

by Robert Greenslade

The recent complaint filed against Taiwanese immigrant Taung Ming-Lin and his corporation Wang Lin, Inc., for alleged violations of the federal Endangered Species Act is another example of the federal government usurping its powers.

Ming-Lin's company is charged, in a complaint filed by the U.S. Fish and Wildlife Service, with killing several Tipton Kangaroo rats and destroying the habitat of two other endangered species. Mr. Ming-Lin's crime was plowing 723 acres of scrub land owned by his company in Kern County, California, 150 miles north of Los Angeles.

Does the federal government have the constitutional authority to enforce the Act on private land located within a state?

To understand the answer to the question, it is first necessary to understand the limitations of government powers. The federal government derives all legislative power from the Constitution. All powers not specifically enumerated are reserved to the states or the people. This principle was succinctly stated by the framers, in their writings, particularly in *The Federalist*.

In *The Federalist*, number 14, James Madison spoke of the limited power of the federal government: "In the first place it is to be remembered that the general government is not to be charged with the whole power of making and administering laws. Its jurisdiction is limited to certain enumerated objects. . . ."

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Madison also distinguished the limited powers of the federal government with those reserved to the states. It is important to note that the powers of the federal government related primarily to external (foreign) affairs:

> The powers delegated by the proposed Constitution to the federal government are few and defined. Those which are to remain in the State governments are numerous and indefinite. The former will be exercised principally on external objects, as war, peace, negotiation, and foreign commerce; with which last the power of taxation will, for the most part be connected. The powers reserved to the several States will extend to all the objects which, in the ordinary course of affairs, concern the lives, liberties, and properties of the people; and the internal order, improvement, and prosperity of the State. (number 45)

Put quite simply, the federal government was empowered primarily to deal with foreign affairs while the States would concern themselves with domestic affairs.

Thomas Jefferson made this point in 1824:

> With respect to our State and federal governments, I do not think their relations (are) correctly understood by foreigners, (or Americans, for that matter.) They generally suppose the former subordinate to the latter, but this is not the case. They are coordinate departments of one simple and integral whole. To the State governments are reserved all legislation and administration in affairs which concern their own citizens only; and to the federal government is given whatever concerns foreigners or

> citizens of other States, these functions alone being made federal. The one is domestic, the other the foreign branch of the same government; neither having control over the other, but within its own department.

In *The Federalist*, number 83, Alexander Hamilton stated that Congress was not granted general legislative powers:

> The plan of the convention declares that the power of Congress, or in other words of the *national legislature*, shall extend to certain enumerated cases. This specification of particulars evidently excludes all pretension to a general legislative authority, because an affirmative grant of special powers would be absurd, as well as useless, if a general legislative authority was intended.

The question as to whether the federal government should have power over land located within a state was before the Constitutional Convention of 1787. It was proposed to grant Congress exclusive legislative authority over what is now the District of Columbia, and like authority "over all places purchased for the erection of forts, magazines, arsenals, dockyards, and other needful buildings." The first part of the provision was agreed to and a short debate ensued concerning the second:

> MR. GERRY contended that this power might be made use of to enslave any particular state by buying up its territory, and that the strongholds proposed would be a means of awing the state into an undue obedience to the general government.
>
> MR. KING thought himself the provision unnecessary, the power being already involved; but would have to insert, after the word "purchased," the words, "by the consent of the legislature of the state." This would certainly make the power safe.

Agreement with this change was unanimous and would become Clause 17 of Article I, Section 8 of the federal Constitution.

The debates in the Constitutional Convention illuminate the framers' fear of the federal government usurping power. There appears to be no question that the consent requirement of Clause 17 was added to prohibit the federal government from destroying the sovereignty of the states. Clause 17 is one of the checks and balances incorporated in the constitution to keep the federal government within the bounds of its delegated powers.

The Endangered Species Act was passed by Congress in 1973. As in the case of Mr. Ming-Lin, the federal government is enforcing this law throughout the United States without regard for the prohibition of Clause 17. The Senate Report on the Act in 1973 acknowledged the limited jurisdiction of the federal government: "For the first time, the knowing taking of an endangered animal in violation of the law is a criminal offense *where the federal government has retained management power.*" (emphasis added)

In 1988 there was an amendment to the Act to afford greater protection to plants. A Senate report again acknowledges the federal government's limited jurisdiction: "Currently, anyone who captures, kills or harms a listed animal commits a violation of the Act for which substantial criminal and civil penalties may be imposed. However, it is not unlawful to pick, dig up, cut or destroy a listed plant *unless the act is committed on federal land.* Even on Federal land, however, there is no violation unless the plant is removed *from the area of federal jurisdiction.*" (emphasis added)

In 1956 Congress prepared a report entitled *Jurisdiction Over Federal Areas within the States*. The report contained an in-depth legal analysis of federal jurisdiction over land located within a state. The authors of the report reached the following conclusion based on clause 17 and decisions by the U.S. Supreme Court: "It scarcely needs to be said that unless there has been a transfer of jurisdiction (1) pursuant to clause 17 by a Federal acquisition of land with State consent, or (2) by cession from the State to the Federal Government, or unless the Federal Government has reserved jurisdiction upon the admission of the State, the Federal Government possesses no legislative jurisdiction over any area within a State, . . ."

The lawbreaker, in other words, is not Mr. Ming-Lin. It is the federal governent. □

THE FREEMAN
IDEAS ON LIBERTY

What Free Trade Really Means

by Jeffrey Herbener

Governments were threatening trade wars with retaliatory tariffs and quotas, belligerents suffered currency devaluations and balance of payments deficits, and everyone threatened legal action. The United States and Japan in 1995? No, this situation described the relationship between the states in 1780.

Prior to ratification of the Constitution, states had their own development policies. Some, like Virginia, tried to stimulate their existing agricultural cash crops; others, like Connecticut, tried to stimulate industrial development at the expense of agriculture. Each state had its own paper currency which appreciated or depreciated against those of other states, increasing uncertainty and therefore inhibiting interstate trade. Large and unequal government debt existed from state to state. Some, like Rhode Island, inflated it away and suffered a boom-bust cycle; others, like Massachusetts, raised taxes to pay it, squelching economic activity and spawning open rebellion.

Delegates from the states sent to Constitutional Convention in 1787 put high priority on solving these problems of interstate trade. That's why the U.S. Constitution authorizes Congress "to coin money" and forbids the states from printing or coining money; it forbids the states from erecting trade barriers and authorizes Congress "to regulate commerce with foreign nations and among the several states."

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By allowing the market to broaden, the integration of state economies had immense benefits. A uniform money removed the inefficiency of bartering different monies and the uncertainty of currency fluctuations. Elimination of trade barriers allowed the division of labor to develop unimpeded, thereby greatly increasing productivity by an efficient allocation of factors of production.

A dairy farmer in Pennsylvania could obtain a cigar more cheaply from a tobacco farmer in Virginia than by growing his own at the sacrifice of dairy products. Likewise a textile operator in New England could obtain milk more cheaply from the Pennsylvania dairy farmer than on his own efforts at the sacrifice of clothing.

Only on a free market where production is determined by consumer preferences can those preferences be satisfied to the greatest extent. Dairy farmers, tobacco farmers, textile operators, and all individuals not only obtain the highest quality products at the lowest prices but receive the greatest income for the use of their factors in producing goods according to comparative advantage.

The Role of Government

All that government need do to foster wealth creation is protect private property and contract. By enforcing a legal code requiring restitution by criminals to property owners for theft, fraud, and other violations, government is using its power to foster trade.

When using its power to violate property and contract, however, government is managing trade. Domestically, such a policy is called regulation; internationally, it is called mercantilism. Or it was, until recently, when apologists have taken to calling it "free trade." Both NAFTA and the Uruguay round of GATT were widely but mistakenly called free-trade agreements.

Similarly, the ink was barely dry on the Constitution when the Hamiltonians began to embody their view that centralizing, i.e., monopolizing, power over money and both interstate and international trade in the national government should be the fountainhead of a system of domestic regulation and international mercantilism.

Instead of adopting either a gold or a silver standard as a free market would, Congress opted for the Hamilton-Jefferson bimetallic standard, an unworkable hybrid that vacillates between gold and silver. Worse yet, the legality of banking with fractional reserve notes and the imposition of the Hamiltonian central bank were accepted.

Later, as Civil War emergency measures, the national government issued fiat paper money, forced its acceptance with legal tender laws, and established a federal regulatory system for banks in the National Banking System. This halfway-house to total national government control over money and banking was completed with the Federal Reserve System, which has given us the chronic inflation and business cycles of the twentieth century.

A False Dilemma

Whether or not the full exercise of national power over money in the Fed has been better than the devolution of that power in the states is an open question. But the dilemma the Founders saw is false. The way of escaping the detrimental consequences of power centralized in the national government or decentralized in the states is to choose the free market. To argue that such power cannot be denied to government is to surrender to despotism. The concept of limited government necessarily implies that valuable powers can be denied to government.

In monetary affairs this means government protection of, and absence of intervention into, private property and contract in money production. Entrepreneurs left to their own devices, within a system of private property protection, will best satisfy consumers with a pure gold standard—money as gold coin and notes and deposits 100 percent backed by gold. Such a system provides the benefits of uniform money without the drawbacks of arbitrary inflation.

The benefits of eliminating state-erected barriers to trade were increasingly offset by the Hamiltonian policy, enunciated in 1791 in his "Report on Manufactures," of mercantilism and regulations. In it he called for tariffs, quotas, prohibitions, inspections, regulations on foreign imports and prohibitions of agricultural exportation, and subsidies for domestic manufacturing to encourage domestic industrial development.

Acceptance of Hamilton's pro-industrial, anti-agricultural, anti-British foreign policy led to a series of international trade barriers, like the Embargo Act and the Non-Intercourse Act, that culminated in protectionist measures. Beginning with the tariff of 1816 these measures mushroomed into the Tariff of Abominations in 1828 that galvanized the agricultural South against the industrial North. South Carolina led the way in nullifying the Tariff Acts of 1828 and 1832, and threatening secession if the national government trumped its hand.

Having their agricultural economy disabled for the benefit of manufacturing interests was a primary grievance the Southern states used to justify secession from the Union. The national government's war effort was used as reason for a vast expansion in national government power, and victory provided the excuse to consolidate it at the expense of the power of the states. It is doubtful that delegates from Southern states who signed the Constitution in 1787 granting limited powers to the national government could have imagined in their worst nightmares what their creation would eventually do to their states.

Since Reconstruction, this power has been used increasingly to regulate economic activity. The late-nineteenth century saw passage and enforcement of antitrust laws and regulatory agencies such as the Interstate Commerce Commission. The Progressive Era extended the regulatory framework, as did World War I. New Deal legislation, war powers during World War II, civil rights laws, and Great Society programs; all of them furthered the march of the Leviathan state.

Whether or not the full exercise of national power over the economy has been better than the devolution of that power in the states is often hotly debated. But it too poses a false dilemma. America need not accept either centralized regulatory power in a national government nor decentralized regulatory power in the states. The free market, based on protection of private property, will secure the blessings of liberty without government regulation of any kind, from any source.

The lessons from American history for deciding current foreign economic policy are clear. American prosperity depends on enacting a policy of free trade at home and abroad. Just as the states are forbidden to manage interstate commerce, the national government should be forbidden to manage international commerce. Then the advantages of the division of labor could be extended to Pennsylvanians and Virginians not just between themselves, but with Germans and Japanese as well.

Americans could have their standards of living raised by purchasing less expensive, higher quality Japanese cars, expanding the production of export goods where they have comparative advantage and surrendering the production of goods where they do not have comparative advantage.

Far from being detrimental, giving up tasks where one has a comparative disadvantage to move into those where one has comparative advantage raises income. A Pennsylvania farmer who now devotes his land to growing tobacco will increase his income by shifting to dairy farming. Just as he has no worry about being an "unemployed tobacco farmer," auto producers have no unemployment worries provided they are willing, like the rest of us, to accept employment in areas of their comparative advantage.

The transition of employing factors in different production activity is a normal, necessary part of any system that satisfies changing consumer preferences. In fact, the difficulty of transformation of production out of autos and into other activity exists only because past mercantilist policies have artificially built up domestic auto production. Because of this, any move to free trade would entail a large, rapid re-allocation; but if free trade had always prevailed, the reallocation would have been smooth and gradual.

If Americans choose a political solution to the current international economic problems, they will face a disastrous dilemma. Maintaining the status quo forces America into the same role as one of the original 13 states in the late eighteenth century. We will continue to suffer the ills of managed trade: trade wars, balance of payments deficits, currency devaluations, and stagnating standards of living. Accepting the logic of centralizing political power, as with the GATT-created World Trade Organization, will lead to international regulation. Supranational institutions will come to command the economies of different countries in the way that the national government came to command the economies of the various states.

We must heed the lesson that so many Americans have paid so dearly in liberty and prosperity for us to learn. America must reject the false dilemma of managed versus regulated trade and choose free trade. That means that government at all levels must step aside and allow markets to work. □

Freedom for Everyone . . . Except the Immigrant

"We cannot continue to admit millions of legal and illegal immigrants if we wish to maintain our standard of living and our national identity."

—Peter Brimelow, author, *Alien Nation*

How often have we heard the refrain, "Well, I'm all for the free market except . . ."? It's particularly sad to hear it from Peter Brimelow, an otherwise friend of liberty in high places. Peter is a senior editor of *Forbes* magazine, the most influential business magazine in the nation. He has written eloquently about the bloated federal government and the demise of public education. He even wrote an article in *Forbes* praising Mr. Libertarian, the late Murray Rothbard.

But now Peter Brimelow has joined those who are calling for a drastic curtailment if not entire elimination of new immigrants entering the United States. Peter demands sanctions and even criminal penalties against U.S. employers who hire undocumented workers. He also supports the establishment of a national identity card, which he says "is hardly more an encroachment on personal freedom than the income tax."[1] He recommends another crackdown (Operation Wetback) on illegals by the much-hated Immigration and Naturalization Service (INS), including the use of police attack dogs. Finally, he endorses building a huge barrier along the U.S.-Mexico border, something akin to a Berlin Wall. (How about solving the problem right away by putting up signs along the border, "Trespassers Will Be Shot"?) All these plans, of course, would mean thousands of new federal agents and billions in taxpayer dollars, but no matter. America's "lax" immigration policy is a "disaster," Peter says, and something must be done.

Isn't it amazing how a single issue can lead to so much government intervention?

The Benefits of Immigration

Currently, approximately one million legal immigrants are allowed to enter the U.S. each year (recent legal aliens included, ironically, Peter Brimelow and his wife). Estimates of illegal immigrants run as high as two million a year. Half the world's immigrants come to America. Is this an alarming trend?

Far from a disaster, a liberal immigration policy can be quite beneficial. A cardinal principle of economic liberty is the free movement of goods, capital, and people. As Mises states, "In a world of perfect mobility of capital, labor, and products there prevails a tendency toward an equalization of the

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material conditions of all countries."[2] Without this freedom, some areas are overpopulated, others are underpopulated. Wage rates and interest rates differ dramatically.

A recent article in *The New York Times*, appropriately published on Independence Day, reflects the dynamics of immigration in the United States: "Dead-End Jobs? Not for These Three. Immigrants Flourish in the McDonald's System."[3] It testifies to the energy and talent immigrants can bring to America.

In January, 1993, the European Community of 12 nations adopted free immigration. Any citizen of the EC can live and work in any other EC country without a work permit. The effect will be a transfer of labor from low-wage countries (Spain, Portugal, Greece) to high-wage countries (Germany, France, England). Who will benefit in the long run? All members of the EC.

The Cuban Miracle

One of the best cases in favor of immigration is the Cuban miracle in Miami, Florida. Here was potentially one of those disasters that Peter Brimelow talks about. In the early 1960s some 200,000 penurious immigrants thronged this stagnant urban community, more than the total black unemployed youths in all America's urban areas at the time. It was the most rapid and overwhelming migration to one American city. Few spoke English and virtually none had jobs or housing. Yet in less than a decade, these Cuban immigrants revived Miami's stagnant inner city and transformed the entire Miami economy. Even with another 125,000 boat people fleeing to Miami in the early 1980s, Dade County continued to have one of the lowest rates of unemployment in the state of Florida. George Gilder, who has chronicled the Cuban miracle, concludes, "As long as the United States is open to these flows from afar, it is open to its own revival."[4]

There are many examples in other parts of the world where refugees and immigrants have transformed their new homes. Hong Kong, Taiwan, and Singapore come to mind. Foreign tyranny has led to much economic and social progress in exile.

Don't get me wrong. Immigration is not without its side effects, well-documented in Peter Brimelow's book. Burdens on local government's educational, health, and welfare services can be immense. But free people and free markets can adjust surprisingly well if they are allowed to. Certainly, no one should object to any immigrant who is in good health, has a guaranteed job, and refuses to take welfare.

The Best Foreign Policy

Unfortunately, most emigrants leave their homeland not because they want to, but because they have to. If governments were less corrupt and onerous in their economic policies, fewer of their citizens would desire to emigrate. If they adopted free-market reforms (slashing taxes, regulations, inflation, and boondoggles), fewer of their citizens would move to America. Perhaps the greatest foreign assistance America could give to Mexico, China, and other countries whose citizens are moving to America in droves is a copy of Ludwig von Mises' *Human Action* or a subscription to *The Freeman*. Putting up barriers at our borders is a much more expensive and dangerous alternative.

Jefferson said, "All men are created equal." They shouldn't be penalized just because they happened to be born in the wrong place. □

1. Peter Brimelow, *Alien Nation* (Random House, 1994), p. 260.
2. Ludwig von Mises, *Money, Method and the Market Process* (Kluwer, 1990), p. 141.
3. "Dead End Jobs?" by Barnaby J. Feder, *New York Times*, July 4, 1995, p. 27.
4. George Gilder, *The Spirit of Enterprise* (Simon & Schuster, 1984), p. 111. See also Julian L. Simon, *The Economic Consequences of Immigration* (Basil Blackwell, 1989).

THE FREEMAN
IDEAS ON LIBERTY

H.L. Mencken, America's Wittiest Defender of Liberty

by Jim Powell

During the first half of the twentieth century, H. L. Mencken was the most outspoken defender of liberty in America. He spent thousands of dollars challenging restrictions on freedom of the press. He boldly denounced President Woodrow Wilson for whipping up patriotic fervor to enter World War I, which cost his job as a newspaper columnist. Mencken denounced Franklin Delano Roosevelt for amassing dangerous political power and for maneuvering to enter World War II, and he again lost his newspaper job. Moreover, the President ridiculed him by name.

"The government I live under has been my enemy all my active life," Mencken declared. "When it has not been engaged in silencing me it has been engaged in robbing me. So far as I can recall I have never had any contact with it that was not an outrage on my dignity and an attack on my security."

Though intensely controversial, Mencken earned respect as America's foremost newspaperman and literary critic. He produced an estimated ten million words: some 30 books, contributions to 20 more books and thousands of newspaper columns. He wrote some 100,000 letters, or between 60 and 125 per working day. He hunted-and-pecked every word with his two forefingers—for years, he used a little Corona typewriter about the size of a cigar box.

Mencken had interesting things to say about politics, literature, food, health, religion, sports, and much more. No one knew more about our American language. Influential pundits of the past like Walter Lippmann are long forgotten, but people still read Mencken's work. During the past decade, publishers have issued almost a dozen books about him or by him. Biographer William Nolte reports that Mencken ranks among the most frequently quoted American authors.

Certainly Mencken was among the wittiest. For example: "Puritanism—the haunting fear that someone, somewhere may be happy. . . . Democracy is the theory that the common people know what they want, and deserve to get it good and hard. . . . The New Deal began, like the Salvation Army, by promising to save humanity. It ended, again like the Salvation Army, by running flophouses and disturbing the peace."

Mencken stood about five feet, eight inches tall and weighed around 175 pounds. He parted his slick brown hair in the middle. He liked to chew on a cigar. He dressed with a pair of suspenders and a rumpled suit. According to one chronicler, Mencken at his best looked "like a plumber got up for church."

Publisher Alfred Knopf had this to say

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about Mencken, a close friend for more than 40 years: "His public side was visible to everyone: tough, cynical, amusing, and exasperating by turns. The private man was something else again: sentimental, generous, and unwavering—sometimes almost blind—in his devotion to people of whom he felt fond . . . the most charming manners conceivable, manners I was to discover he always displayed in talking with women . . . he spent a fantastic amount of his time getting friends to and from doctors' waiting rooms and hospitals, comforting them and keeping them company there."

Mencken inspired friends of freedom. He helped cheer up stylish individualist author Albert Jay Nock, a frequent contributor to Mencken's magazine the *American Mercury*, during Nock's declining years. Mencken's stalwart individualism awed young Ayn Rand who, in 1934, called him "one whom I admire as the greatest representative of a philosophy to which I want to dedicate my whole life."

H. L. Mencken

Henry Louis Mencken was born September 12, 1880, in Baltimore. His father, August Mencken, owned a cigar factory. His mother Anna Abhau Mencken, like her husband, was a child of German immigrants. In 1883, the family moved to a three-story, red brick row house at 1524 Hollins Street. Here, except during his five-year marriage, Mencken lived for the rest of his life.

Mencken was a voracious reader from the get-go. At age nine, he discovered Mark Twain's *Huckleberry Finn*, which opened his eyes to rugged individualism and literary pleasures. This was, as he put it, "probably the most stupendous event in my whole life." He was thrilled: "what a man that Mark Twain was! How he stood above and apart from the world, like Rabelais come to life again, observing the human comedy, chuckling over the eternal fraudulence of man! What a sharp eye he had for the bogus, in religion, politics, art, literature, patriotism, virtue. . . . And seeing all this, he laughed at them, but not often with malice."

Mencken finished high school when he was 15 and went right to work in his father's cigar factory, but he hated it. Within a few days after his father died of kidney failure in January 1899, Mencken tried his hand as a newspaperman. The first story he ever sold, to the *Baltimore Herald*, was about a stolen horse. By June that year, he was a full-time reporter earning $7 a week. Mencken proved to be unusually resourceful and industrious. He rose to become drama critic, editor of the Sunday paper, and city editor of the morning paper.

Early on, Mencken displayed a tremendous zest for life. In 1904, for example, he began a little musical group which became known as the "Saturday Night Club." Almost every week for 46 years, as many as a dozen friends got together around 8:00 PM. Mencken played the piano with great enthusiasm. Other participants played the violin, cello, flute, oboe, drums, French horn, and piano. They most often played for a couple hours in a violin-maker's shop and afterwards went to the Hotel Rennert for beer. During the 13 years of Prohibition, they took turns hosting festivities in their homes. They enjoyed chamber music, marches, waltzes, and operatic melodies. Mencken loved German romantics, Beethoven above all.

The *Baltimore Sun*

The *Baltimore Herald* went out of business in 1906, and Mencken landed at the newspaper where he would write for more than 40 years. One observer remarked: "The staid old *Baltimore Sun* has got itself a real Whangdoodle." The *Baltimore Evening Sun* was launched in 1910, and Mencken served as editor. From 1911 to 1915, he wrote a daily "Free Lance" column which covered politics, education, music, whatever interested him. He edited the adjacent letters-to-the editor columns, and whenever a nasty letter came in attacking one of his columns, he made sure it was printed—he recognized that people enjoyed reading abuse.

There was abuse aplenty as people reacted to his bombastic writing style. He ridiculed hypocritical politicians, clergymen, and social reformers. For example, Mencken called Fundamentalist do-gooder William Jennings Bryan "the most sedulous flycatcher in American history . . . a charlatan, a mountebank, a zany without shame or dignity." He was accused of anti-Semitism because he gratuitously referred to so many people as "Jews." Yet he didn't criticize Jews as much as others. He described Anglo-Saxons as "a wretchedly dirty, shiftless, stupid and rascally people . . . anthropoids."

Mencken lashed out at President Woodrow Wilson for maneuvering America into World War I. He insisted that the British government shared responsibility for the horrifying conflict, and he attacked the moral pretensions of British officials who pursued a naval blockade punishing innocent people as well as combatants in Germany. Mencken discontinued his column because of wartime hysteria.

Meanwhile, he had established himself as a literary critic. Since 1908, he had reviewed books for *Smart Set*, a monthly literary magazine. He and drama critic George Jean Nathan were named editors in 1914. Mencken relentlessly attacked puritanical standards and hailed authors like Theodore Dreiser, Sherwood Anderson, and F. Scott Fitzgerald.

Mencken turned increasingly to writing books—he had written eight on music, literature, and philosophy by 1919. That year marked the debut of his most enduring work. It arose from his passion for American speech which evolved spontaneously into something more dynamic than the English of England. No government planned it: the American language became more expressive as ordinary people went about their daily business, now and then contributing new words. The first edition of *The American Language* soon sold out, and Mencken began work on the second of four editions. "All I ask," he wrote his publisher Alfred Knopf, "is that you make *The American Language* good and thick. It is my secret ambition to be the author of a book weighing at least five pounds."

In 1920, with World War I a bad memory, the *Baltimore Sun* asked Mencken to resume writing a column for $50 a week. Thus began his memorable "Monday" articles which appeared weekly for the next 18 years. About two-thirds of them dealt with politics.

The *American Mercury*

By 1923, Mencken decided he wanted a national forum for his political views. He resigned from the *Smart Set*, and with backing from Knopf he and Nathan launched the monthly *American Mercury*. The first issue, bearing a distinctive pea-green cover, appeared in January 1924. Nathan soon disagreed about which direction the magazine should go, and he resigned. Mencken offered feisty commentary plus writing by many of America's most distinguished authors. There were articles by philosophical anarchist Emma Goldman and birth-control advocate Margaret Sanger. Also, such black authors as W.E.B. Dubois, Langston Hughes, James Weldon Johnson, and George Schuyler. Circulation grew for four years, peaking around 84,000 in 1928.

Although Mencken wasn't known as a political philosopher, he made clear his commitment to individual liberty. "Every government," he wrote, "is a scoundrel. In its relations with other governments it resorts to frauds and barbarities that were prohibited to private men by the Common Law of civilization so long ago as the reign of Hammurabi, and in its dealings with its own people it not only steals and wastes their property and plays a brutal and witness game with their natural rights, but regularly gambles with their very lives. Wars are seldom caused by spontaneous hatreds between people, for peoples in general are too ignorant of one another to have grievances and too indifferent to what goes on beyond their borders to plan conquests. They must be urged to the slaughter by politicians who know how to alarm them."

Mencken expressed outrage at violence against blacks and as Hitler menaced Europe, Mencken attacked President Roosevelt for refusing to admit Jewish refugees into the United States: "There is only one way to help the fugitives, and that is to find places for them in a country in which they can really live. Why shouldn't the United States take in a couple hundred thousand of them, or even all of them?"

Mencken was adamant that the United States not become entangled in another European war. He believed it would mean further expansion of government power, oppression, debt, and killings without ridding the world of tyranny. Better to keep America as a peaceful sanctuary for liberty:

"I believe that liberty is the only genuinely valuable thing that men have invented," he wrote, "at least in the field of government, in a thousand years. I believe that it is better to be free than to be not free, even when the former is dangerous and the latter safe. I believe that the finest qualities of man can flourish only in free air—that progress made under the shadow of the policeman's club is false progress, and of no permanent value. I believe that any man who takes the liberty of another into his keeping is bound to become a tyrant, and that any man who yields up his liberty, in however slight the measure, is bound to become a slave." Mencken added: "In any dispute between a citizen and the government, it is my instinct to side with the citizen . . . I am against all efforts to make men virtuous by law."

As for capitalism, Mencken declared that "We owe to it almost everything that passes under the general name of civilization today. The extraordinary progress of the world since the Middle Ages has not been due to the mere expenditure of human energy, nor even to the flights of human genius, for men had worked hard since the remotest times, and some of them had been of surpassing intellect. No, it has been due to the accumulation of capital. That accumulation permitted labor to be organized economically and on a large scale, and thus greatly enhanced its productiveness. It provided the machinery that gradually diminished human drudgery, and liberated the spirit of the worker, who had formerly been almost indistinguishable from a mule. Most of all, it made possible a longer and better preparation for work, so that every art and handicraft greatly widened its scope and range, and multitudes of new and highly complicated crafts came in."

Sara

For a brief period, Mencken faced his ideological battles with a romantic partner. In May 1923, he delivered a talk called "how to catch a husband" at Baltimore's Goucher College and there met a 26-year-old, Alabama-born English teacher named Sara Haardt. He was taken by her good looks, radiant intelligence and passion for literature. She saw a decent, joyous, civilized man. A lifelong bachelor who had lived with his mother until she died in 1925, when he was 45, Mencken was wary of marriage. Apparently Sara's worsening tuberculosis brought him to the altar. After her death on May 31, 1935, Mencken wrote a friend: "When I married Sara, the doctors said she could not live more than three years. Actually, she lived five, so I had two more years of happiness than I had any right to expect."

Sara's death hit him especially hard, because he was already down. With the Great Depression everywhere blamed on capitalism, individualist Mencken seemed like a relic. He had seldom analyzed economic policy, so he wasn't intellectually equipped to explain how the federal government itself had triggered and prolonged the Great Depression—powerful evidence for that case became available only in the 1960s.

Circulation of the *American Mercury* plunged. Mencken resigned as editor by December 1933. He was succeeded by economic journalist Henry Hazlitt. Three years after Sara died, Mencken's attacks on President Roosevelt's foreign policy cost him his *Baltimore Sun* column. It didn't help that Mencken's devotion to traditional German culture apparently led him to discount ominous news coming out of Hitler's Germany. He was an outcast.

Mencken did much to redeem himself as far as the public was concerned by affirming the joys of private life. He added two massive supplements to *The American Language*, acclaimed as a learned and entertaining masterwork about popular speech. He wrote his charming memoirs which began as a series of *New Yorker* articles, then expanded into a trilogy, *Happy Days* (1940), *Newspaper Days* (1941), and *Heathen Days* (1943). They display a tolerant, enthusiastic view of life. He edited a generous collection of his newspaper articles into a book, *A Mencken Chrestomathy* (1948)—it's still in print.

On November 28, 1948, Mencken went to pick up a manuscript from his secretary's apartment and suffered a stroke. While he regained his physical capabilities, he lost the ability to read, and he had difficulty speaking. Most people forgot about him.

Mencken died in his sleep on Sunday, January 29, 1956. His ashes were buried near his parents and his wife at Loudon Park Cemetery. Mencken's former *American Mercury* compatriot, *Newsweek* columnist Henry Hazlitt, called Mencken "a great liberating force. . . . In his political and economic opinions Mencken was from the beginning, to repeat, neither 'radical' nor 'conservative,' but libertarian. He championed the freedom and dignity of the individual."

Though Mencken was gone, controversy soon swirled about him again. New collections of his work proved popular. Previously unpublished manuscripts appeared. He was accused of anti-Semitism, and these charges gained a wider hearing with the 1989 publication of his candid diary. Long-time Jewish friends defended him. A succession of biographies focused on different aspects of his life.

Nearly all of Mencken's chroniclers opposed his political views—in particular, his hostility to the New Deal—but they have found him irresistibly appealing. They were drawn to his prodigious enterprise, vast learning, steadfast courage, good cheer, and free spirit. Someday, hopefully more people will appreciate Mencken's vital role in nourishing a love for liberty during some of America's darkest decades. □

BOOKS

Criminal Justice? The Legal System vs. Individual Responsibility

Edited by Robert James Bidinotto

Foundation for Economic Education • 1995 • 304 pages • $24.95

Reviewed by Joseph Sobran

Progressives used to talk confidently about "building a new society." Well, here it is. They've built it. We're in it.

The intellectual cornerstone of the New Society was determinism: the belief that human behavior is in principle caused by factors outside the agent's control. Once the psychological and/or socioeconomic "root causes" of undesired behavior—be it crime or capitalism—are found and addressed, that behavior can be methodically, "scientifically" eliminated.

If you weren't mugged over the past week, it's no thanks to this lunatic theory. In all its variants, it has swept post-Christian culture off its feet. The accredited "experts" and "specialists" of the social sciences that guide the criminal justice system have been dedicated to the denial of common sense.

In fact the denial of common sense virtually *defines* the expert, who smiles at the naive assumption that there are "bad" people—people who freely choose to do evil—and that the job of the state is to punish them. The late psychiatrist Karl Menninger spoke of "the crime of punishment" (itself a sternly judgmental phrase). The job of the state is to "rehabilitate" the criminal. On this view, the criminal becomes a kind of innocent, a victim whose crimes indict not himself but "society"; only the desire for retributive justice is condemned as atavistic.

Even our official language expresses the regnant ideology. Hence we now have departments not of penal justice, but of "correction."

The trouble is, nobody gets corrected, and nobody even *thinks* anyone gets corrected, by prisons organized on these enlightened principles. Now that the root causes have been addressed, the crime rate has soared beyond anyone's nightmare of anarchy. Safety from violence is no longer a common condition of American life, as it was a generation ago; it's a commodity you pay dearly for—in choice real estate, security guards, neighborhood watches, burglar alarms, and whatever weapons the private citizen may still be permitted to possess.

Robert James Bidinotto, who put Willie Horton on the map, as it were, in a 1988 *Reader's Digest* article, has edited a book of essays by highly intelligent but unabashedly unenlightened writers who take the view that the way to lower the crime rate is to put the scare into bad people. Furthermore, these writers don't believe that bad people are badly frightened by the possibility of even a life sentence in a minimum-security facility with all the basic creature comforts and weekend furloughs.

If the essays in *Criminal Justice?* stopped there, the book would be instructive only to those least likely to read it: the mad scientists of what Mr. Bidinotto calls "the Excuse-Making Industry"—sociologists, Marxian economists, psychologists (Freudian and behavioral), biologists, and Ramsey Clark.

Mr. Bidinotto also has a fine short treatment of the philosophical problem with determinism: if the doctrine is true, we can never know it, since reason itself must be an illusion resulting from irrational causes. The idea is radically absurd. Criminal behavior may be encouraged or discouraged by many factors, but it isn't "caused." That is, no stimulus or condition yields a predictable result of the kind summed up in the weary aphorism that "poverty causes crime." Many desperately poor societies have low crime rates. Ours has seen crime rise along with unparalleled prosperity. Mr. Bidinotto suggests that we "consider a heretical thought: not that 'poverty causes crime,' but that *criminality causes poverty*."

If there are no "root causes," there are certainly incentives and disincentives for those for whom criminal options are matters of cold calculation. By one reckoning, only 1.7 percent of all crimes are punished by imprisonment. Not much deterrent there. (Of course enlightened opinion denies that punishment deters violent crime, even as it seeks to criminalize, i.e. deter, with threats of punishment, all sorts of formerly licit *market* activities; and it ascribes "greed" not to armed robbers who shoot clerks, but to businessmen and taxpayers who want to keep more of their own earnings.)

There are many fine essays in the book besides Mr. Bidinotto's four contributions. David Walter, taking a leaf from Bastiat, provocatively suggests that the welfare state is so morally ambiguous that it encourages private individuals to do what the state itself constantly does:

namely, grab others' property. If nothing really belongs to anyone, what's so wrong about theft? Ralph Adam Fine shows how plea bargaining corrupts the justice system, and also argues that the courts, expanding the Miranda principle beyond its original absurdity, have wrongly deprived the police of a legitimate asset: the need of many criminals to confess. Caleb Nelson similarly explores the irrationality of the exclusionary rule. Lee Coleman shows how the insanity defense lends itself to abuses; in fact the book as a whole could start a lively debate over who is crazier, psychiatrists or federal judges, with plenty of evidence for both sides. Other essays devastate such myths as the notion that our prisons house too many petty offenders who shouldn't have been incarcerated in the first place.

Without succumbing to determinism, and agreeing with nearly everything the authors say, I nevertheless think there is a certain "root cause," as it were, of our burgeoning crime rate: the mad ambition of liberalism to "remake society." A society can neither be made nor remade; it can only be maintained, or corrupted and destroyed. The welfare state has disastrously weakened the tribal links and loyalties that make most men behave most of the time; chiefly, the desire for the respect of older men and the fear of disgrace in their eyes. We suffer from a glut of fatherless boys—not only fatherless, but also, so to speak, uncleless—who are more unassimilable than any wave of immigrants. A male mentor who sets a responsible example, and supplies the timely rebuke, can make all the difference to a borderline criminal. Put simply, people need love.

This is not to deny free will or the importance of incentives; on the contrary, millions of American boys, sons of mothers on welfare, lack one of the strongest incentives to good behavior: a real or virtual father who can provide both affection and authority. This is a terrible pity, and it creates problems for everyone. The "experts" seem not to grasp it; the rest of us should. An ounce of prevention is all to the good, and abolishing the welfare state would be more like a *ton* of prevention. I wish the book had said more about this dimension of crime.

Meanwhile, alas, we have to deal with the boys for whom prevention is too late. Toward them severity is the only remedy left to us. They have, after all, chosen to do evil, thereby leaving victims more pitiful than themselves. At that point they are simply bad people. Those who excuse them share their guilt. In this respect *Criminal Justice?* is consistently sensible and fresh, a damning indictment of a truly criminal system. □

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A Second Mencken Chrestomathy Selected, Revised, and Annotated by H. L. Mencken

Edited by Terry Teachout

Alfred A. Knopf • 1995 • 491 pages • $30

Reviewed by Sheldon Richman

Despite his persona, H. L. Mencken, the curmudgeonly Sage of Baltimore who ruled American letters as critic and journalist from roughly 1910 to 1933, was actually a very generous man. Although next year will mark the 40th anniversary of his death, in the last six years, Mencken has presented us with four new books. For Mencken fans that is like a stream of gifts from the other world, which of course the agnostic HLM couldn't bring himself to believe in.

In 1989 *The Diary of H. L. Mencken* was published, rekindling the national fascination in the author, an interest that may smolder but never is in danger of being extinguished. Next we got *My Life as Author and Editor*, a memoir of his literary life, then *Thirty-five Years of Newspaper Work.*

Now we have in hand a *Second Mencken Chrestomathy.* What could be better than a smorgasbord of Mencken's work selected, revised, and annotated by the old man himself? As Terry Teachout explains in his delicious introduction, Mencken in 1947–48 gathered and revised material for an anthology, but prepared much more than could fit in a single volume. The first *Chrestomathy* was ready for typesetting on November 8, 1948. About two weeks later Mencken suffered a debilitating stroke that stole his ability to read and write until his death in 1956. Although Mencken had hinted that there was a sequel to the *Chrestomathy*, no one seemed to realize it. After Mencken's death, his papers were stored in Baltimore's Enoch Pratt Free Library where for almost 30 years no one, except a curator in 1963, looked closely at the material. As luck would have it, Teachout, who's writing a biography of HLM, dove into the Mencken's papers in 1992 and discovered that Mencken had done quite a lot of work on the sequel. Teachout should be awarded a box of Uncle Willie cigars (Mencken's brand) for bringing the book to our shelves.

Here's the enduring question: why after the man has been dead so long does his spirit refuse to depart? Why do we refuse to let it depart? Why do people of such differing outlooks about life and politics find themselves drawn to HLM much as he was drawn to a good Pilsner? I think the answer lies in Mencken's refreshing, call-'em-as-I-see-'em, let-the-chips-fall-where-they-may, like-it-or-lump-it candor. That attitude makes his writing irresistible in a time when bromidic fustian passes for elegance and erudition. Mencken seemed to have two questions constantly in mind: how do things look to me and how can I report my findings to intelligent men who abhor the commonplace? For Mencken, there were two capital offenses—hypocrisy and monotony—in a word, cant.

Mencken of course was a self-styled libertarian. While he distrusted all philosophical systems and did not apply his libertarianism consistently (as Leonard Read would have put it, he "leaked"), Mencken on many occasions declared that what mattered most to him was liberty: "And when I say liberty I mean the thing in its widest imaginable sense—liberty up the extreme limits of the feasible and tolerable." Liberty is what made human life possible. Thus, the greatest threat to "the superior man" was government, the instrument of force and conformity.

As he writes in this volume:

> Whenever a state is strong it is intolerant of dissent, when it is strong enough it puts down dissent with relentless violence. Here one state is as bad as another, or, at all events, potentially as bad. The Puritan theocracy of early New England hanged dissenters as gaily as they are now being hanged by the atheistic Union of Soviet Republics; the Prussian, Russian, Austrian, French, and English monarchies were as alert against heresy as the militaristic-capitalistic *bloc* which now runs Italy or the plutocracy which runs Pennsylvania, California, and Massachusetts. [1927]

Being an enemy of meddlesome government, Mencken naturally was critical of its most consequential product: war. He could see no good coming from America's entry into the two world wars and was thus a relentless critic of Woodrow Wilson and the man he called Roosevelt II. No one was better at pointing out the duplicity of national leaders who professed peace while scheming for American participation in the blood-orgies that were WWI and WWII. "But wars are not made by common folk, scratching for livings in the heat of the day," he wrote in May 1939, "they are made by demagogues infesting palaces."

Nor was Mencken an enthusiast for public schools. For HLM, real education was "directed toward a capacity to differentiate between fact and appearance" and thus "is and always will be a more or less furtive and illicit thing."

> The plain fact [he wrote in 1921] is that education is itself a form of propaganda—a deliberate scheme to outfit the pupil, not with the capacity to weigh ideas, but with a simple appetite for gulping ideas ready-made. The aim is to make "good citizens," which is to say, docile and uninquisitive citizens. . . . Americans in the days when their education stopped with the three R's, were a self-reliant, cynical, liberty-loving and extremely rambunctious people. Today, with pedagogy standardized and school-houses everywhere, they are the herd of sheep (*Ovis aries*).

One of course could go on quoting HLM all day. You'll enjoy him more by getting the book, picking out a comfortable chair, and dipping into any part of the volume. Savor his tribute to bricklayers and bartenders, his views on the literary and musical giants and pygmies of his time, his piercing of pols and professors, his musings on making a living and the places where one can make it. Mencken's humor and good sense touched every aspect of this inspiring and infuriating world.

"My writings, such as they are," he says on the final page of the book, "have had only one purpose: to attain for H. L. Mencken that feeling of tension relieved and function achieved which a cow enjoys on giving milk. Further than that, I have had no interest in the matter whatsoever. It has never given me any satisfaction to encounter one who said my notions had pleased him. My preference has always been for people with notions of their own."

There it is! That's what I'm talking about. That's the quality that draws so many to H. L. Mencken. And why we'll never tire of him. Sadly, I don't think there's any "new" Mencken material left. We'll have to content ourselves with what we have. It's almost enough to last a lifetime. □

Sheldon Richman is author of Separating School and State: How to Liberate America's Families *(The Future of Freedom Foundation) and* "Mr. Mencken and the Jews."

The Politics of Envy: Statism as Theology

by Doug Bandow

Transaction Publishers • 1994 • 333 pages + index • $34.95; available from Laissez Faire Books at $19.95

Reviewed by Jeffrey Tucker

"Both freedom and virtue are under assault today," writes Doug Bandow in *The Politics of Envy*, an applied integration of social conservatism and economic libertarianism. The root cause is a public theology of state worship. He posits that a conservative social order—intact families secure in communities characterized by low crime and cultural coherence—would be the dominant strain of an American life absent government intrusion. The result of his argument is an old-fashioned, principled case for classical liberalism, applied to a myriad of modern policy problems.

The direct relationship between big government and the decline of personal morality is not predetermined, Bandow argues, but a trend toward one reinforces the other. Men of weak faith turn to government to feed the old but forgotten vice of envy. In this context, envy means taking satisfaction in the financial and moral downfall of others, and acting through government to bring it about. It saps the strength of private initiative and institutions like the church and family, which in turn creates ever more social crises to be "solved" by government.

In this process, bad policy drives out good morals. The welfare state, regulations on enterprise, public schooling, drug prohibitionism, and a panoply of spending programs have overturned rooted cultural mores as well as made us poorer. Thus Bandow suggests this rule for government policy: first do no harm. In nearly every sphere the government has intruded, he shows, it has caused more problems than it has helped.

This is not only true in well-known cases like family policy; it's true in agricultural and housing policy; in the international economic policy of the World Bank; the attempt to use foreign policy to create collective security; in the U.S. attempt to create and sustain a global empire to promote "democracy." These policies strengthen the government and its connected interests, which is why they have their defenders, but are they good for society at large? Bandow demands that all forms of redistributionism and intervention be evaluated in moral and practical terms.

The strength of the argument derives largely from Bandow's willingness to apply his principles so broadly, and not shrink from their conclusions. Thus it is not Bandow's theory so much as its application which makes this book a compelling and often unpredictable read. He makes a passionate argument against the pro-choice view on abortion, for example, but also against the prohibitionists who oppose a legal market for drugs.

On environmentalism, he asks whether the many greens are engaged in protecting the earth or actually worshiping it. The questions reinforces the book's theme, because, as he demonstrates, policies designed to "protect the earth" must rely on high levels of coercion. They are not only costly (Bandow reports that the Clean Air Act costs $40 billion annually) but also ineffective. Then he adds this twist. Because environmental ideology is religious at its root, and holds a view of man and nature that is alien to Western faith, people should consider "what spiritual theories they are in effect subsidizing" through environmental policy. If the government can't subsidize churches, it should also be prohibited from "turning the new wilderness cathedrals into an established religion."

So it is with national service programs which ultimately assume "that citizens are responsible not to each other, but to the state." Bandow worries about "voluntary" programs because they "imply a unity of society and state, with work for the latter being equated with service to the former." As he points out, one third of Americans now volunteer scarce time and energy to charitable projects that involve no remuneration. What national service promotes is service to the state, and this "service" necessarily challenges our loyalties to other institutions that mediate between individuals and government.

Neither does Bandow view the government as an appropriate means of stamping out vice, a type of coercion encouraged more by neoconservatives than by the much-villified Christian Right. As Bandow writes, many conservatives, "despite their verbal support for both traditional values and individual liberty, are as secularized and authoritarian as their liberal counterparts." One need only think how neoconservatives' efforts to create a national curriculum for public schools have backfired. They proposed it just in time for the Clinton administration to fill in the details. The result, as Bandow knew it would be, was an anti-education, multicultural mess.

But Washington's conservatives are slow learners, even slower than its liberals. Somehow they are always holding out hope that this or that program will make the federal government work for them instead of the people across the aisle. This tendency is apparent even in the work of the new Congress (do we really need to expand the military budget?). Yet the problem of government which Bandow identifies is more fundamental: it is in competition with God for our loyalties.

The modern state embodies a counter-religion, one which rests on and reinforces immorality and social breakdown. The first step toward restoring both freedom and virtue is to dismantle it. "Should Christians Be Statists?" Bandow asks as the title to one section. The answer—rigorously argued—is no. □

Mr. Tucker is director of research at the Ludwig von Mises Institute in Auburn, Alabama.

The Elgar Companion to Austrian Economics

edited by Peter J. Boettke

Edward Elgar Publishing Ltd. • 1994 • 620 pages • $149.95

Reviewed by Bettina Bien Greaves

Since the days of Aristotle, philosophers and other thinkers have been trying to understand how the world works and how to foster a peaceful, prosperous society. A big stride was made with the publication of Carl Menger's *Principles of Economics* (1871), from which developed the Austrian school of economics. The Austrians explained market operations as the outcome of the actions and choices of individuals and, as a result, advocated free markets and limiting government to the protection of life, property, and individual freedom.

During the early decades of this century, as Marxists and Keynesians came to dominate colleges and universities and their ideas influenced political action, the message of the Austrians was widely ignored. Advocates of the free market were in despair. Yet when the late Ludwig von Mises was asked, in Argentina in 1959, if the situation then was not worse than in ancient Rome, which he had described as a period of price controls and inflation, he had replied, "No, it is not worse." In the age of the Roman emperors, no one disputed the idea that the government had the right to fix prices. But now, Mises said, "we know very well that this is a problem for discussion. All these bad ideas from which we suffer today, which have made our policies so harmful, were developed by academic theorists. . . . What we need is nothing else than to substitute better ideas for bad ideas. . . . Our civilization will and must survive. And it will survive through better ideas than those which now govern most of the world today, and these better ideas will be developed by the rising generation" (*Economic Policy*, pp. 104–105).

In the U.S., a younger generation of Austrians appeared. Peter Boettke, editor of the book under review, considers *The Foundations of Modern Austrian Economics* (Edwin Dolan, ed., 1976) "the defining work in the resurgence of the Austrian school in the 1970s." (p. 601) Professors of "conservative" or free market leanings became more welcome in academia. Courses in free enterprise, entrepreneurship, and Austrian economics were introduced in some colleges. A standard reference published in 1987, *The New Palgrave* (London: Macmillan Press; New York: Stockton Press) included several articles by and about spokesmen of the Austrian school. Commercial and university publishers in this country and abroad reprinted classic "Austrian" works and published quite a few new works by younger "Austrians." Austrian ideas were more widely discussed and debated.

And now we have *The Elgar Companion to Austrian Economics* edited by Peter J. Boettke. Boettke selected contributors who were basically supportive of three Austrian themes—methodological individualism, subjectivism, and the spontaneous order. He asked each to contribute an original paper on a topic in the field of Austrian economics with which he or she was familiar. Each article was limited to about 2,500 words. In this way, Boettke produced a one-volume reference work of relatively short entries, each with a bibliography of additional sources. It contains 87 papers by 68 economists from 45 different colleges, universities, or institutions in the United States and seven other countries. Not surprisingly the papers are uneven in quality, although their approach is generally Austrian. A list of a few authors and titles will give some idea of the subjects covered.

Part I, "Methodology and Theoretical Concepts in Austrian Economics," includes papers on basic principles such as "Methodological individualism" (Gregory B. Christainsen), "Subjectivism" (Steven Horwitz), "Marginal utility" (Jack High), "Entrepreneurship" (Israel M. Kirzner), and "Efficiency" (Roy E. Cordato).

Part II, "Fields of Research," discusses various topics to be explored further from the Austrian approach—"Capital theory" (Peter Lewin), "Austrian business cycle theory" (Robert J. Batemarco), "Comparative economic systems" (David L. Prychitko), and "International monetary theory" (Joseph T. Salerno).

Part III, "Applied Economics and Public Policy," includes articles on a wide range of subjects from "Utilitarianism" (Leland B. Yeager) and "Interventionism" (Sanford Ikeda), to "The collapse of communism and post-communist reform" (James A. Dorn).

Part IV, "History of Thought and Alternative Schools and Approaches," deals with the historical development of the Austrian School. Samuel Bostaph writes about the *Methodenstreit*, the conflict over methodology between the early Austrians and the German historicists; Peter Rosner about the debate between Böhm-Bawerk and Hilferding, William N. Butos about the Hayek-Keynes macro debate, and Karen I. Vaughn about the socialist calculation debate. Other papers in this section compare various schools of economics and examine fine points that differentiate them from the Austrians.

Boettke, as editor of this anthology was to some extent at the mercy of his contributors and his non-contributors, those invited who didn't submit papers. His "Conclusion" in Part V, "Alternative Paths Forward for Austrian Economics," compensates for some of the gaps. Boettke reviews the ideological shift that led to the resurgence of the Austrian school, discusses current economic journals, and suggests topics that would be fruitful for further exploration by Austrians.

My chief criticism of the book is that it is weak on money and banking, both major strengths of the Austrian school. The Austrian view is that money is neither mysterious nor government-made; it is merely a medium of exchange which evolves on the market. As for banks, Mises explained that their role is essentially twofold—to warehouse the deposits of clients and to lend money. Free banking is simply a system under which such banks are obligated to fulfill their contractual obligations just as must any other business. Yet in the view of many young "Austrians," apparently the chief purpose of banks is to issue currency. (See Schuler, "Free banking is a system of competitive issue of bank-notes and deposits" and Lewin.) However, note issue is not the purpose of banking; it is at best a subsidiary function, a by-product of a bank's warehousing and money lending activities. And a potentially dangerous activity at that. No bank that issues notes over and above the face value of its reserves can long survive without some government privilege or protection.

Leaving aside this criticism, *The Elgar Companion* should be a valuable reference for students of Austrian economics. A few years ago it would have been impossible to assemble such an extensive stable of Austrian writers. Many were probably still youngsters, some perhaps not even born, when Mises spoke 36 years ago. Yet they have become spokesmen for the free market, non-interventionist teachings of Mises and his Austrian school colleagues. Mises' trust in the rising generation was well justified. □

Mrs. Greaves is resident scholar at the Foundation for Economic Education.

Speaking Freely

edited by Henry Mark Holzer

Second Thoughts Books, Studio City, Calif. • 1995 • 277 pages • $24.95 cloth; $10.00 paperback

Reviewed by John Hospers

To be a moral agent, wrote Milton in his *Areopagitica*, a person must be free to choose; and to make moral choices persons must be free to express their opinions. Milton held, writes Calvin Massey in this anthology, "that by tolerating abhorrent and hateful speech, we are able to see more clearly our societal biases and thereby hasten the process by which we purge ourselves of hidden intolerance."

Mill's *On Liberty* (1859) was another classic paean for freedom of speech and discussion. For the truth about a subject to be known, he said, it must be freely and openly discussed without fear of penalty: there should be *no* censorship of ideas by government, especially of those opposed to the State itself. As a utilitarian, Mill believed that concealment of the truth was, in the long run, always counterproductive. Many have argued that Mill was mistaken: that some truths should remain concealed for the public good, particularly in the midst of inflammatory controversy when feelings run high. To take a contemporary example, assume that it is true, as Murray and Herrenstein allege, that the average I.Q. of African-Americans is somewhat lower than that of Caucasians and Asians. Many critics would say that this is not true, but others would say that even if it were true it should not be generally known, since it might have a deleterious effect on the morale of blacks. Mill would undoubtedly have reminded us of the long-term effects of such a policy, as is done eloquently in Millean fashion by Professor Massey:

"The intolerant impulse—banning such racist speech—may have counterproductive long-term results, for it enables the dominant society to tell itself (smugly and falsely) that, collectively, it has no problem: the problem lies wholly with those nasty racists whom we have righteously muzzled. Thus, the nastiness of racist epithets serves to remind us all that there is a substantive nastiness in our society that we have yet to eradicate. Better that the truth of our condition be painfully revealed to us than that we live in delusion that racial equality has been achieved by virtue of painting over the ugliness. In the honesty of the revelation we may ultimately create more real tolerance and respect for diverse groups than by pretending that silence passes for respect. . . . The dangerous dog of racism is still a biter when muzzled."

There are of course occasions on which speech is prohibited: false advertising, defamation, confiding secrets to enemy nations, and so on. (Whether these are compatible with the words of the First Amendment is still a matter of controversy.) But there is one particularly difficult area, speech that incites to violence or riot. A union agitator walks into a factory filled with angry striking workers, and says "Torch the factory!" (This is Mill's example.) Mill would have him stopped to avoid a riot. This opens up a problematic area in the free-speech controversy; when are words to be considered inciting?

The First Amendment simply says that Congress shall pass no law abridging freedom of speech or of the press; it doesn't add "unless the views expressed are offensive" or "unless the audience is so agitated that they might take action." Taken on its face, this would permit defamation and conspiracy, which the courts have regularly prohibited.

In any case, there are many groups today who would prohibit much more than libel or espionage; they sometimes allege that racial slurs are an *incitement*; usually they want the words banned from public discourse because "they are *false*," or because the *effects* of permitting their dissemination would be counter-productive on utilitarian grounds. (As a rule they *assume* without proof that what they want to censor is false, and devote their energies to describing the ill effects of allowing the speech to occur. But they do not always make the distinction between truth and utility.)

To this end, the authors of this anthology cite many examples of "politically incorrect" speech, especially in academia, for which a student may be penalized, expelled, or subjected to "re-education seminars" Soviet style. There are many examples of this, and many are regularly found in conservative student publications. Here is one example, described in detail in the book. From Van Alstyne's essay we learn that in one university (one infers from the author's title that it is Duke) a code is enforced by which "no member of the faculty, student body, or staff shall engage in any verbal conduct that renders the environment on campus or some part thereof, offensive. This rule shall apply, however, only if the verbal conduct is of a sexual, religious, racial, or other nature reflecting an improper or unreasonable attitude toward others according to the common standards of the university community."

The authors of the essays in this anthology are unanimous in condemning all such procedures. For example, in a brilliant essay Robert Sedler argues that *all* bans on campus speech, however incendiary or hateful, run afoul of the First Amendment. For one thing, the Supreme Court has never recognized any exceptions to the rule that the government cannot regulate expression in such a way as to favor one viewpoint over another: this is the principle of *content neutrality*, and was the basis for the Court's invalidation of bans on flag desecration. For another, the First Amendment "forecloses any justification for a restriction on expression on the ground that the expression is offensive. . . . The government may not prohibit the expression of an idea simply because society finds the idea itself offensive or disagreeable."

When the Duke University committee had crafted their rules of campus behavior, they were apparently satisfied with the result—"except," writes Van Alstyne, "for a small lingering group off in one corner—who thought they caught a slight whiff of diesel fumes, and a slight sound, as of tanks clanking, as in some far-away deserted square" (Tiananmen Square). It was the dread of such an appalling prospect that inspired this collection of essays. It is an extraordinarily fine collection; but will the relevant academicians read it? Will the courts?

Dr. Hospers is professor emeritus of philosophy at the University of Southern California.

Life After Television: The Coming Transformation of Media and American Life (Revised Edition)

by George Gilder

W.W. Norton & Company, New York • 1994 • 216 pages • $11.00 paperback

Reviewed by Raymond J. Keating

In the early 1980s, George Gilder helped to clarify the muddied field of economics with two insightful books—*Wealth and Poverty* and *The Spirit of Enterprise* (both recently updated and reviewed in *The Freeman*). In these landmark works, Gilder managed to wrest economics from the deadening morass into which it had sunk for over a half-century. When practiced by Gilder, economics is no longer the dismal science.

With the publication of *Microcosm* in 1989 and now an updated and much-expanded version of *Life After Television* (originally published in 1990), Gilder has built upon his economic works by offering insights regarding recent and future developments in today's most dynamic industries—computers and telecommunications. Gilder offers a compelling vision of the future, whereby technological advancements enhance individual creativity.

In *Life After Television,* Gilder takes the reader on a technological journey into the microcosm of the computer, across the air on the "spectrum of electromagnetic vibrations," and on beams of light traveling across strands of glass or fiber-optic cables. It is an exciting journey for both the technology expert and for those individuals with an interest in how our economy and our culture will be transformed by the information revolution.

Gilder's contagious enthusiasm regarding great leaps in the fields of computers and telecommunications springs not from the base appeal of couch potatoes passively surfing across 500 channels or of video games available to numb our children's minds. Instead, Gilder declares that individualism will win out over mass culture. The top-down structure of television, whereby a few executives appeal to the widest, and therefore lowest, common denominator possible, will be overthrown by a bottom-up, consumer- and entrepreneurial-driven revolution.

Gilder sagaciously observes: "A healthy culture reflects not the psychology of crowds but the creativity and inspiration of millions of individuals reaching for higher goals. In place of the broadcast pyramid, a peer network will emerge in which all the terminals will be smart—not mere television sets but interactive video receivers, processors, and transmitters."

He refers to these smart terminals as teleputers. He points out that "the teleputer is an instrument of creative destruction." That is, as with any major invention or innovation, an entrenched and less-efficient system must give way. Such entrenched, special interests, however, do not do so readily, instead trying to stop the critical economic process of creative destruction through government protection against competition. As Gilder notes: "Capitalism may offer the promise of great power and wealth to the very few people who can shape or anticipate the future, but bureaucratic politics provides a rich panoply of weapons to the many more people who want to resist change. Whenever possible, the government and its principalities attempt to frustrate or dispossess innovators."

Gilder understands the dynamic nature of markets, and therefore observes: "American industry, released from its regulatory shackles, could finance a program of fiber to the home without any government aid." The best actions for government to take regarding the telecommunications and computer industries is not some bureaucrat-driven industrial policy; it is deregulation.

Interestingly, while Gilder predicts the death of television under this wave of creative destruction, he makes a compelling case for newspapers spearheading the information revolution. Production and transmission costs will collapse for newspapers as computers and fiber optics replace printing presses. Gilder explains: "The ultimate reason that the newspapers will prevail in the information age is that they are better than anyone else at collecting, editing, filtering, and presenting real information and they are allying with this computer juggernaut to do it. The newspapers are pursuing the fastest-expanding current markets rather than rearview markets. They are targeting adults with real interests and ambitions that generate buying power rather than distracting children from more edifying pursuits."

In the end, the fundamental difference between the television and the personal computer—or soon to be teleputer—can be explained in economic terms. It is the difference between reacting and creating; the difference between demand and supply. As Gilder states: "While TV watchers use their machines to lull themselves and their children into a stupor, PC users exploit their machines to become yet richer and smarter and more productive—and still better to exploit future computer advances. . . . The TV is a consumption product. The PC is a supply-side investment in the coming restoration of the home to a central role in the productive dynamics of capitalism, and the transformation of capitalism into a healing force in the present crisis of home and family, culture and community."

Where other authors see only ways in which computer and telecommunications advancements serve *current* markets, Gilder sees how such developments create *new* markets—impacting the entire economy and culture. *Life After Television* is and will be an exciting adventure. □

Mr. Keating is chief economist with the Small Business Survival Foundation.

The State is Rolling Back: Essays in Persuasion

by Arthur Seldon

E. & L. Books • 1994 • 326 pages • $15.00

Reviewed by Charles H. Hamilton

Arthur Seldon is what Hayek has called a "professional secondhand dealer in ideas." This is actually high praise and well deserved. For Hayek had in mind the intellectual in his role as an "intermediary in the spreading of ideas." In a myriad of ways, Seldon is a model for us all. He is a Founding President of the Institute for Economic Affairs in England. Under his able editorial direction, IEA didn't just focus on a sort of vacuous public policy. Its prodigious output of books and papers (Seldon authored many of them and edited over 350) combined the highest intellectual quality with a deep commitment to the principles of liberty. There is little doubt that the world in which we live *is* different because of the sustained work and dedication of Seldon and men and women like him.

The State is Rolling Back is a sampling of 54 (out of some 230) journalistic pieces he wrote between 1937 and 1990. We are given an intriguing snapshot of a young man committed to classical liberal ideas when it was assumed that the welfare state was inevitable and permanent. The battle of ideas over politics is evident in every article. The more recent articles celebrate the successes of capitalism that would have been difficult to conceive of nearly 50 years earlier.

The majority of the pieces here take us through the slow disintegration of the English welfare state from 1950 through 1992. Economic progress *and* the careful presentation of free-market ideas combined to roll back the state. These are informative controversies here. Seldon's discussions of the perils of the English social insurance and state pension system apply to Social Security. His critique of government funding of education and of the welfare system are very helpful.

And yet, Seldon is very aware of the continuing dangers of statism. He warns advocates of free markets not to become too enamored of what is "politically possible."

One should never forget the principles and moral arguments that make these ideas so compelling and universal. One of the last articles in this book presents a wonderful goal and challenge, "Too Little Government is Better than too Much." (Of Seldon's other work, one is especially important to mention. His 1990 book *Capitalism* is a very good exposition of the theoretical, moral, and practical case for capitalism. It was reviewed in the June 1991 *Freeman*.)

These short articles are also well worth reading as models of how we should make the continuing case for capitalism. They all show an honesty and respect for all ideas. They are, in a word, civilized, following Hayek's injunction to be "mild in manner, strong in argument." They don't just make the case for free markets, but they were, I suspect, convincing to many of their readers. One can't help suspecting that it is the decades-long effort to make continually the case for liberty in the newspapers and magazines of England that had the most sustained—though less remembered—impact on our lives. We need more young writers to make that kind of commitment Seldon made and challenges us to make. □

Mr. Hamilton is a consultant for foundations and is a former editor of The Freeman *at FEE.*

A Moral Basis for Liberty

Institute of Economic Affairs Health and Welfare Unit, London; or American distributor: The Acton Institute for the Study of Religion and Liberty, Grand Rapids, MI 49503 • 1994 • 38 Pages • $7.50 paperback

Reviewed by John Attarian

With the Soviet bloc's collapse and the evidence of socialism's appalling failures and human cost, capitalism seems triumphant. Francis Fukuyama even proclaimed the "end of history": ideological conflicts are over; only managerial and technical controversies remain.

For Father Robert Sirico, founder and president of the Acton Institute, this facile optimism is untenable. Pragmatic defenses of liberty are inadequate. "So long as economic liberty—and its requisite institutions of private property, free exchange, capital accumulation, contract enforcement—is not backed by a generally held set of norms by which it can be defended, it cannot be sustained over the long term." In this admirably pithy and lucid monograph, Father Sirico helps remedy that defect.

Why do freedom's foes hold the moral high ground? Father Sirico rightly argues that "Many of the confusions of our age rest on a loss of crucial distinctions": between rights and privileges, between society and government, and between freely chosen action and action enforced by coercion. While exposing the muddle, he restores those lost distinctions. To be inalienable, rights must be grounded in something independent of politics. Bogus new "rights" are actually politically-granted privileges. Similarly, "today the term community is often used to put a humanitarian gloss on what used to be called a political pressure group." Coerced virtue is oxymoronic: "A morality that is not chosen is no morality at all. Only human beings with volition can be said to be moral, and in order to act in a moral way one must have liberty."

Capitalism fosters morality; entrepreneurs must be other-regarding "because the only way to get money peacefully and without charity is to offer something of value in exchange." But Father Sirico's main argument is that liberty and capitalism are grounded in Judaism, Christianity, and Thomistic natural law.

Seeking "liberty under the law of Yahweh," the ancient Hebrews viewed God, not the state, as the source of justice, which enabled them "to escape tyranny by an appeal to an objective standard of justice against oppression." Christianity "employs the model of the family, not the state, as the ideal human community," with love, not power, as the cement of community life, and religion's view of people as inherently dignified gives them a claim to rights. St. Thomas Aquinas' natural law, drawing on both experience and reason, "establishes the sanctity of the individual as a rational being who can interpret the relationship between the individual and the community in terms of free association and contract." Aquinas' followers elaborated an economics amazingly close to that of the Austrians.

Unfortunately, religious leaders tend to be economic illiterates, hence hostile to wealth producers. Most endorse the welfare state "on the fairly crude premise that Christian charity and coercive wealth transfers are morally identical." This unfortunately discourages charity among the laity. Father Sirico argues instead for the authentic compassion of personal, local-level involvement in helping poor people.

Father Sirico's arguments are important and valid—so much so that he might have done still better to devote himself solely to elaborating his case for liberty, giving his shrewd criticisms of the welfare state and religious leaders economic illiteracy the separate works they deserve.

In an appended commentary, Nigel Lawson, Margaret Thatcher's Chancellor of the Exchequer, chides him for evading egalitarianism's hostility to capitalism as creator of an immoral inequality of wealth. True, Father Sirico said little about this, but Lawson's charge that "he virtually sells the pass with a puzzling (and distinctly un-Hayekian) reference to 'the demands of justice (classically defined as giving to each his due)' " is unfair. If people contribute unequally to production, giving them their due generates inequality, yet is just.

Journalist William Oddie comments that capitalism and liberty require virtues to endure, but today's global disappearance of values makes their survival problematic. He ends gloomily: " 'Where there is no vision, the people perish' (Proverbs 29:18), but where is vision to be found? Father Sirico knows; but will we listen?"

Perhaps not. But those who do choose to redeem the time will find *A Moral Basis for Liberty* valuable. □

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PERSPECTIVE

The Road Ahead

Editor's Note: This piece is extracted from *Forgotten Lessons: Selected Essays of John T. Flynn*, edited by Gregory P. Pavlik and published by The Foundation for Economic Education this month.

The road we are traveling is sufficiently clear. We cannot delude ourselves with the expectation that we may go a little way further and then stop in the belief that we can combine socialism and capitalism and preserve the best features of each. The very first hard and cold fact we must face is that these two systems cannot live together in the same society.

If we keep on the way we are going, nothing can save the capitalist sector of our economy from extinction, because it will inevitably be called upon to pay the cost of operating its own sector and the greater portion, if not all, of the cost of operating the socialist sector. In the United States the few Government-operated industries we have are operated at a loss. *Private industry must produce the income out of which the losses of these Government industries are paid, and the attendant costs of Government as well.*

We must arrest the course of the social disease that is destroying us and set our hands to the hard task of lifting up and revivifying our shattered system of free enterprise. If we do not, we shall go on stumbling down the path along which Europe has slipped.

It is not possible to lay down a program in detail for checking and reversing our direction. And it is not necessary. What is necessary is to see clearly the general principles which must govern our effort. These I shall now attempt to enumerate as briefly as possible.

We must put human freedom as the first of our demands. There can be no security in a nation without freedom. Let us work to make our country a more bountiful home for all to live in, but the first and indispensable test of every plan must be whether it will impair our freedom. A better life for all, yes—but not at the expense of our liberties.

We must stop apologizing for our capitalist society. It has made us strong, and has provided us the highest standard of living in world history.

Not one more step into socialism. There is, of course, much to be done to repair all the damage already done to our system by the advocates of socialistic measures, but the first militant maneuver must be to hold the line for the American way.

Get rid of compromising leaders. Let us put a mark upon every man in public life who is willing to surrender further.

We must recognize that we are in a social war, and that we must fight it as such. Our enemies have managed to capture many of the instrumentalities of the classroom, the platform, the pulpit, the movies and the radio upon an amazing scale, and to use them not for their traditional purposes but to carry on an attack upon the minds of the American people.

We must put an end to the orgy of spending that is rapidly bankrupting the nation. Among the most critical conditions that menace us are the fantastic commitments for spending countless billions and the crushing weight of our national debt upon our economic system. . . . We must not permit one more cent for any purpose beyond our present commitments.

We must stop "planning" for socialism and begin planning to make our free system of private enterprise operate at its fullest capacity. Since 1933 the Government has waged relentless war upon the capitalist system—at first ignorantly, but recently with a definite design to cripple and destroy it. The man who runs a business has been pilloried as a criminal, and the Government has taken measures to prevent him from accumulating those savings which make expansion possible. It has held him up to public scorn and hatred. It has taxed away his savings, and it has so choked the streams through which savings flow into investment that our system is wilting away.

Our system is in an appalling mess now, what with the public debt, the confiscatory taxes which draw the blood from its very veins, Government intrusions, and the threats of ultimate extinction that are taking ever more terrifying shape. The task calls for patriotism and courage; it must not be delayed another day.

We must set about rebuilding in its integrity our republican system of government. We cannot depend on any political party to save us. We must build a mass organization outside the parties so powerful that all parties will be compelled to yield to its demands. Our forefathers gave to the world the sublime example of statesmen who cast off the tyrant State and built up the sovereign people, unleashing the energies of free men. It was this historic experiment which set off the astonishing surge of human energy that created here such abundance and freedom as the world has never known.

The task before us is clear. For our principles of action we must go back to our Constitution, to our Declaration of Independence, to our history and to the example set by our national fathers. We must begin now to dismantle the tyrant State in America and to build up once again the energies of a free people.

—JOHN T. FLYNN (1949)

THE FREEMAN
IDEAS ON LIBERTY

Trial by Jury vs. Trial by Judge

by Bertel M. Sparks

In discussing "Trial by Jury vs. Trial by Judge" I do not purport to be discussing any new thing. The desirability or undesirability of trial by jury has been discussed in one way or another for generations.

On such a subject we could talk about the law relating to the respective functions of the jury and the judge. We could go into a technical discussion of when, under existing law, a jury trial is proper and when some other form of proceeding is proper. We could attempt to discriminate between the function of the judge and the function of the jury under existing law.

For our purposes here it is sufficient to say that it is the function of the jury to find the facts in a given case and the function of the judge to interpret the law relative to those facts.

If we turn to our legal history as it extends back into the Mother Country we find that at the time America was being discovered there was no clear concept of trial by jury. We find trial by ordeal. Shortly before that, and to some extent contemporaneous with it, we find trial by battle.

Eventually a group of men were called in to determine or decide the facts. This might have been the forerunner of our present-day jury but it was far from anything we would call a jury at the present time. At first these people who were called in to determine the facts were people familiar with all or some part of the incident involved. They had seen the incident take place or they had heard about it—yes, having heard about it was sufficient qualification in many cases—and they were to get together and decide the case.

From this step we moved along to a jury of men who knew nothing about the existing facts but who were gathered together for the purpose of listening to the evidence and then deciding what was truth. Both sides were permitted to introduce evidence. The jury decided what they would believe. That settled the matter so far as the facts were concerned. Roughly, that is our present day jury.

Common Criticism

Numerous attacks have been made upon the jury—so many in fact that it would be impossible for us to even list them. All we can do is to merely recall some of the most frequently mentioned criticisms.

It is said that the jury causes a great waste of time. It has been pointed out that a trial by jury usually requires from two to three times the amount of time required when the jury trial is waived and the case is tried to a judge. It is said that this causes considerable delay and that the courts get so far behind trying ordinary cases that it becomes impossible to obtain justice in a given case within a reasonable time.

It is also said that the jury is incompetent to determine many of the issues that come before it. They are men and women taken from everyday life, unfamiliar with courtroom procedure and courtroom language. They are misled by the judge's instruction, misunderstand the law, and give unfair or prejudiced decisions.

About the Author

Buoyed by the O. J. Simpson trial, the jury system has surfaced in the national conscience again. As Professor Sparks points out, discussion about juries is not new, but it remains relevant, for with new attention has come new attack. In this article, written almost four decades ago but unpublished until now, Professor Sparks defends one of our precious heritages from the law and customs of England, trial before a jury of our peers.

The career of Bertel M. Sparks (1918–1994) as a professor of law was almost equally divided between the schools of law of New York University and Duke University. His expertise was in the areas of real property, wills, trusts, and future interests. He was the author of two books and of numerous journal articles, some of them published in *The Freeman*.

Named to the Board of Trustees of The Foundation for Economic Education in 1972, he was a frequent speaker at FEE summer seminars. He became Trustee Emeritus of FEE several years before his death.

In preparing his papers for a university archive, I found this previously unpublished manuscript and edited it for publication. It was originally delivered as a speech before the Christian Association of New York University, November 6, 1957, and is excerpted for *The Freeman*.

—*Martha Evans Sparks* (Mrs. Bertel M. Sparks)

It is also said that the jury is likely to become intrigued by the two contesting lawyers, jurors are likely to decide the case according to what they think of the lawyers rather than what they think of the rights of the parties involved.

Another charge made against the jury is that they can't understand the complicated transactions involved in many cases they are asked to decide. They don't understand what a bill of lading is. They don't know what is meant by goods being sold on consignment. They can't understand some of the embezzlement cases.[1] In the personal injury cases, they are in no position to fix damages. They can't estimate the value of a broken leg, a destroyed brain, a mangled body, or even a damaged automobile.

While all these things have some weight, those who would oppose any attack upon the jury system would insist that they are not as serious as might at first appear and that even if they are serious there is no satisfactory substitute.

As for the jury trial taking more time than trial by a judge, there is even some doubt about that. The time that is consumed is usually consumed through the operation of various rules of admissibility of evidence, motions for delay, and others. These might be defects in our procedural law but it is a mistake to say that they all can be blamed upon the jury system.

As for the jury's alleged inability to cope with the facts before it and that it is an incompetent instrument for determining truth, this too may be doubted. Who is to say that a judge, or a group of judges, are in a better position to decide the amount of damage a truck driver should have for losing an arm than twelve men and women chosen at random and including mechanics, laborers, grocery clerks, accountants, and possibly truck drivers.

The Heart of the Matter

This brings us to the real heart of the matter and to the point where, in my judgment, it becomes clear that the jury system must be preserved at all costs. If it is to be preserved it must be preserved, not simply because it is old, venerated, loved, or any of those things. If it is to be preserved it should be because it is essential to human liberty, individual dignity, and a free society.

If political freedom and a stable society are to be preserved it is essential that there be a system of justice in which the public has confidence and willingness to trust. In your study of history you have been thrilled and spellbound by some of the stories of the steps toward human freedom, some of the great revolutionary movements in history. If you will examine those I believe you will find that most of them had their origin in some phase of the administration of justice. Every person who has even given thought about freedom of the press knows there is such a man as Peter Zenger. No one has read about the American Revolution without hearing of the Boston Massacre. The story of our own Civil War cannot be completed without Dred Scott and John Brown.

When these rights are achieved, by whatever means, they get enforced, not through the legislature, not through the executive, but through the courts. They are trials. It is there that the individual finds justice or fails to find justice. What can give him more confidence in that justice than the fact that twelve of his peers participate in meting it out. These twelve men are part of the process. The man concerned may feel that he is not getting justice. The community might not want to accept it. If it was decided by a representative group from the community, it is likely to be accepted. It is here that the administration of justice is brought close to the people. The people are not ready to accept a doubtful decision made by a professional, by a panel of experts, or by a dictator. They are ready to accept that decision which came from their own group. And the jury is a means of bringing the whole power of the citizenry to bear upon the daily administration of justice.

The jury is also a means of bringing flexibility into the courtroom. The judge must be impartial. He must be impersonal. He must administer the law as he finds it. All this is said to the jury. The jury has been criticized by the allegation that it does not apply the law but is swayed by the emotional appeal of the particular case. The very fact that it is so swayed is one of its crowning features. When the jury—twelve of your peers—retires to the jury room it becomes king. It becomes king but a very responsible king. The door to that jury room must remain forever inviolate. What goes on in there is their business and theirs alone. But they are twelve men. They are strangers to each other. They must answer to each other and to their own consciences. They must also live in the community where they made that decision. They are necessarily limited in their actions by all these things.

Dean Wigmore[2] has told us of a young woman who was earning her own living but who succumbed to the influence of an attractive but unworthy young man and married him. He turned out to be a sot. He lived off her income until she got a divorce two years later. Somehow he had managed to purchase a $2,000 insurance policy payable to his estate. He died with this insurance policy his only asset and a distant uncle his nearest relative. Friends of the young woman persuaded her to file a claim against the estate for the money she had advanced to this good-for-nothing. At the trial a written promissory note for exactly $2,000 payable to the wife and signed by the husband was introduced. A handwriting expert testified that the writing was a forgery. Later the expert asked the foreman of the jury if they honestly doubted the expert's testimony. The foreman answered, "Of course we believed it, but we were not going to let that poor woman lose all the money that she had given to that worthless husband of hers!" Some will cite this as a reason for abolishing the jury. I cite it as a reason for its indispensability.

The jury also serves as a school in democracy. The right to the tribunals of justice is the right through which all other rights can be protected or through which they can all be destroyed. The humblest juror becomes a part of that tribunal. He sees it in operation. He operates it. He is elevated to a position of importance. The events of the courtroom—the events of his judicial system are brought home to him. This is impossible if the case is tried to a judge, a referee, an expert, or what-not.

Another essential reason for having the

jury is that its job is not the job of an expert and not the job of an individual. It is a job which requires group judgment. In the field of physical sciences (regardless of what Einstein said), it is possible to deal in absolute realities. On the human level this is impossible in the conduct of human life. There we must deal in averages, generalities, reasonableness, and other equally vague quantities. That average, that generality, that reasonable denominator, can best be arrived at through a group judgment. No human being can, or even has a right, to judge with any degree of absoluteness the right or the wrong of any individual. In fact that is the foundation of sin itself. What was the original sin but man's attempt to be God—man's partaking of the tree of knowledge of right and wrong.

The best that any system of earthly justice can hope for is to enforce some minimum standard. That minimum standard must be a standard accepted by the group. That makes the group decision necessary. The indictment—the accusation—might picture the accused raven black. But he is entitled to hear the verdict of his own comrades. When that verdict is "Not Guilty" he becomes white as the driven snow. Why? Not because a judge said so. Not because a panel of judges said so. Not because some expert in the science of the mind said so. But because twelve men of his peers said so.

There has been no time in the history of the world when anyone has admittedly attacked human freedom. That just isn't done. It isn't being done now. Other schemes are used. They often have their origin in noble motives. The effort to take the courts of justice—the deciding of particular cases—out of the hands of the popular will is in effect an attack upon that freedom. If you would preserve freedom, preserve the institution which administers freedom. If it is the people's liberty with which you are concerned, keep that liberty in the hands of the people.

Remember one thing more. No citizen worthy of being a citizen will ever decline jury service. □

1. Almost 40 years after Professor Sparks wrote, the ignorance-of-the-masses argument against trial by jury is still alive and well: "Commercial cases require a sophistication and expertise that lay jurors generally don't have." James D. Zirin, "Courting Disaster," *Barron's*, March 13, 1995, p. 45. [Editor's note]

2. John Henry Wigmore (1863–1943), professor and dean at the Northwestern University School of Law, Chicago, and an authority on the law of evidence.

THE FREEMAN
IDEAS ON LIBERTY

Greed and Gravity

by Dwight R. Lee

People have a tough time discussing self-interest in a morally neutral way. While morally charged arguments about self-interest can be philosophically intriguing, they are usually beside the point. Self-interest, or greed as it is often called, is like gravity: a pervasive force remarkably unaffected by philosophical discussions of right and wrong. When confronted with such a force one should recall the Alcoholics Anonymous prayer, "Lord, give me the courage to change the things that can and ought to be changed, the serenity to accept the things that cannot be changed, and the wisdom to know the difference." Discussions of self-interest typically reflect little serenity and even less wisdom.

Although self-interest does have its defenders, its detractors are far more numerous and influential. Self-interest is commonly seen as a negative characteristic that people should try to overcome. In this view, self-interest and greed are synonymous, and the world would be a better place if people discarded them as they would bad habits. Some people distinguish between greed (bad) and "enlightened self-interest" (good). But the person who applies the adjective "enlightened" often does so to champion action that he approves and which commonly does more to promote his well-being than that of those urged to take the recommended action.

The defenders of self-interest base their arguments on deeper philosophical insight into human nature, and have made a strong case for narrowly focused self-interest—what most people would refer to as greed. Those who defend narrow self-interest recognize that people are capable of malevolence as well as benevolence when concerning themselves with the interests of others. And given the history of man's inhumanity to man, malevolence is probably a stronger impulse than benevolence.

Dr. Lee, Ramsey Professor of Economics at the University of Georgia, is this month's guest editor.

In Defense of Commerce

Indeed, the major advantage some eighteenth-century writers saw in the emerging market-based economy was that it motivated people to substitute commercial avarice (or greed) for more disruptive passions, such as the lust for power and conquest. This view was succinctly captured by Samuel Johnson when he observed, "There are few ways in which a man can be more innocently employed than in getting money."[1] In his famous 1748 treatise, *Spirit of the Laws*, the French political philosopher Montesquieu stated: "It is almost a general rule that wherever manners are gentle there is commerce; and wherever there is commerce, manners are gentle."[2] The Scottish historian William Robertson wrote in 1769, "Commerce tends to wear off those prejudices which maintain distinctions and animosity between nations. It softens and polishes the manners of men."[3] More recently, even John Maynard Keynes saw virtue in narrowly focused self-interest:

> Dangerous human proclivities can be canalized into comparatively harmless channels

> by the existence of opportunity for money-making and private wealth, which if they cannot be satisfied in this way, may find their outlet in cruelty, the reckless pursuit of personal power and authority, and other forms of self-aggrandizement. It is better that a man should tyrannize over his bank balance than over his fellow-citizens. . . .[4]

But the defenders of self-interest, and their arguments, are not widely known. Most people see the defenders of self-interest as villainous characters. Certainly popular entertainment promotes the view that self-interest, particularly commercial self-interest, is a corrupting influence in society. According to one study, during the 1980s almost 90 percent of all business characters on television were portrayed as corrupted by greed.[5]

Politicians do the most to foster and exploit the negative view of self-interest. They constantly rant against the greed of those who put their private interest above the public interest. Invariably when a politician engages in such a diatribe, he is rationalizing the failure of some public policy that he favors. Few things would do more to discredit silly political statements and derail pernicious public policies than to recognize that self-interest is not good or bad, it just is.

Imagine an aeronautical engineer who kept designing airplanes that either never got off the ground or crashed almost immediately if they did. Consider our response to such an engineer if she claimed that there was nothing at all wrong with her engineering, and that her planes would fly just fine if it weren't for gravity. She would immediately be dismissed as a raving lunatic. But is her argument really any sillier than those we hear from politicians and statist policy wonks every day?

Recall the recent health-care debate. Government policy has led to health-care arrangements where most medical services are paid for by third parties, with neither patients nor physicians having much motivation to take costs into consideration. The predictable result has been escalating prices for health-care services and, of necessity, increasing health-insurance premiums. But the constant refrain from the health-care engineers in Washington is that the problem is greed, not the collectivization of health-care decisions. Indeed the recommendation has been for more collectivization. The recommended health-care system would work just fine, with the finest care at the lowest prices for all, if only physicians, drug companies, and insurance companies weren't so greedy.

As government has grown larger, controlling an increasing share of the national income, organized interests have predictably devoted more effort to influencing government policy. The noble objectives that it is easy to imagine being achieved by an expansive government invariably fall victim to perversities of interest-group politics. Yet good-government types are convinced that bigger government could be the source of bigger benefits if only the greedy special interests would quit putting their narrow concerns ahead of the general welfare. Greed is the problem, not the design of government programs and policies. So all that is needed is the right campaign reform and lobbying restrictions to banish the corrupting influence of greed from politics.

Other examples could be given of social engineers blaming greed and self-interest when their policies fail to achieve liftoff, but the point is clear. The public would be well served if politicians and policy makers began recognizing that self-interest is not good or bad, but an unalterable fact of life. Until they do, they will continue to design cumbersome and costly public policies that do far more harm than good, and then blame their failures on greed. □

1. James Boswell, *The Life of Samuel Johnson* (Middlesex, England: Penguin Books, 1979), p. 177.
2. Quoted on p. 1464 of Albert O. Hirschman, "Rival Interpretations of Market Society: Civilizing, Destructive, or Feeble," *Journal of Economic Literature*, December 1982, pp. 1463–1484.
3. Quoted in Albert O. Hirschman, *The Passions and the Interests: Political Arguments for Capitalism Before Its Triumph* (Princeton University Press, 1977), p. 61.
4. *The General Theory of Employment, Interest and Money* (London: Macmillan, 1936), p. 374. Also quoted in Hirschman (1977), *op. cit.*, p. 134.
5. See page 146 of Robert Lichter, Linda Lichter, and Stanley Rothman, *Watching America* (New York: Prentice Hall, 1990).

THE FREEMAN
IDEAS ON LIBERTY

The Foundations of Political Disarray: Lessons from Professor Hayek

by Richard B. McKenzie

The late Friedrich Hayek, who spent his career explaining why centrally directed economies are bound to fail, started one of his philosophical essays with a profound Socratic maxim, *"[T]he recognition of our ignorance is the beginning of wisdom."*[1] The wisdom in those words was a cornerstone of Professor Hayek's classic work, *The Road to Serfdom*, which, perhaps more than any other volume, explains the collapse of Communism.[2] In 1994, we celebrated the fiftieth anniversary of that book's publication.

As Professor Hayek elaborated, civilization as we know it is founded on the use of much more knowledge than any one individual is aware of, or even can be aware of. Most of what is done in civilized society requires the employment of far more knowledge than any single person could possibly absorb. The trick (and marvel) of civilized order has been the coordination of the use of total societal knowledge without any one person knowing all there is to know, which means without centralized direction.

Centralized direction of the economy invariably means reliance on the limited knowledge of those who give the directions. "If we are to understand how society works," the good professor added, "we must attempt to define the general nature and range of our ignorance concerning it. Though we cannot see in the dark, we must be able to trace the limits of the dark area" (of what we don't and cannot know).[3] The limits are defined by our considerable but restricted intelligence.

The content of the "dark area" is what the multitude of other people will do with their knowledge and how we and they will react to one another in a succession of evolving rounds of adjustments to our plans, given what we learn as we proceed into the future. If we could somehow know how all of the adjustments would play out, it is unlikely that the future would be nearly as complex or prosperous as it would otherwise be, simply because the future would then be what we, with our limited knowledge, could absorb and deduce, which, in the cosmic scope of things, isn't very much.

Politics and the "Usual Approach"

Instead of acknowledging the vastness of the "dark area," which can only be known

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F. A. Hayek, circa 1945

as people freely interact, too many modern political leaders—the president and past presidents included—start with a radically different premise. They presume that, with enough hard work and a sufficient number of very bright colleagues, they can impose their acquired wisdom on the rest of the country to marvelous effect. They do not understand that it is their own "constitutional ignorance" (to use another of Hayek's epigrams) that forms the foundation of political disarray.

We have been cursed with the types of leaders Hayek had in mind when he wrote in the 1950s about the misleading consequences of the "usual approach," which stresses how much people *do* in fact know, not the far greater amount of what they *don't* know. The "usual approach" often leads, mistakenly, to the conclusion that the fundamental institutions of society were deliberately created and can, therefore, be deliberately changed productively by administrative pronouncements. The problem is that most institutions became what they are—more complex and sophisticated—as people were able to tap into the knowledge held by more and more other people and reacted to one another in a multitude of unpredictable ways.

Activist politicians who reveal their political predispositions acknowledge that government has worked poorly in the past for the relief of social ills. Their solution: extend the reach of government in virtually all directions, into the management of industrial (technology) policy, the control and direction of cyberspace and the electronic superhighway, and the administration of international trade at the industry level. At the same time, they intend to give detailed direction on the "educational" content of children's television programs, as well as reform of the dreary performance of the nation's school system, from the bureaucracies of Washington.

These programs are only a sample of the thousand and one things politicians and bureaucrats want to accomplish by taxing the nonpoor and imposing extensive regulations on employers. They don't seem to realize that their proposed guidance will not be imposed on a system that is already without direction. Their directives will simply replace—because of the taxes and mandates involved—the innumerable directives given by others.

More pointedly, recent leaders and their henchmen have rightfully and astutely surmised that the new world economic order is a highly sophisticated, complex, messy place that will not be safe for those workers who refuse to continually reinvent their human skills. They have, however, taken it upon themselves to be responsible (in words at least) for the skills of all quarter billion Americans. The current president has repeatedly claimed that what will distinguish his administration from its predecessors is that he will go to bed each night worrying about solutions for the employment problems of *all* Americans. Now, understandably, he wants to take credit for every job created in the country (all five million of them) since he took office. On his June 1994 trip to Europe, he extended his policy sights, proposing to set aside tens of millions of taxpayer dollars to make American taxpayers the engine for job creation in Eastern Europe, most notably Poland.

"The More Men Know . . ."

Such policy claims and proposals should be recognized for what they are, pure political balderdash, given that our sophisticated, complex, and messy world imposes strict limits on what any administration can do to good effect. As Professor Hayek notes, "The more men know, the smaller the share of all that knowledge becomes that any one mind can absorb. The more civilized we become, the more relatively ignorant must each individual be of the facts on which the workings of civilization depends. The very division of knowledge increases the necessary ignorance of the individual of most of this knowledge."[4]

A number of years ago, the late Leonard Read, founder and president of the Foundation for Economic Education, wrote "I, Pencil," an article in which he observed that, ironically, no one on earth knows how to make a product as simple as a pencil.[5] No one knows enough—and cannot know enough—to make all the components of a pencil (or make all the components that go into the equipment required to produce a pencil). Yet, pencils are made by the tens of millions, if not billions, annually.

Just think if Mr. Read were to rewrite his article today using an ordinary computer as his example. His central point would have double the force, especially now that computer components are made in various places around the globe. Computers, as well as a host of other products, are made nowhere; then again, they are made everywhere.

Nevertheless, the politics of good intentions persists, aiming to end welfare as it has been known, to orchestrate a foreign policy that will cover the globe, to win the endless war against drugs, to save the environment, and to revitalize the nation's metropolitan police forces. And, last but hardly least, to mount a hostile takeover of the nation's health-care system, another one-seventh of the national economy.

Simply stated, it is humanly impossible for any mortal—even the brightest leader with the best of intentions and clearest of visions—to know how to accomplish what he has set as his agenda. There are not enough hours in the day for one individual to learn even the rudiments of what he needs to know to press for a more centralized course for the national economy without serious, possibly debilitating, errors in policies.

> [T]he knowledge which any individual mind consciously manipulates is only a small part of the knowledge which at any one time contributes to the success of his actions. When we reflect on how much knowledge possessed by other people is an essential condition for the successful pursuit of our individual aims, the magnitude of our ignorance of the circumstances on which the results of our action depend appears simply staggering. Knowledge exists only as the knowledge of individuals. It is not much more than a metaphor to speak of knowledge of society as a whole. *The sum of knowledge of all the individuals exists nowhere as an integrated whole.* The great problem is how we can profit from this knowledge, which exists only dispersed as the separate, partial, and sometimes conflicting beliefs of all men [emphasis added].[6]

Those fundamental points are applicable to all mortals, independent of the shapes of their offices. So it is that we see the executive branch thrashing about in virtual administrative chaos, flitting from one policy agenda to the next, setting and then reversing one foreign policy strategy (and miscue) after another, and always covering its efforts in the rhetoric of what Hayek eloquently tagged as the "pretense of knowledge" about what Americans need and want.

Individual Differences

We have been led to believe that any new expansive government agenda should be imposed on the American people with precious little conflict, supposedly because people will all seek their common purpose. However, as much as leaders would like to simplify their planning and management problem, and assume that people want and need the same thing (supposedly, what is decided by the political process in Washington), people are different! They have different tastes and needs and are willing to make different tradeoffs, facts that are beyond the purview of the people in power. When so much is at stake—when government becomes deeply involved in the division of the income (or health-care) pie—we should not be at all surprised that Washington begins to look and feel like, to use economist Dwight Lee's turn of words, "malice in plunderland."[7]

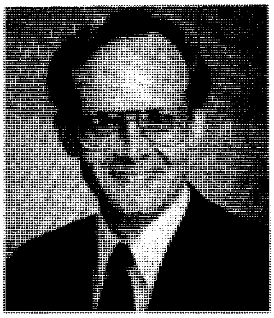
When the president sounds off about needed reforms in the nation's health-care industry (or any other industry), I always wonder just how much he really knows—even can know—about what my daughter, who lives in Six Mile, really wants in the way of health care. I suspect that he does not know where Six Mile is, much less the details of the circumstances under which she lives. He certainly knows little to nothing about the trade-offs she is willing to make.

Policymakers need to appreciate the fact that their charted policy course jeopardizes the country's future economic prosperity precisely because they seek, with unrelenting pressure, to restrict our future to what *they* can imagine it will be. They need to acknowledge that successful social and economic systems are not just created or recreated or reinvented at the shake of a presidential finger. If social and economic systems were invented by political leaders, the systems might not be messy, but they would certainly be limited in sophistication and complexity to that which the leaders and their few advisers—who know little or nothing about making pencils, or computers, much less productive and efficient health-care systems—could construct. And their productivity would be somewhere between dismal and nothing.

Contrary to widely held belief, the case for giving power to private individuals through markets (as distinct from giving political power to their leaders) is not founded on a disdain for "government" per se. Governments can do some very important things right—if they restrict themselves in the range of what they are allowed to do. Rather, the case against government empowerment is grounded in the observed limitations of the human mind *to know,* that is, in our necessary individual ignorance. The wealth of nations is dependent upon our drawing on the limited intelligence of the multitudes in the hinterlands, not just the intelligence of the few leaders and their supporting staffs in the country's political center. Markets are communication systems with prices being prime signals for sending messages. The people doing the communicating—each of whom knows some things, but, at the same time, is consumed in a sea of ignorance—are, however, able to coordinate their activities to mutually beneficial and ever more complex effect.

Recognition of that fact would be, as it has always been, the cornerstone of wisdom for our political leaders, the kind that the venerable Professor Hayek would recommend. □

1. F. A. Hayek, *The Constitution of Liberty* (Chicago: University of Chicago Press, 1960), p. 22.
2. Friedrich A. Hayek, *The Road to Serfdom* (Chicago: University of Chicago Press, 1944).
3. *The Constitution of Liberty*, p. 23.
4. *Ibid.*, p. 26.
5. Leonard E. Read, "I, Pencil," reprinted in *Imprimus* (Hillsdale, Mich.: Hillsdale College, June 1992).
6. Hayek, *The Constitution of Liberty*, p. 24.
7. See Dwight R. Lee, *The Political Economy of Social Conflict, or Malice in Plunderland* (Los Angeles: International Institute for Economic Research, February 1982).



The Power to Tax

Two-thirds of Americans think the current federal income tax system is "unfair." A majority—51 percent—favor a "complete overhaul" of the system. Former IRS Commissioner Shirley Peterson has said, "we should repeal the Internal Revenue Code and start over."

It's not as though Americans weren't given fair warning. Guess who made these remarkably radical statements about the very idea of a federal income tax more than one hundred years ago:

1. "[It] is an abhorrent and calamitous monstrosity. . . . It punishes everyone who rises above the rank of mediocrity. The fewer additional yokes put around the necks of the people, the better."
2. "[It is] a vicious, inequitable, unpopular, impolitic, and socialistic act. . . . the most unreasoning and un-American movement in the politics of the last quarter-century."
3. "[It] can only be collected by prying into the private affairs of the people by arbitrary methods hateful to the citizens of the republic."

Those were the words of the *Washington Post*, the *New York Times*, and the *Chicago Tribune* respectively, commenting in 1894 on the first income tax to be passed by Congress. This vitriolic criticism was aimed at a proposal that was to levy a mere 2 percent tax on income in excess of $4,000—which would be at least $65,000 in today's dollars. Because of that large $4,000 exemption, 98 percent of Americans were completely exempt from income taxation. One year later the Supreme Court ruled this tax to be unconstitutional, and so ended America's first peacetime experiment with an income tax. It would take a constitutional amendment—the 16th—to give Congress the legal power to shackle us with an income tax.

In 1909, when the 16th Amendment was being debated, the *New York Times* criticized it, saying, "When men get in the habit of helping themselves to the property of others, they cannot be easily cured of it." History has proven that prediction to be correct, though I doubt that it bothers the *New York Times* as much today as it did in 1909.

After the 16th Amendment was ratified, an income tax was imposed starting in 1913 with rates ranging from 1 percent to 7 percent, and the top rate applying only to incomes in excess of $500,000. By 1916 that top rate had risen to 15 percent, on income in excess of $2,000,000. The top rate exceeded 90 percent at its peak in the early 1950s.

The first 1040 form—instructions and all—took up only four pages. Today, there are some 4,000 pages of tax forms and instructions. American workers and busi-

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nesses are forced to spend more than 5.4 billion man-hours every year figuring out their taxes. Since those hours could be put to a more productive use, and almost surely would be in the absence of today's incomprehensible tax code, the result is a large dead-weight output loss of some $200 billion each year.

Changes in the law keep all of us in a constant state of confusion. Since the 1986 so-called "simplification" of the tax code, some 4,000 amendments have been worked back into it. Changes have become so commonplace that on several occasions, Congress has rewritten the law—in the words of a past IRS commissioner—"before the IRS even had time to reprogram its computers from the previous tax reform."

Interestingly, 60 percent of the members of the House Ways and Means and Senate Finance Committees do not prepare their own returns. When Lloyd Bentsen was writing our tax laws as chairman of the Senate Finance Committee a few years ago, he admitted that he personally used a professional tax preparer because "my return is a complicated one."

The IRS now has more enforcement personnel than the EPA, BATF, OSHA, FDA, and DEA combined. With its 115,000-man workforce, it has the power to search the property and financial documents of American citizens without a search warrant and to seize property from American citizens without a trial. It routinely does both.

Economist James L. Payne has written a most revealing analysis of the IRS, a 1993 book entitled *Costly Returns*. He gives us this stunning revelation: the total cost to collect our federal taxes, including the effects on the economy as a whole, adds up to an amazing 65 percent of all the tax dollars received annually. The U.S. tax system, says Payne, has produced hundreds of thousands of victims of erroneous IRS penalties, liens, levies, and tax advice. In answering taxpayer questions, for example, the IRS telephone information service has in previous years given about one-third of all callers—as many as 8.5 million Americans—the *wrong* answers to their questions.

A 1987 General Accounting Office study found that 47 percent of a random sample of IRS correspondence—including demands for payments—contained errors. Incredibly, a GAO audit of the IRS in 1993 found widespread evidence of financial malfeasance and gross negligence at the agency. *The IRS could not account for 64 percent of its congressional appropriation!*

With all this history of taxes and abuse of the taxing power behind us, proposals for much-needed, radical change are in the air. The flat rate income tax is one. A national sales tax is another. Americans will soon be debating both. Advocates of liberty ought to work to make sure that the case for much smaller government figures into that debate.

The forthcoming national debate about how the federal government taxes American citizens will provide a fruitful educational opportunity which proponents of liberty should employ to the fullest. We should use it to remind our fellow citizens of the evils of taxation and the tyranny of the bureaucracies that administer them. America's experience with the federal income tax confirms the prophetic wisdom of John Marshall almost two centuries ago: "The power to tax involves the power to destroy." □

THE FREEMAN
IDEAS ON LIBERTY

Fractional Reserve Banking

by Murray N. Rothbard

We have already described one part of the contemporary flight from sound, free market money to statized and inflated money: the abolition of the gold standard by Franklin Roosevelt in 1933, and the substitution of fiat paper tickets by the Federal Reserve as our "monetary standard." Another crucial part of this process was the federal cartelization of the nation's banks through the creation of the Federal Reserve System in 1913.

Banking is a particularly arcane part of the economic system; one of the problems is that the word "bank" covers many different activities, with very different implications. During the Renaissance era, the Medicis in Italy and the Fuggers in Germany, were "bankers"; their banking, however, was not only private but also began at least as a legitimate, non-inflationary, and highly productive activity. Essentially, these were "merchant-bankers," who started as prominent merchants. In the course of their trade, the merchants began to extend credit to their customers, and in the case of these great banking families, the credit or "banking" part of their operations eventually overshadowed their mercantile activities. These firms lent money out of their own profits and savings, and earned interest from the loans. Hence, they were channels for the productive investment of their own savings.

To the extent that banks lend their own savings, or mobilize the savings of others, their activities are productive and unexceptionable. Even in our current commercial banking system, if I buy a $10,000 CD ("certificate of deposit") redeemable in six months, earning a certain fixed interest return, I am taking my savings and lending it to a bank, which in turn lends it out at a higher interest rate, the differential being the bank's earnings for the function of channeling savings into the hands of credit-worthy or productive borrowers. There is no problem with this process.

The same is even true of the great "investment banking" houses, which developed as industrial capitalism flowered in the nineteenth century. Investment bankers would take their own capital, or capital invested or loaned by others, to underwrite corporations gathering capital by selling securities to stockholders and creditors. The problem with the investment bankers is that one of their major fields of investment was the underwriting of government bonds, which plunged them hip-deep into politics, giving them a powerful incentive for pressuring and manipulating governments, so that taxes would be levied to pay off their and their clients' government bonds. Hence, the powerful and baleful political influence of investment bankers in the nineteenth and twentieth centuries: in particular, the Rothschilds in Western Europe, and Jay Cooke and the House of Morgan in the United States.

By the late nineteenth century, the Morgans took the lead in trying to pressure the U.S. government to cartelize industries they were interested in—first railroads and then manufacturing: to protect these industries from the winds of free competition, and to use the power of government to enable these industries to restrict production and raise prices.

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In particular, the investment bankers acted as a ginger group to work for the cartelization of commercial banks. To some extent, commercial bankers lend out their own capital and money acquired by CDs. But most commercial banking is "deposit banking" based on a gigantic scam: the idea, which most depositors believe, that their money is down at the bank, ready to be redeemed in cash at any time. If Jim has a checking account of $1,000 at a local bank, Jim knows that this is a "demand deposit," that is, that the bank pledges to pay him $1,000 in cash, on demand, anytime he wishes to "get his money out." Naturally, the Jims of this world are convinced that their money is safely *there*, in the bank, for them to take out at any time. Hence, they think of their checking account as equivalent to a warehouse receipt. If they put a chair in a warehouse before going on a trip, they expect to get the chair back whenever they present the receipt. Unfortunately, while banks depend on the warehouse analogy, the depositors are systematically deluded. *Their money ain't there.*

An honest warehouse makes sure that the goods entrusted to its care are there, in its storeroom or vault. But banks operate very differently, at least since the days of such deposit banks as the Banks of Amsterdam and Hamburg in the seventeenth century, which indeed acted as warehouses and backed all of their receipts fully by the assets deposited, e.g., gold and silver. This honest deposit or "giro" banking is called "100 percent reserve" banking. Ever since, banks have habitually created warehouse receipts (originally bank notes and now deposits) out of thin air. Essentially, they are counterfeiters of fake warehouse-receipts to cash or standard money, which circulate as if they were genuine, fully-backed notes or checking accounts. Banks make money by literally creating money out of thin air, nowadays exclusively deposits rather than bank notes. This sort of swindling or counterfeiting is dignified by the term "fractional-reserve banking," which means that bank deposits are backed by only a small fraction of the cash they promise to have at hand and redeem. (Right now, in the United States, this minimum fraction is fixed by the Federal Reserve System at 10 percent.)

Fractional Reserve Banking

Let's see how the fractional reserve process works, in the absence of a central bank. I set up a Rothbard Bank, and invest $1,000 of cash (whether gold or government paper does not matter here). Then I "lend out" $10,000 to someone, either for consumer spending or to invest in his business. How can I "lend out" far more than I have? Ahh, that's the magic of the "fraction" in the fractional reserve. I simply open up a checking account of $10,000 which I am happy to lend to Mr. Jones. Why does Jones borrow from me? Well, for one thing, I can charge a lower rate of interest than savers would. I don't have to save up the money myself, but simply can counterfeit it out of thin air. (In the nineteenth century, I would have been able to issue bank notes, but the Federal Reserve now monopolizes note issues.) Since demand deposits at the Rothbard Bank function as equivalent to cash, the nation's money supply has just, by magic, increased by $10,000. The inflationary, counterfeiting process is under way.

The nineteenth-century English economist Thomas Tooke correctly stated that "free trade in banking is tantamount to free trade in swindling." But under freedom, and without government support, there are some severe hitches in this counterfeiting process, or in what has been termed "free banking." First: why should anyone trust me? Why should anyone accept the checking deposits of the Rothbard Bank? But second, even if I were trusted, and I were able to con my way into the trust of the gullible, there is another severe problem, caused by the fact that the banking system is competitive, with free entry into the field. After all, the Rothbard Bank is limited in its clientele. After Jones borrows checking deposits from me, he is going to spend it. Why else pay money for a loan? Sooner or later, the money he spends, whether for a vacation, or for expanding his business, will be spent on the goods or services of clients of some other bank, say the Rockwell Bank. The Rockwell Bank is not particularly interested in holding checking accounts on my bank; it wants reserves so that *it* can pyramid its own counterfeiting on top of cash reserves. And so if, to make the case simple, the Rockwell Bank gets a $10,000 check on the Rothbard Bank, it is going to demand cash so that it can do some inflationary counterfeit-pyramiding of its own. But, I, of course, can't pay the $10,000, so I'm finished. Bankrupt. Found out. By rights, I should be in jail as an embezzler, but at least my phoney checking deposits and I are out of the game, and out of the money supply.

Hence, under free competition, and without government support and enforcement, there will only be limited scope for fractional-reserve counterfeiting. Banks could form cartels to prop each other up, but generally cartels on the market don't work well without government enforcement, without the government cracking down on competitors who insist on busting the cartel, in this case, forcing competing banks to pay up.

Central Banking

Hence the drive by the bankers themselves to get the government to cartelize their industry by means of a central bank. Central Banking began with the Bank of England in the 1690s, spread to the rest of the Western world in the eighteenth and nineteenth centuries, and finally was imposed upon the United States by banking cartelists via the Federal Reserve System of 1913. Particularly enthusiastic about the Central Bank were the investment bankers, such as the Morgans, who pioneered the cartel idea, and who by this time had expanded into commercial banking.

In modern central banking, the Central Bank is granted the monopoly of the issue of bank notes (originally written or printed warehouse receipts as opposed to the intangible receipts of bank deposits), which are now identical to the government's paper money and therefore the monetary "standard" in the country. People want to use physical cash as well as bank deposits. If, therefore, I wish to redeem $1,000 in cash from my checking bank, the bank has to go to the Federal Reserve, and draw down its own checking account with the Fed, "buying" $1,000 of Federal Reserve Notes (*the cash* in the United States today) from the Fed. The Fed, in other words, acts as a bankers' bank. Banks keep checking deposits at the Fed and these deposits constitute their *reserves*, on which they can and do pyramid ten times the amount in checkbook money.

Here's how the counterfeiting process works in today's world. Let's say that the Federal Reserve, as usual, decides that it wants to expand (i.e., inflate) the money supply. The Federal Reserve decides to go into the market (called the "open market") and purchase an asset. It doesn't really matter what asset it buys; the important point is that it writes out a check. The Fed could, if it wanted to, buy any asset it wished, including corporate stocks, buildings, or foreign currency. In practice, it almost always buys U.S. government securities.

Let's assume that the Fed buys $10,000,000 of U.S. Treasury bills from some "approved" government bond dealer (a small group), say Shearson, Lehman on Wall Street. The Fed writes out a check for $10,000,000, which it gives to Shearson, Lehman in exchange for $10,000,000 in U.S. securities. Where does the Fed get the $10,000,000 to pay Shearson, Lehman? *It creates the money out of thin air.* Shearson, Lehman can do only one thing with the check: deposit it in its checking account at a commercial bank, say Chase Manhattan. The "money supply" of the country has already increased by $10,000,000; no one else's checking account has decreased at all. There has been a net increase of $10,000,000.

But this is only the beginning of the inflationary, counterfeiting process. For Chase Manhattan is delighted to get a check on the Fed, and rushes down to deposit it in its own checking account at the Fed, which now increases by $10,000,000. But this checking account constitutes the "reserves" of the banks, which have now increased across the nation by $10,000,000. But this means that Chase Manhattan can create deposits based on these reserves, and that, as checks and reserves seep out to other banks (much as the Rothbard Bank deposits did), each one can add its inflationary mite, until the banking system as a whole has increased its demand deposits by $100,000,000, ten times the original purchase of assets by the Fed. The banking system is allowed to keep reserves amounting to 10 percent of its deposits, which means that the "money multiplier"—the amount of deposits the banks can expand on top of reserves—is 10. A purchase of assets of $10 million by the Fed has generated very quickly a tenfold, $100,000,000 increase in the money supply of the banking system as a whole.

Interestingly, all economists agree on the mechanics of this process even though they of course disagree sharply on the moral or economic evaluation of that process. But unfortunately, the general public, not inducted into the mysteries of banking, still persists in thinking that their money remains "in the bank."

Thus, the Federal Reserve and other central banking systems act as giant government creators and enforcers of a banking cartel; the Fed bails out banks in trouble, and it centralizes and coordinates the banking system so that all the banks, whether the Chase Manhattan, or the Rothbard or Rockwell banks, can inflate together. Under free banking, one bank expanding beyond its fellows was in danger of imminent bankruptcy. Now, under the Fed, all banks can expand together and proportionately.

"Deposit Insurance"

But even with the backing of the Fed, fractional reserve banking proved shaky, and so the New Deal, in 1933, added the lie of "bank deposit insurance," using the benign word "insurance" to mask an arrant hoax. When the savings and loan system went down the tubes in the late 1980s, the "deposit insurance" of the federal FSLIC [Federal Savings and Loan Insurance Corporation] was unmasked as sheer fraud. The "insurance" was simply the smoke-and-mirrors term for the unbacked name of the federal government. The poor taxpayers finally bailed out the S&Ls, but now we are left with the formerly sainted FDIC [Federal Deposit Insurance Corporation], for commercial banks, which is now increasingly seen to be shaky, since the FDIC itself has less than one percent of the huge number of deposits it "insures."

The very idea of "deposit insurance" is a swindle; how does one insure an institution (fractional reserve banking) that is inherently insolvent, and which will fall apart whenever the public finally understands the swindle? Suppose that, tomorrow, the American public suddenly became aware of the banking swindle, and went to the banks tomorrow morning, and, in unison, demanded cash. What would happen? The banks would be instantly insolvent, since they could only muster 10 percent of the cash they owe their befuddled customers. Neither would the enormous tax increase needed to bail everyone out be at all palatable. No: the only thing the Fed could do, and this would be in their power, would be to print enough money to pay off all the bank depositors. Unfortunately, in the present state of the banking system, the result would be an immediate plunge into the horrors of hyperinflation.

Let us suppose that total insured bank deposits are $1,600 billion. Technically, in the case of a run on the banks, the Fed could exercise emergency powers and print $1,600 billion in cash to give to the FDIC to pay off the bank depositors. The problem is that, emboldened at this massive bailout, the depositors would promptly redeposit the new $1,600 billion into the banks, increasing the total bank reserves by $1,600 billion, thus permitting an immediate expansion of the money supply by the banks by tenfold, increasing the total stock of bank money by $16 trillion. Runaway inflation and total destruction of the currency would quickly follow. □

THE FREEMAN
IDEAS ON LIBERTY

Reforming Politics in the Age of Leviathan: A Skeptical View

by Michael DeBow

The reform of campaign finance and lobbying is a perennial subject for Americans, particularly those of the "good government" persuasion. The reformers' conventional wisdom on these issues laments the fact that American politicians solicit, and receive, large amounts of campaign contributions from individuals and organizations with vital interests at stake in the political arena. In the conventional wisdom, money is the root of almost all political evil. Most importantly, bad public policies are supported by Congressmen as a payback to their contributors. This baleful result is traced particularly to the activities of political action committees, or PACs.

The Conventional Wisdom Misses the Real Problem

The reformers apparently think that, without the "corrupting" influence of campaign contributions and other lobbying efforts, Congress would make "better" decisions. This position is, in turn, based on an assumption that there is a correct answer to any given public policy question, and that this answer would be rather easily identified and implemented by a Congress freed of the corrupting influences of money and, thereby, acting "responsibly."

This is a delusion.

In virtually every instance, there is no "correct" answer to a public policy question waiting to be discovered by well-meaning officeholders. Exceptions to this rule may well exist in times of war and other national emergencies, but in peacetime there are no clear "answers" to most of the questions that government is increasingly called upon to answer.

To see that this is so, consider the related issues of government spending and taxing. While 90 percent or more of Americans might "agree" that the deficit should be lowered—or at least not increased—they will not agree on how such a state of affairs is to be reached. Should the rate of increase in Social Security benefits be reduced? Should appropriations to Aid to Families with Dependent Children, or National Public Radio, or farm price supports be cut—and if so, by how much? To state the problem is to answer it; there is no "answer." The political process will, of course, generate some sort of answer, but there is absolutely no reason to believe that any answer adopted by Congress is "the" answer.

In seeking to change campaign finance and lobbying methods, reformers are focusing on a symptom of the problem—spending

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to influence government decisionmaking—rather than on the real problem—the vast size and scope of American government.

For roughly the last 60 years, the size and scope of the national government have steadily increased, along with tax rates and the reach of government regulation into many areas of our lives. As a result, the idea that there are, or should be, any limits on the powers of the government has largely passed from the contemporary scene. This is particularly true with respect to the federal government and to the regulation of economic activity. Not only do we not have a national government of enumerated powers as envisioned by the Founders, we have a national government of such unlimited scope that it would be very difficult to agree on an enumeration of powers that it does *not* have.

Do you doubt it? Reflect on the fact that in the recent debate over health care, *no* serious attention was paid to the question whether the federal government has the authority to regulate this area of our lives. Instead, arguments focused on whether such regulation would lead to beneficial results.

In short, Americans have, consciously or unconsciously, rejected the concept of limited government. In its place, we now have Leviathan.[1] The growth of Leviathan triggered a parallel growth in the efforts of private interests to extract favorable treatment from the government. Given the size of government and the virtually unlimited scope of its powers, private interests—businesses, unions, ideological groups, retirees, and so on and on—face tremendous incentives to become active in the political sphere in order to pursue governmentally-conferred benefits and to oppose like efforts put forth by others. From society's viewpoint, all this activity is a waste of resources.

Moreover, the problem of private interest capture of government power is only one problem aggravated by the growth of government power. The other major problem is that massive government power is subject to massive mistakes and miscalculations even in the absence of private-interest manipulation or, indeed, in the absence of any corruption at all.[2] Platonic Guardians can make mistakes, too, and given all that we ask them to do today, we'd be better off with a smaller government than with our current government even if it were staffed with public-spirited experts.

In short, any attempt to reform politics that does not include a serious effort at downsizing government is doomed to impotence.

Campaign Finance Reform Is Not Likely to Produce Positive Results

If you accept my argument thus far, you may still think campaign finance and lobbying reform could do no harm—even if it is likely to have little or no positive effect, given the size and scope of government. Shouldn't we at least try to reform politics, even if we recognize that the real source of our problems is the virtually unlimited scope of government power?

Maybe not. There are several good reasons to reject the view that increased regulation of campaign spending and fundraising, and interest-group lobbying would improve the political process.

First, attempting to limit the effectiveness of political interest groups by regulating campaign finance and lobbying would raise severe First Amendment questions.[3] Bluntly put, the First Amendment was designed to protect the kinds of activities that the good-government crowd seeks to curtail. Given the current state of First Amendment case law, any serious attempt to regulate in these areas may very well be struck down by the courts.

Professor Lillian BeVier of the University of Virginia Law School has argued that First Amendment protection of this kind of "speech" is in fact in the broad public interest.

> "Special interest" groups, and political action committees that they form, are a means of overcoming the collective action

> problems that [the rational ignorance of most voters] engenders. Because they serve this function, special interest groups may arguably be regarded as benign if not indispensable players in the democratic process. With respect at least to their own particular interests, such groups have the significant potential effectively to monitor legislative behavior and thus to reduce legislative shirking. They convey information to otherwise uninformed and powerless group members about legislative activity and in turn funnel information from the group back to the legislature. Under this view, special interest groups deserve the protection of the First Amendment's freedom of association because of the indispensable role they play in monitoring elected officials.[4]

Put another way, there is simply too much at stake for politics to be conducted without efforts by "outsiders" (that is, the governed) to influence the process, and it is a good thing that the First Amendment case law recognizes this fact.

Second, interest groups "have a number of close substitutes to direct contributions—lobbying, voter mobilization efforts, 'soft money' donations, and so on."[5] Any attempt to regulate independent efforts to advance a particular candidate or espouse a particular viewpoint on a contested issue would be even more vulnerable to First Amendment attack than limits on direct campaign contributions. Thus, interest groups would likely be able to live with and work around, at least to some extent, any new restrictions that did survive First Amendment scrutiny.

Third, it stands to reason that from time to time interest groups will inadvertently represent the interests of most of the general public even as they represent their own private interests. For example, the interest groups that fought the Clinton Administration's health-care proposals represented the interests of the general public at the same time they represented their own private interests. When President Clinton proclaimed that it was his health-care reform against the special interests, most Americans should have cheered for the special interests—which prevailed, in the end. With a government as powerful and intrusive as ours, we should not be too quick to blunt the effectiveness of interest groups who will oppose further accretions of government power. Since almost any given interest group may, on a particular issue, oppose the expansion of government, this point covers a lot of territory.

Fourth, if current efforts at campaign finance and lobbying reform succeed and have a real effect on the ability of interest groups to influence politicians via legal campaign contributions and so on, this would likely increase the amount of under-the-table bribes and payoffs to politicians. Simply put, "meaningful" reform would shift a portion of the market for influence underground.[6] This is simply a result of the fact that government's authority is so great that there will be competition, legal and illegal, for influence over it.

Finally, the conventional wisdom about campaign spending/fundraising may very well be wrong. For example, the line of causation in campaign contributions is often cloudy. Does Interest Group X contribute to Congressman Y because he agrees with them, or does Y agree with them only (largely?) to gain their contributions? Moreover, recent research presents a strong challenge to the conventional wisdom on campaign finance reform. This research brings into doubt the reformers' claims that (1) the incumbents' financial edge over challengers is critically important, and (2) PAC contributions have a substantial effect on the political system.[7] As Harvard economist Steven Levitt put it, "the substantial amount of energy devoted to the topic by the public, the media, and politicians might be more productively channeled towards other issues."[8] While this research will be subjected to further testing and debate, it currently stands as an important reason to hold off on any major attempt to rewrite campaign finance law, at least pending the outcome of further research.

In summary, any effort to reform the

practice of seeking political influence without first reducing the size and power of government is not likely to have a significant positive effect, and may well infringe the First Amendment and other widely held values. □

1. Gary Lawson, "The Rise and Rise of the Administrative State," *Harvard Law Review*, April 1994, pp. 1231-1254. Lawson describes the "post-New Deal administrative state" as the result of a "bloodless constitutional revolution."

2. For discussions of the types of failure that plague government activity, see Charles Wolf, Jr., *Markets or Governments: Choosing between Imperfect Alternatives* (Cambridge, Mass.: MIT Press, 1993), and Michael E. DeBow, "Markets, Government Intervention, and the Role of Information: An 'Austrian School' Perspective, With an Application to Merger Regulation," *George Mason University Law Review*, Fall 1991, pp. 31–98.

3. Recall that portions of the post-Watergate campaign finance reform statute were struck down as violative of the First Amendment by the Supreme Court's 1976 opinion in *Buckley v. Valeo*. For a good overview of current laws and regulations, see Sam Kazman, "Purer Politics, Greasier Pigs, and Other Wonders of Campaign Reform," *Regulation*, Summer 1992, pp. 62–68.

4. Lillian BeVier, "Campaign Finance Reform: Specious Arguments, Intractable Dilemmas," *Columbia Law Review*, May 1994, p. 1273.

5. Steven D. Levitt, "Congressional Campaign Finance Reform," *Journal of Economic Perspectives*, Winter 1995, pp. 183, 193.

6. According to one observer, "If you were foolish enough to abolish lobbying, you would only drive it underground, where it would be far more abusive and corrupting than it is in the open." Jonathan Rauch, *Demosclerosis: The Silent Killer of American Government* (New York: Random House, 1994), p. 159.

7. Levitt, pp. 188, 192.

8. *Ibid.*, p. 192.

Why Is It Nature versus People?

by Tibor R. Machan

The environmentalist lobby in Washington is working overtime these days moaning over the prospect of reduced-budgets and rolled-back regulation.

Don't get me wrong. I do not dismiss everything scary coming from ecologists. Human beings can be reckless and destructive, although I doubt our worry should be about the environment instead of ourselves. After all we can flourish only if there are no great disasters, whether of our own making or through climatic happenstance.

What makes me doubt the complete sanity of many environmentalists is their constant insistence on reading human life out of the rest of nature. As if we were not natural and did not belong with the rest of the world—indeed, as if we had been dumped into reality by some runaway garbage truck disposing of unnatural trash.

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The plain fact is that we are every bit as natural as are ants, snail darters, spotted owls, or wetlands. We are the crown of creation, the highest level of nature attained in the known universe. What's more, this means that housing developments, too, are part of nature. As are high-rise buildings, bridges, disposable diapers, and even nuclear waste.

Part of the rhetoric that gives environmentalists the apparent moral high ground concerns the supposed conflict between the sacrosanct natural versus the lowly artificial, technological, and "man-made." I am sure we all have heard instances of this blather, as when some program on the Discovery channel proclaims that some part of nature has been undermined by, you guessed it, "MAN"!

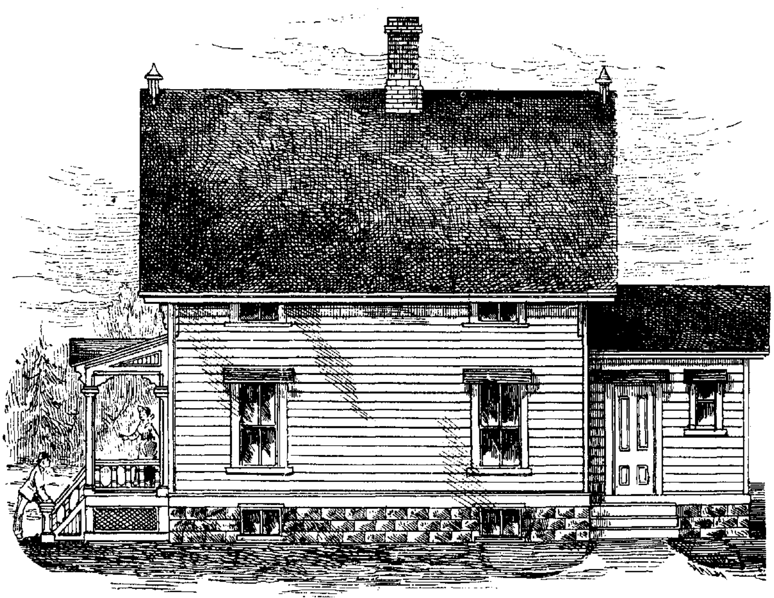
Yet, consider this: when a zebra is destroyed by a lion, it isn't depicted as the sad demise of some natural thing at the hands of an alien, unnatural force. When hurricanes, volcanoes, typhoons, or tornadoes wreak havoc across the globe, these are accepted as natural events, to be lamented as only minor disturbances, not ecological disasters. Oh, once in a while even these are traced in some incomprehensible, remote fashion to alleged human misconduct. (But just how that is conceived by the finger-wagging environmentalist crowd is rather bizarre. Most of those scientific types don't really believe in freedom of the will, in the capacity of human beings to make real choices! So how then can they blame us for anything?)

In fact we are every bit as much a part of nature as those wetlands the environmentalists wish to protect from us. Why don't they go out to protect other parts of nature from, say, termites or floods? Why they are unwilling to read out of this world everything else that changes the surrounding environment is one of those puzzles these folks simply refuse to address.

What makes sense is that human beings are a different natural phenomenon from, say, volcanoes and foxes, to name just two natural beings that cause some destruction here and there in the universe. But remember, birds are different from fish, and fish are different from rocks, and so forth and so forth. The fact that human beings manifest even radical differences is by no means unprecedented. Nature repeatedly keeps introducing such variations, nothing strange about that any more.

But no. The environmentalist crowd keeps treating the novelty that we are as freakish, alien, undesirable. Housing developments are not natural, nor are freeways, parking lots, or dams. Why? Well, there is no answer given to that question because the idea is obviously nutty. What a natural being does is by definition natural. It happens that doing wrong is new—other beings do not do the wrong thing, that's reserved to human nature. But it's natural, too. It is our task to avoid doing wrong, to keep doing right, but the problem is not between natural versus non-natural or anti-natural.

The whole rhetoric of environmentalism needs to be recast into terms that make better sense. Let's not exclude human life from the realm of nature. Then we can ask whether it is the right thing for us to build houses, bridges, dams, parking lots, or nuclear power generators. Those are real issues. The nature versus human beings story is a phony one, through and through. □



THE FREEMAN
IDEAS ON LIBERTY

No-Brainer

by Russell Madden

In a recent issue of *TV Guide* the actor LeVar Burton was quoted as saying that, "The attack on PBS by the new Congress is a no-brainer. Anyone who opposes funding for PBS and does anything to discourage kids' programming should have their [sic] head examined." He went on to say that "[It's] the only commercial-free environment where parents can be assured that children will be introduced to their ABCs without someone trying to sell them something."

Mr. Burton, of course, has a vested interest in PBS: he is the host of "Reading Rainbow." This show introduces young readers to children's books in the framework of mini-documentaries on various historical and cultural topics. I've enjoyed watching the program myself on occasion. I know of few who would disagree that the show is both fun and educational.

Mr. Burton's comments and criticisms, however, reveal some common issues—and common errors—raised by nearly all defenders of the status quo in governmental funding. This includes questions regarding not only PBS, the National Endowment for the Arts (NEA), and school lunch programs, but every governmental bureau, department, and office delivering goods and services to the American people. Whether it's providing welfare, home or student loans, farming and business subsidies, or regulating the nature and supply of drugs and health care, the same fundamental mistake propels them all. By advancing the type of argument he does, Mr. Burton not only muddies the discussion regarding spending cuts but indirectly teaches children a damaging moral lesson they are ill-equipped to resist.

The easiest part of his complaint to address is his concern about maintaining "the only commercial-free environment" for children to learn the alphabet. Leaving aside his implicit and unwarranted attack on the role and influence of business in our society, I think it's reasonably safe to say that many preschoolers still learn their ABCs at nursery school or at home. I would hope that parents in this country have not yet entirely abrogated their responsibility and handed over the minds of their children to the tender mercies of the tube. *Pace* Mr. Burton, but most parents are quite capable of pushing in an off-button and sitting down with their offspring as they struggle with the intricacies of memorizing the alphabet.

Giving Mr. Burton the benefit of the doubt, we can assume that his anger reflects not an amazing arrogance when he suggests that opponents of federal PBS funding "should have their head examined" but arises from a genuine concern for the continuation of a worthwhile good. Here we come to the crux of the problem for all of those well-intentioned people who oppose slashing federal, state, and local programs. While there are those who engage in such heated rhetoric because they fear a lessening of their power or the outright loss of their jobs (as reflected in the title of an old book by Shirley Scheil, *Poverty Is Where the Money Is*), many people are sincere in their objections.

Unfortunately, supporters of government-funded television forget (or never recognized) that the real issue is not whether the shows on PBS are worthwhile. Few individuals would disagree, for example, that city parks, public libraries, good health care, or any number of other things are of value (at least to someone).

Critics of government spending waste their time debating the relative merits of this program or that; of defending their desire for

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cuts by stating that they aren't really cutting total dollar amounts but only the rate of increase; or by promising that few people will suffer over the long run. Many of the points made by proponents of government spending are true: concerts and plays are wonderful to attend; Medicare and Social Security provide financial support to many who would experience hard times without them; parks are wonderful places for a relaxing picnic or hike. I've seen evidence to support all those claims and more.

Yet in this issue the mere desirability of a particular good or service is totally irrelevant.

The End Never Justifies the Means

What *is* at stake now and always in any discussion of what programs should be managed by government is the principle of voluntary choice and action. It is this guideline which determines the proper scope of government on any level. Those who champion choice must answer the charges of their opponents that they are mean-spirited, callous, and heartless with a simple moral declaration that rests at the heart of any valid ethical system: *The end never justifies the means.*

Whether an individual desires a new car, fully funded health care, or an expanding space program, a person is never justified in obtaining such values except through mutually voluntary choice and action. The initiation of force is always wrong. Period.

People should not be coerced to hand over a part of their wealth, time, and effort—that is, they should not be forced to surrender even a tiny portion of their lives—in order to satisfy the needs, wants, and desires of anyone else, whether that person acts for himself directly as a private individual or indirectly in the guise of government on behalf of himself and/or anonymous others.

Need is not a claim on wealth.

Apparently proponents of government spending think otherwise. Rather than try to persuade people to pay voluntarily for such worthwhile goods as "Reading Rainbow," day care facilities, or college educations, they apparently prefer the more "expedient" route of pointing the figurative gun of governmental power at our heads and rifling our pockets while our hands are in the air. Yet no one has the right to steal even one minute of someone else's life, to make anyone even a part-time slave.

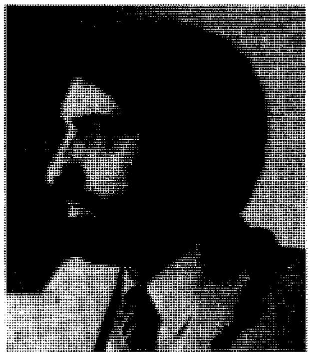
Unfortunately, the existence of such a "right" is precisely what our children are learning in today's society: that if you sincerely want or need something and would have a diminished lifestyle without that value, then it is perfectly acceptable to force other people to give it to you regardless of what those others want. Given such a "morality," it is small wonder we see private criminals committing their offenses with little or no remorse as they emulate the implicit lessons of their cultural and political leaders.

It is ironic that these same leaders decry the mounting levels of violence in our society. They point denouncing fingers at movies and television and talk shows as the initiating culprits without ever realizing their own roles in morally sanctioning and promoting the very abuses against law and order they abhor.

It is even more ironic—and sad—that most of those who find themselves victims of private crime clamor for the government to commit on their own behalf the same kind of criminal behavior against otherwise law-abiding citizens. In such a topsy-turvy world, everyone becomes a slave to everyone else without ever recognizing his own culpability or the invisible shackles which bind him.

Perhaps someday people will cease to argue about the importance of this "entitlement" or that one and focus once more upon the principle that should guide them in deciding how to act in any aspect of public (or private) life: the end never justifies the means.

That idea should be a no-brainer. □



Marketing Individualism

I am sometimes asked: How can one "mass-market" a provocative—even unpopular—philosophy, while still maintaining one's own integrity? How can one popularize, without subordinating oneself to whatever happens to be popular?

To answer, let me give an example that should cheer *Freeman* readers.

October 1995 marks a milestone in the history of the Foundation for Economic Education. For the first time in its half-century history, select books produced by the Foundation will be available for purchase in mainstream bookstores.

This effort will begin with publication of a revised hardcover edition of my *Criminal Justice?*, plus two new volumes: *Forgotten Lessons: Selected Essays of John T. Flynn*, edited by FEE's own Gregory P. Pavlik; and *The Foundations of American Constitutional Government*, an anthology of *Freeman* essays. By next Spring, a half-dozen new titles will be added to the list of FEE's "trade books." Many more will follow.

Not all FEE titles will be *stocked* in bookstores: buyers may have to special-order some of them. But our eventual aim is at least to make all FEE books *available* through bookstores. And select titles will, in fact, be displayed prominently, and promoted heavily.

Why this change? FEE has a long tradition of publishing and educating quietly—of having students of liberty make the effort to seek out its offerings. And there is undeniable merit in an unobtrusive approach to education: it tends to screen out many whose interest is only superficial.

The growing problem with this approach, though, is the "information overload" of modern society. Today, people are bombarded with a glut of information from media that never before existed. FEE was organized even before television became popular. Now, cable TV brings scores of channels into our homes; movies are available not just in theaters, but on video cassettes; a host of specialized magazines are launched each year; computers have made many homes "off-ramps" on the Information Superhighway; chain bookstores have proliferated in every shopping mall; and books themselves are widely available on tape.

Trying to be heard in this rising clamor is a daunting task. Just as we all must compete in the economic marketplace, organizations such as FEE must compete in a "marketplace of ideas." That realization prompted Dr. Hans Sennholz, FEE's president, to decide that the Foundation had to revamp and modernize the way it markets its books.

Some may now worry: Will FEE's efforts to aggressively mass-market books cause it to "water down" its principles? Or, to

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reiterate the question posed at the opening of this message: How can we market a provocative, even unpopular, philosophy, while maintaining its—and our own—integrity?

It is an understandable concern, based on a common misconception.

A frequent accusation against capitalism is that there is a conflict between the demands of the marketplace, and one's individual integrity. To thrive in the market, some argue, one must subordinate personal values and standards to popular tastes and whims. Capitalism, this argument goes, therefore tends to produce a society of *conformists*, rather than *individualists*.

But properly understood, there is no conflict between capitalism and individualism—between success and integrity.

As Ludwig von Mises and other great free-market thinkers have often pointed out, the demands of the marketplace tend to make people more cooperative. One's economic survival and/or level of success depend on his willingness and ability to satisfy some market demand. The need of businessmen for customers and partners, of workers for jobs, of consumers for suppliers of goods and services, tends to make people "put their best foot forward" in order not to alienate others needlessly.

However, simple cooperation and basic civility are not the same thing as abject conformity. To abide by the required *forms and manners* of society, does not mean one must sacrifice the *content and meaning* of one's own principles.

For example, many changes have been imposed on FEE by the need to meet bookstore requirements. Books ordered via catalogs or mail order—FEE's traditional sales methods—do not need fancy covers or much publicity. But vigorous competition for limited space on bookstore shelves places special demands on trade book publishers.

To be noticed in stores, book covers must be eye-catching and attractive. To entice casual browsers to buy, the covers also must be loaded with persuasive advertising copy and endorsements.

In addition, with thousands of volumes to choose from, store managers stock only titles most likely to sell. Thus, they prefer books whose subject matter is popular, whose authors are well-known, and—most importantly—whose publishers are willing to promote and advertise their books, generating customer awareness and interest.

Clearly, not all FEE books have "popular" subject matter. But does this mean that FEE must now publish only "popular" books, or water down the content of its works?

Not at all.

The free market actually consists of many "sub-markets"—specialized markets for an infinite variety of goods and services. Not all books are cut out to be bestsellers. But that doesn't mean they're not worth publishing. Just because *Human Action* is not a "mass-market" book doesn't mean FEE should not publish it. There will always be a market for more challenging theoretical works, even though that market may be a modest one.

FEE will continue to produce titles of more specialized appeal, and to sell them through its traditional outlets, rather than through bookstores. For select titles having broader appeal, however, FEE has begun to revamp their appearance, and to launch ambitious publicity campaigns, so that they can be marketed effectively through mainstream book trade channels.

But to move into the mainstream book trade, the Foundation need not change its identity or compromise its principles. Our goal is to market the freedom philosophy more effectively—not to make the freedom philosophy "more marketable."

So there is no contradiction between publishing titles of broad appeal, and publishing works of more limited appeal. Similarly, there is no contradiction between the demands of the marketplace, and the need to maintain one's identity and integrity.

No one need sacrifice his principles in the pursuit of popularity. To the contrary: precisely because the principles of individualism and integrity are such rare commodities these days, their market value has never been higher. □

THE FREEMAN
IDEAS ON LIBERTY

The Internet: New Technology, Old Law

by Mark Goodman and Mark Gring

An open, public debate of issues has been a framework for American government since the Pilgrims wrote the Mayflower Compact on the second day they reached North American soil. In the twentieth century, the U.S. Supreme Court identified this "marketplace of ideas" as the cornerstone of American democracy (*Brandenburg v. Ohio*, 1969; *Abrams v. United States*, 1919).

Unfortunately, the evolution of mass media in America in the last 70 years has led to the formulation of a system which controls or limits, under the guise of "public interest," the voices heard in public debate.

The American public has found its own voice on the internet. In fact, the internet has become the most fertile ground in history for the marketplace of ideas. The internet is a worldwide venue for discussion of ideas on a plethora of topics and a variety of voices. Anyone can contribute an idea, have it debated, argued, and challenged.

The United States is too large for a town hall meeting. Television can reach the mass audience, but then the networks decide whom and what we hear. On the other hand, the internet allows people to broadcast their ideas to a mass audience to be heard and discussed or ignored and forgotten because of a lack of interest.

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Yet today Congress is in the process of writing legislation that may again limit the voices on the internet to a select few. To understand the situation in the 1990s, we need to go back to the 1920s and the early days of radio.

Originally radio broadcasting was an open marketplace. By sending a postcard to the Secretary of Commerce, Herbert Hoover, anyone could build a radio transmitter and talk over the airwaves to anyone else who had a radio set turned on. This was consistent with the traditions of the marketplace. Radio turned the town hall meeting into a coast-to-coast discussion group.

One indication of the power of this new medium to influence people to change public policy came toward the end of World War I. President Woodrow Wilson used a 200,000-watt transmitter in New Brunswick, New Jersey, to directly appeal to the German people to accept his Fourteen Points as a basis for a peace treaty. (See the account by media historian Erik Barnouw in *A Tower in Babel.*) The German people dumped the Kaiser and the new democracy asked for an armistice.

David Sarnoff envisioned a different future for AM radio. Sarnoff, president of the Radio Corporation of America (RCA) and founder of the National Broadcasting Corporation (NBC), thought of radio as a medium for entertainment and entertainment as a justification for advertising.

Amateur voices literally interfered with the ability of national broadcasters to bring music, the soaps, and advertising to American homes. Anyone broadcasting could change frequency, power, and hours of broadcasting, making it impossible to create a coherent radio listening schedule at a set location on the dial.

By 1927, Congress was writing legislation to sort out the radio signals and used the opportunity to shutdown the cacophony of voices being broadcast. To do so, the First Amendment had to be redefined by a group interested in increasing governmental regulation of American society.

The Progressives in Action

Progressive political reformers controlled Congress in 1927. Progressivism led to many changes in American democracy between 1880 and 1930, including direct election of the U.S. Senate, the right to recall elected officials and to place items on the voting ballot through initiative petition, and the right to change government policy through a referendum.

The Progressives sought to bring a moral tone into all branches of government by having college-educated "experts" make decisions. If experts made decisions through federal regulation, then neither the supposedly dangerous monopolistic practices of the corporate trusts nor the socialistic politics of the impoverished urban immigrants could control the American political, economic, or social systems. The values of middle-class America, the Progressives argued, would be protected by the "disinterested public servant."

This is the philosophy of government the Progressives imposed on the radio debate in 1926. In writing the Radio Act of 1927, Congress put almost unchecked power—judicial, executive, legislative—in the hands of a public board, the Federal Radio Commission. In the language of the law, Congress told the FRC to operate radio broadcasting in "the public interest, convenience, and necessity." These words were never defined specifically in the law, but the Congressional debate helps explain what was intended.

In order to create order out of the chaos of the airwaves, Congress redefined freedom of speech from having the right to speak to having the right to listen. Scrapping the traditions of the First Amendment meant that a handful of voices would dominate the airwaves to the detriment of the Republic. To prevent a monopoly of voices, Congress told the FRC to apply the public-interest standard to radio.

The Fairness Doctrine

Broadcast licensees had no right to express their views on radio unless all sides of the issue were granted equal rights to the airwaves. The effect of the Fairness Doctrine was to limit public discussion of issues on the radio since broadcasters would potentially have to give away valuable air time to anyone wishing to speak.

Congress also mandated that broadcast licenses should go to the applicants who would best serve the "public interest, convenience, and necessity." In seeking a license, the applicants had to describe their programming to the FRC. Station managers were ordered to keep a log of programming to show that they were operating in the public interest. Licenses could be revoked or renewal denied if the FRC decided that the applicant had not followed the programming described in the license application.

In effect, the FRC could apply the "public-interest" standard to limit the marketplace of ideas to viewpoints which coincided with its mainstream views of what served the public interest. Since no broadcasters knew how the public-interest standard was going to apply in their situation, the safe course was to remain in the mainstream.

Congress made minor changes in the Radio Act in writing the Communications Act of 1934. Television and telephone, as well as radio, came under the authority of the Federal Communications Commission, which replaced the FRC. Otherwise, the new act was copied verbatim from the Radio Act, including "public interest, convenience, and necessity." American broadcasting is still regulated under the Communications Act of 1934.

Congress is in the process of trying to replace the 1934 law with legislation that would encompass the new technologies, such as the internet and satellite broadcasting. The public-interest standard remains the cornerstone in the new legislation Congress has considered thus far.

If applied to the internet, a public-interest standard would be an invitation for big government advocates to control the type of information that flows on the internet. Instead of being a marketplace of ideas, the internet could become a banal forum as computer servers become reluctant to open debates on controversial subjects out of fear of being closed or fined. Like radio and later television broadcasters, the internet could be a place where only the uncontroversial is attempted and deemed acceptable.

Does that mean that everything on the internet should be unregulated? Will not pornography, money scams, hate groups, and fraudulent advertisers proliferate? Should the federal government gain unlimited power to regulate this contemporary marketplace of ideas?

Many abuses can be controlled by users and computer service providers. Users can put pressure on server providers to make moral decisions rather than letting government decide what is moral. The marketplace can insist that offensive materials be removed. In essence, the marketplace is self-regulating. Just read the e-mail that follows when someone violates netiquette.

Computer services are also self-regulating. Many university computer servers already restrict access to materials deemed inappropriate. Commercial servers select which services their subscribers have access to. When necessary, existing laws have been enforced, particularly on pornography, pedophilia, copyright violations, and fraud.

A general regulation of the marketplace of ideas by applying "public interest, convenience, and necessity" to the internet will lead to federal intervention in and potential infringement on free speech. □

THE FREEMAN
IDEAS ON LIBERTY

A Report Card on Charter Schools

by Candace A. Allen

A year ago I resigned from teaching in a local high school to accept a position at a new charter school. Charter schools seemed to promise the greatest chance of fostering market reform within public education. I believed that if given the power, a few very dedicated and talented teachers and a small administrative staff could bring about innovative educational changes and create an outstanding school.

Though I have never worked with a more dedicated group of well-intentioned people, I have become skeptical that charter schools can bring systemic change to public education. While I do not claim the ability to predict the outcome of any particular charter school, I now realize that at best only marginal change within public education is possible through charter schools.

A charter school is defined as a semi-autonomous, publicly funded school operated by a group of parents, teachers, and/or community members under a charter with a local school district board of education and/or an outside group, such as a university. At present, 12 states have passed many variations of charter-school legislation, some granting more autonomy than others. Each charter sets forth the school's goals and philosophy, the basic curricular structure, governance, and operational procedure, and is intended to ensure less bureaucratic tethering to state and federal regulations.

Proponents of charter schools claim that the power base of schools must shift from government to parents as consumers of their children's education. Comparing charter schools to private schools as examples of consumer choice, advocates hope that democratically administered, site-based charter schools can offer greater choice in learning environments with little outside interference. Voluntary enrollment should be designed to attract "customers," thus introducing competition into the system.

On the surface, then, the vocabulary of the market (customers, autonomy, competition, choice) draws those who view state education as needing reform and who favor market allocation of educational resources. But just because a list of market vocabulary words can be applied to charter schools doesn't mean that the grammar and syntax of the market are present and operational. I have discovered in my short charter-school career that many of the basic limitations of regular public schools are also inherent in charter schools.

The Attitude of Compliance

Most people can't imagine what "school" would be like if it weren't public. Acceptance of "the way things are" reflects a pervasive attitude of compliance in our state-run educational system. Just as this

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attitude has plagued market-reform efforts in former Communist countries, so it hampers educational reform efforts in the United States. Dismantling our bureaucratic system of education will be difficult because the power structure has been in place for so long.

The attitude of compliance, subtle and covert, has created passivity among parents in the way they view their role in change. The gradual evolution of bureaucratized educational practices in the United States has fostered the abdication of the family's sense of responsibility to educate its own and has led to the general dependence on the state as the primary educational care-giver.

In a recent conversation with a fifth-grade parent at my school, I discovered that her daughter's teacher was reluctant to allow the girl to be moved into a higher math class because she had missed too much school. Even though the youngster had an "A" recorded in math, and even though the parent and the student wanted a more challenging math curriculum, the parent hadn't considered that she could question an "educational expert." When I asked what she thought her role in the situation was, she paused and stumbled over the words, "I hadn't realized I had a role."

Nuances of this submissive stance appear in one of the major admission requirements of our charter school. Parents must show that they are ready for already defined responsibility by signing an agreement supporting homework policies of all teachers, a minimum 18-hour school volunteer service, and other school-determined policies. In other words, if parents want their students in our school, they are expected to sign an agreement of compliance. Being forced into this position ultimately leaves parents resistant or defensive. What's equally devastating is that parents next year will be expected to "police their own" by deciding on a "policy of consequence" for parents who do not live up to their agreements.

Teacher Knows Best

Just as the attitude of compliance has created passivity in the way parents view change, so it has created a certain arrogance on the part of teachers (and administrators), especially in their expectations of parents. In a discussion at a faculty meeting, several of the teachers were confused by the apparent lack of interest by parents to serve the 18 pledged volunteer hours. Two teachers wondered if we could "force them to do what they are supposed to do for us."

A few weeks ago, I spoke with one of our elementary teachers who had just finished coordinating the school's book fair. I asked her if parents had been involved. She said that she had phoned almost all of the parents in her class, but that they had either already contributed their mandatory service hours or they were too busy to do so now. She convinced one parent to work for part of a day, but that parent said that she preferred to volunteer for her other child's Head Start school (a federally funded preschool) because she earned "volunteer bucks," redeemable at a local home supplies warehouse. If she were compelled to volunteer, she preferred tangible reward. Like many parents, this mother saw no relationship between doing mandatory volunteer work and taking an active role in her child's education. The teacher involved was disgusted that, once again, parents were letting the school down. I realized that no one has seriously challenged the paradigm that those who "know best" for parents, children, and for schools are the members of the educational bureaucracy.

The pervasive but subtle attitudes regarding role expectations permeate almost everyone's assumptions about reform. These attitudes play out in predictable ways in my charter school, just as they do in regular public schools; parents and students get what they get and teachers are surprised that they aren't happier about it than they are.

Often unrecognized, these attitudes mask their causes, which are the constraints that hold charter schools firmly in the government-controlled education bureaucracy. These constraints involve (1) the source of charter school funding, (2) regulations inherent in government control, and (3) the lack of market accountability.

Funding

The first bureaucratic constraint pertains to the funding of public and charter schools. Through taxes, parents and non-parents alike pour money into government coffers, and that money is pooled into funds not specifically earmarked for education. No one can say how much education costs any given taxpayer, but generally the taxpayer knows that her dollars will not count as votes in the way her child is educated. State funding perpetuates the compliant parental attitude. Not surprisingly, parents aren't as closely involved in their children's education as they most likely would be if their dollars went directly into a specific school of choice rather than into taxes, and if, because of that direct payment, they could assume more responsibility as customers. Surely, as responsible customers and parents, they would be more than homework monitors, overseers of their children's attendance, or school volunteers.

Even if a family knew what it was paying for education, it is too costly at the margin to protest a policy or philosophy of a school. If one family or a small group of parents came into my school claiming that they didn't want their children to be a part of, nor did they want to pay for, "multi-age," "interdisciplinary," and "untracked" classes, they would be pacified and sent away with a promise that a multi-age, interdisciplinary, and untracked curriculum is beneficial to their children. Parents do not demand nor expect customer sovereignty, and ultimately leave the major decisions to the educational bureaucracy.

Regulations

The second major constraint of public/charter schools relates to these funding-source problems. Because funding comes from the state, all public and charter schools are regulated by various levels of government, though charter schools may apply for waivers from certain types of regulations. For example, non-certified people are allowed to teach some classes in my charter school. But the heavy-handed state regulations remain. For example, in Colorado all public schools are required to apply the state curriculum standards, and soon will need to meet specified requirements in the assessment of those standards.

Probably the most binding regulation is that of universal mandatory education for all students aged 16 and under. This is the ultimate sanction for government knowing what is best. It means that parents have little say in what "school" is going to mean, nor do they get to decide how much or what kind is enough or appropriate for their own children. In practical terms, what compulsory education means is that many kids are in school who do not want to be. This necessarily affects educational programs negatively because those forced to go to school obstruct the learning of those students who do want to perform.

These two limitations have severely hindered teachers in the upper grades at our school who held high expectations and grand plans to deliver our seventh-, eighth-, and ninth-grade students a quality education. Many parents brought children who previously had performed poorly to our school with the hope that they would be cured of their non-performance. Those very students have demonstrated clearly that they can continue their non-performance in their new setting, and can interfere with the education of those who want to be there. Bound to the idea that school as we know it must be administered to students in measured doses makes parents, teachers, and students unable to imagine what a true market in education could be like.

Not only do a myriad of other types of regulations still bind charter schools tightly to the category of "public schools," but also local micromanagement by school boards create even more discretionary power for those boards as public education trustees. In another city in Colorado, a new charter school was warned by the school board that its start-up problems had to be corrected in specific ways within 30 days or its charter would be revoked. Rather than allowing parental or even school discretion in determining the seriousness of the problems (one of which was that no textbooks were being used), the particular school board intervened and imposed an arbitrary solution in the matter. Efforts to create market incentives through deregulation could only be successful if sources of funding were private rather than public.

Accountability

The third constraint of public/charter schools is that of the lack of accountability. All tenured teachers and the dean at my school are guaranteed same-salaried jobs back in the regular system should any of us decide to return. No job security risk is involved, nor do we have to compete to retain a certain income. Though we all face pressure to be innovative, our jobs do not depend on whether the charter school succeeds or fails. Other than being scolded for "being too much in the box of the old ways," no real penalty exists if results are not produced. The risks associated with failure are present only in the marketplace.

Also, because merit pay is viewed by teachers as disharmonious, monetary incentives offered for innovative behavior are deemed inappropriate. Not only did the majority of the faculty at my charter school vote to make our professional evaluations as "threat free" as possible, they also plan to implement self-designed, personalized evaluations to "equalize" faculty, hoping to promote an environment of trust and respect. Ironically, though we are not tied to a union contract at the charter school and most teachers have given up union membership, the tendency to protect our own interests is just as strong as it is in those who protect their interests by being union members. Teachers who are having obvious difficulty performing are protected by lengthy procedures for dismissal. We tend to see ourselves, rather than parents and students, as the rightful decision-makers in employment decisions.

A second accountability issue relates to the unlikely possibility that school district administration will allow charter schools to fail if these schools have been publicly endorsed. Because our school district and the university (our charter holder) have forged an official "alliance," pledging support for K-16 education, both benefit by any claim to success we make. Thus, it is in both the university's and the district's interests to prevent failure, or the public admission of it.

However, assuming that parents decide to "vote with their feet" and leave a charter school, the effects will be different than if education were bought and sold in the marketplace. In the market, failure is necessary for resource allocation. But if it occurs in the public education arena, resources will be rechanneled right back into the bureaucracy from which it was intended to break free. To make matters worse, teachers' unions will politicize the failure as a vote in favor of "regular" public schools.

A third accountability problem stems from the belief in teacher empowerment. In our school, teachers are jacks-of-all-trades, all with consensual say, taking on such administrative tasks as scheduling, writing curriculum, and designing all policies. Empowerment has been the goal of all of us for years. "Just free us from the administrative stranglehold and we will be able to make a school run right!" But I have learned that the empowerment philosophy assumes that well-meaning teachers can manage a school resourcefully, and at the same time teach effectively. It assumes that teacher creativity should be unharnessed without administrative restraint. Because public educators don't face the real world threat of possible failure and loss of employment, their creative and entrepreneurial efforts are not bound to the rules of the marketplace. When teachers are empowered, what can stop a bad idea?

Charter schools, like their sister public schools, will not break education open to market forces. But as more and more private groups find ways to crack open the educational monopoly to offer educational substitutes, a new group of schools will enter the scene. Schools that operate for profit will begin to offer new products and services that may differ dramatically from those of public and non-profit schools. In other words, as new schools for profit enter the picture, with some failing and some succeeding, new methods of educating children will emerge. The successful schools may or may not be multi-aged, interdisciplinary, standards-based, or whatever present educational fad dominates. The faculty may or may not be consensually involved in site-based decision-making, and may or may not be restricted to classroom teaching only. It all will depend—on the market.

For the time being, many charter schools will emerge, vowing to make great improvements in public education. And just as pockets of program success and outstanding individual teachers can be found within many public schools, so they will be found in many charter schools. Time will tell whether the charter school in which I teach will make marginal improvements in our educational community; certainly I hope that it does. Charter schools will temporarily cast the appearance of consumer choice, but it must be remembered that they are publicly financed, which guarantees burdensome regulation. This prevents market feedback, including reward for entrepreneurial achievement, or failure and loss for unworkable ideas and poor management. Real competition with public education is yet to come, but in the meantime, the cosmetic change currently on display at charter schools will be passed off as systemic change. □

N O T E S F R O M

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Misplaced Hope

The welfare state thrives on the toils and talents of its productive members. It is an exploitation state that builds on political force and, in the end, is bound to self–destruct. When confiscatory taxation and onerous regulation become intolerable and the abuses of government are insufferable, many good citizens rise up on election day and put their faith in the opposition party. They may succeed in removing the incumbents from positions of power and elect the critics and opponents. Many others who feel exploited and abused by the system despair of the political process and seek an escape.

Some victims descend into the underground economy where income is not reported. Or they defiantly embark upon production that violates political mandates such as government licensing, inspection and label laws, labor laws, export and import controls, money and banking regulations, and countless others. Some may try to "get even" by collecting entitlement benefits even while they are laboring in the underground.

The fugitives may react against abuse and exploitation not only in their political and economic lives but also in their very attitudes toward government. In desperation, they may conclude that **the transfer laws and regulations are immoral and that which government makes illegal may actually be moral**. Some may even question the viability and morality of the democratic form of government itself. When millions of people who were once loyal and law–abiding citizens come to look upon democratic government as a consummate body of immorality, then society faces a social crisis.

Political attempts at "rolling back" the exploitation system are likely to fail when the majority of voters derive their livelihood from transfer funds or reap popular benefits from the system. In the United States this point has long been passed. The youth generation claims a birthright to educational benefits from the nursery to graduate school. The elder generation claims a vested right to Social Security and Medicare benefits. And millions of middle–aged Americans thrive on government payrolls or subsist on public assistance. Government employment now exceeds that of all American manufacture.

Roll–back administrations face great difficulties and insurmountable obstacles. They have to take unpopular measures which actually give aid and comfort to the political opposition. Every step denies someone his "entitlement" or special privilege, providing grist for the critics' mills. Short–term legislatures and administrations are unable to roll back the entitlement system which, like a malignant tumor, has slowly penetrated and poisoned the body politic. Roll–backs are symptoms of crises of the exploitation state which moves in waves, rolling on for long periods of time, and rolling back briefly and fruitlessly. They afford an opportunity to the entitlement coalition to regroup and prepare for another advance.

Unable to reverse the course, many welfare states are approaching the ultimate crisis: the debt crisis. When the burden of government debt seriously impedes the entitlement spending, when interest payments on the pyramid of debt hamper the entitlement programs, the transfer forces face a new task: the reduction of the debt. It cannot simply be repudiated because this would devastate the financial structure that rests on $5 trillion of federal debt. It must be distributed among all subjects with income and wealth either through gradual currency depreciation, through capital levies on private property, or both. Inflation, which is a common method of debt depreciation, places the burden primarily on the owners of money and claims to money.

The debt crisis is hastening the coming of a new political and economic system in which national governments lose their exploitative powers and legal importance. The phenomenal technological innovations in recent years, especially those in communication and transportation, have ushered in the "Information Age" which has fostered a vigorous world market of ideas and entrepreneurship. Markets have sprung up virtually everywhere, internationalizing commerce and capital and depriving governments of their restrictive powers. They have given productive capital unprecedented mobility, allowing it to escape exploitation and confiscation with the speed of E–mail.

The internationalization of information and entrepreneurship has generated intense competition for liquid capital, managerial ability, and technological knowledge. As multinational corporations emerge and multiply around the globe they become the principal competitors for the most productive locations. They are capable of observing and adjusting to institutional conditions, forcing national governments to compete with each other in their legal institutions, their tax systems, regulatory structures, monetary order, labor legislation, etc. **Exploitative governments obviously fare poorly on the competitive world scene; their exactions are manifested in economic stagnation, rising rates of unemployment, falling wage rates, and lower standards of living.** Exploitative governments clearly show themselves in the light of international competition.

Ironically, productive capital is finding protection from the depredations of national governments in those international markets that are spontaneous, unregulated, and devoid of sovereign law and power. International markets function smoothly and efficiently outside the law, safeguarding private property from the exploitative aspirations of governments which were supposed to protect life and property.

As the world markets are growing in scope and strength, the coercive powers of national governments are shrinking. Exploitative policies are becoming more painful and onerous, more difficult to enforce, and less lucrative in revenue; this exerts powerful pressure on governments to reduce the exactions. The pain may even induce some pressure groups to leave the halls of government and, instead of pleading for handouts and privileges, to pursue entrepreneurial profits in world markets.

Exploitative governments do not readily yield their coercive powers. Seeking to retain and reaffirm their authority, they may turn "protectionist" and erect prohibitive barriers against the movements of goods, capital, and labor. They may try in vain to shelter their exploitation system through association, cartelization, combination, and other means of trade restraint.

Many loyal and law–abiding Americans still place their hopes for reform in legislators and regulators. They are unaware that the age of politics is drawing to a close. Hope still drives lengthy and costly election campaigns, but it is also the source of much frustration and disappointment later.

Hans F. Sennholz

THE FREEMAN
IDEAS ON LIBERTY

Environmental Education: Turning Kids into Political Activists

by Steve Jackstadt and Michael Sanera

Twenty-five years after the first Earth Day, the environmental movement, as represented by established groups like Greenpeace, the Sierra Club, and the Wilderness Society, is in trouble. Membership is down, their credibility with the public is in a shambles, and a majority in Congress seems bent on lifting the burden of environmental regulation.

There is one area, however, where environmentalists are on a roll and that is in education. Environmental education is one of the hottest educational issues in America today and throughout the nation, schools at all grade levels have jumped on the environmental education bandwagon. Currently, 30 states have laws mandating some form of environmental instruction in the classroom. Many of these laws require the integration of environmental education into most subject matter classes and at all grade levels. Thus, students are exposed to environmental education not only in science classes, but also in history, geography, health, and even in English and math classes.

Recently, however, environmental education has become a cause for serious concern among parents, scholars, and journalists. In particular, critics charge that environmental education is dominated by a "doomsday approach" to environmental issues, which instills unfounded pessimism in children when it comes to the future, that environmental curriculum materials are biased and misleading, and that schools often encourage political advocacy that serves the goals of environmentalists. A graphic evaluation was given by Nancy Bray Cardozo in *Audubon* magazine; "As if children don't have enough to worry about these days—AIDS, wars, starving people—environmentalists are teaching them that their very planet is at risk. . . . Children feel like intruders in nature, destined to destroy their world."[1]

Patricia Poore, editor of *Garbage*, reviewed a variety of environmental education materials and books and concluded that this material "contains oversimplification and myth, has little historical perspective, is oriented, and is strongly weighted toward a traditional environmentalist viewpoint, i.e., emphasizing limits to growth, distrust of technology, misinformation concerning waste management, and gloomy (if not doomsday) scenarios."[2]

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Biased Environmental Education Materials

A consistent pattern of one-sided presentations of environmental issues is shown by our review of nearly 100 sixth-through-tenth grade textbooks in the areas of science, health, geography, government, and history.

In the coverage of acid rain, for example, school textbooks, with rare exception, teach children that acid rain is a major crisis which is killing forests, fish, crops, and destroying buildings and statues. The text *Being Healthy* states: "Acid rain damages rivers and lakes, killing fish and plants."[3] The D.C. Heath text *Earth Science: The Challenge of Discovery* states: "Trees all across the Northeast are dying."[4]

Nearly every text fails to mention the findings of the largest study of acid rain ever conducted. The National Acid Precipitation Assessment Project (NAPAP) was a ten-year study funded by Congress at a cost of over $500 million. The NAPAP concluded that: "There is no evidence of widespread forest damage from current ambient levels (pH 4.0–5.0) of acidic deposition [acid rain] in the United States."[5] The study's final report issued in 1990 also reported only minor harm to lakes and streams in the Northeastern United States.

In the textbooks, the tenuous global warming hypothesis is almost always covered as a fact. This hypothesis argues that the increase in atmospheric carbon dioxide will bring about the melting of the polar ice caps and cause catastrophic flooding of coastal cities. One text even shows an illustration of the New York City skyline with a water-level covering the Statue of Liberty and most buildings.[6] Rarely, if ever, do the texts provide equal time to the arguments of the scientists who have called this scenario into question.

Scientists who criticize the catastrophic global warming theory agree that over the last one hundred years the burning of fossil fuels which powers our industrial society has increased the amount of carbon dioxide and other greenhouse gases in the atmosphere. They also agree that there has been a slight (1 degree C [1.8 degree F]) temperature rise over the last one hundred years.[7] The critics point out, however, that most of that temperature rise took place between 1880 and 1938 when the burning of fossil fuels was less than in the post-World War II era. Between 1938 and 1980 the temperature records show a slight decrease, with some warming since 1980. If there is a correlation between the rise of carbon dioxide and global warming, then warming should have accelerated after 1938, along with the rapid buildup of carbon dioxide, rather than lessened.[8]

Students are not presented with this important scientific controversy. Instead, they are shown pictures of beach houses falling into the sea and dust bowl farms and are told: "Scientists estimate that by the year 2040, the earth will have warmed by about 2 degrees C [3.6 degrees F]. And by the year 2100, people may be living on a planet that is 5 degrees C [9 degrees F] warmer than it is today."[9] By leaving out the arguments of the global-warming critics, the textbooks are misleading and miseducating students.

Nowhere is the environmental education bias in the textbooks more comprehensive than in the area of the alleged world population crisis. With rare exception, the texts use a graph that shows the acceleration of population growth over the last 500 years. These graphs usually end at the year 2000. Often these graphs are accompanied by statements that the population will continue to double every 20 to 30 years and that food and other resources cannot keep up with population growth.[10] These texts are misleading because they fail to tell children that since the 1960s the rate of population growth has declined. In the 1960s world population was growing at slightly over two percent per year. By the 1990s the rate had dropped to about 1.5 percent and it is expected to drop below one percent growth in the 2020s.[11] The graph that depicts this reality and the one that children should be shown is one which indicates a leveling off of world population at about 10 billion people around the year 2100.

Most texts go on to demonstrate the catastrophic effects of population growth by discussing dwindling food supplies and mass starvation, yet most of this information is either grossly exaggerated or simply untrue. Dennis Avery, a well-known population scholar, has documented the fact that world food supplies are growing faster than population and that most of the world's population has been eating better ever since World War II. He notes that "virtually all of the world's hunger in 1990 was 'political.'"[12] By this, he means that the pictures of starving people, mainly Africans, that are seen in children's textbooks are starving not because there is a shortage of food supplies, but because of civil wars where one side is using food as a weapon, or as the result of misguided policies of Marxist regimes. Avery goes on to note: "Africa is a vestige of the hunger problem which once faced all of the Third World—it is not a forerunner of impending famine for the Earth."[13]

The overall impression given to students by school textbooks is that of a world headed for ultimate destruction. If global warming does not incinerate us, or we don't starve, solar radiation pouring through the ozone hole will give us all skin cancer. Even if we survive these catastrophes, air and water pollution will make our day-to-day existence miserable.

Political Activism in the Classroom

After a biased presentation of environmental education information, students are often asked to join a "Children's Crusade" of political activism which supports the environmental interest-group agenda. This ranges from simply asking for more information from political leaders to the picketing of businesses and the holding of press conferences. Textbooks published by some of the nation's leading publishing companies, such as Prentice-Hall and Macmillan, lead the way.

The 1993 edition of the Prentice-Hall text *Environmental Science: The Way the World Works*, does not camouflage its desire for kids to become active politically. The chapter on air pollution concludes with the section "Taking Stock—What You Can Do." After a discussion of air pollution regulations, the text tells students: "Write your Senators and Representatives." Children are told to ask that the next re-authorization of the Clean Air Act include requirements to "increase the average fuel efficiency of cars to 60 miles per gallon by the year 2000," to "set and enforce standards for ozone and other pollutants that will protect crops, forests, and all other aspects of the environment, not just human health." The text states: "Further delays are not tolerable."[14] Absent is any discussion of research such as that by Robert Crandall and John Graham which concludes that higher fuel efficiency leads to the production of smaller cars that are less safe in accidents and thereby results in thousands of additional traffic fatalities.[15]

The Prentice-Hall text *Your Health* also urges students to engage in politics. At the conclusion of a chapter on the environmental dangers to their health the text states: "Given these problems, what can *you* do? Consider joining an environmental group. Boycott products. . . . Become politically involved. Urge your local, state, and federal representatives to take action against existing air, land, and water pollution and to act swiftly."[16] (emphasis in original).

The Merrill (a Macmillan subsidiary) text *Focus on Life Science* is less direct in its attempts to activate students. In a section on the plight of the rain forests it states: "The Rainforest Action Network called for boycotts of fast-food companies that buy their beef from South American countries. . . . Do you think a boycott of fast-food companies would halt the destruction of rain forests? Would you be willing to participate in such a boycott? Give the reasons for your answers."[17] Given the discussion of rain forest destruction which precedes this, most students will answer these questions in predictable ways.

The texts also send the message that government activity is the only way that environmental problems will be solved. The Glencoe (another Macmillan subsidiary) text *Biology: An Everyday Experience* discusses the energy crisis in these terms. "The supply of fossil fuels is being used up at an alarming rate," the text warns. "Government must help save our fossil fuel supply by passing laws limiting their use."[18] This text never mentions that market pricing is the most effective way to determine if shortages exist or that higher prices will stimulate conservation.

The behavior most often encouraged by textbooks and other environmental education materials is recycling. The pressure on children to recycle is enormous: schools engage in elaborate recycling programs and urge children to pressure their parents to recycle at home. Students are also urged to become politically active in support of government-imposed mandatory recycling in their communities. The D.C. Heath text *Earth Science: The Challenge of Discovery* includes a "Take Action" Section that asks students to: "Write to your State legislator and explain your position on mandatory recycling. Ask the legislator to explain his or her position on the issue. If your state does not have any recycling laws, ask if there are plans for new recycling legislation."[19] Yet as an article in the *Wall Street Journal* pointed out recently,

> There's just one problem. At least by any practical, short-term measure curbside recycling doesn't pay. It costs residents and local governments hundreds of millions of dollars more than can be recouped by selling the trash. It requires huge new fleets of collection trucks that add to traffic congestion and pollution.[20]

Information on the costs of recycling has been well-aired in the scientific and popular literature, but does not find its way into textbooks.

Teaching Political Action Skills

Teaching political action to students is relatively new to the classroom and teachers are not always trained in political action techniques. To fill this void and to develop these political action skills, the texts offer teachers help in the teachers' editions of the texts. The Glencoe text *Health: A Guide to Wellness* provides expert advice to teachers and students on "Writing to Elected Officials." This section provides six guidelines for writing to an elected official including: "Keep your letter short. . . . Limit your letter to one or two key issues . . ." and "Ask for a specific response."[21]

While the textbooks are somewhat limited in what they can do to teach political action skills, special political action handbooks for teachers and students have been developed to provide detailed technical assistance. One of the most successful of these handbooks is Barbara Lewis' *The Kid's Guide to Social Action: How to Solve the Social Problems You Choose and Turn Creative Thinking into Positive Action*. This 185-page political action handbook includes entries that provide expert advice on: "How to Write a Letter to the Editor . . . Tips for Successful Petitions . . . Six Ways to Fundraise . . . How to Write a News Release . . . Parading, Picketing and Protesting . . . How to Initiate or Change a Local Law . . . and Tips for Successful Lobbying . . ."[22] This "soup to nuts" handbook provides all the political action skills the young environmental activist needs to push the environmental agenda.

State Environmental Education Laws

The political activism in the classrooms is the direct result of the environmental education movement's planning and hard work instituting state-level environmental education laws. A major objective of the environmental special interest groups which have supported the passage of these laws is to use environmental education as a way to create an army of young political activists. While each state's law contains slightly different language, most of them provide a statutory basis for teachers to encourage students to become involved politically in environmental issues.

The Council of State Governments, which provides model legislation to state legislators on many subjects, lists six characteristics for model environmental education legislation. One of these is "Motivation for Action—the commitment to act for a healthy environment based on one's knowledge and skills."[23]

In Wisconsin, the state has established five priorities for receiving an Environmental Education Grant which provides money to develop curriculum and classroom materials. One of these priorities is "The preparation of citizens of any age to become active participants in the resolution of local-through-global environmental issues."[24]

Washington state's Framework for Environmental Education asks teachers to "foster the idea that involvement in the political and legal process is paramount to resolving environmental issues."[25]

In Arizona, one of the leaders in the environmental education movement, the state law passed in 1990 encouraged political activism by giving teachers the authority to "encourage civic and social responsibility toward environmental issues." This provision of the statute was used to justify students engaging in political activism. Fortunately in 1994, the state legislature struck this provision from the law and inserted the requirement that all environmental education must be based on sound science and economics.

Conclusion

There is nothing wrong with teaching students about environmental issues, but they should be taught the true scientific and economic complexity of these issues. There is nothing wrong with teaching children about the workings of the political system by getting them personally involved in political issues. What is wrong is to use biased and misleading information about environmental issues such as acid rain, global warming, and the so-called population crisis to recruit children as shock troops in a crusade to support a particular political agenda. Most educators would admit that this is not education. This has more in common with political indoctrination and does not belong in our schools. □

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THE FREEMAN
IDEAS ON LIBERTY

The Devastating Effect of the Annenberg Grants

by Gary Lamb

At a White House ceremony in December 1993, retired publisher and diplomat Walter Annenberg pledged $500 million to public education over the next five years.

Three national organizations will share $115 million of the grant, one of which is the newly founded Annenberg Institute for School Reform at Brown University, headed by Theodore Sizer. In addition, groups from the following four cities have secured $50 million matching grants: New York, Chicago, Los Angeles, and Philadelphia. In general, the grant money is intended to support school-based renewal within the public school system.

The focus of this article is not the possible effects the grant will have on public education but the very real effects such a gift has on private education.

Elementary and secondary private education in the United States depends almost exclusively on private-sector money: individuals, corporations, and foundations. The public school system, of course, virtually monopolizes the tax money used for the education of children. But over the last twenty years or so public school advocates have not been satisfied with the vast depth of the public coffers. They have become increasingly effective in securing additional financial support directly from private sources.

One of the techniques they use to garner this additional support is to play up how bad public schools are and then continually remind the business community that most of the future work force is educated in these failing schools.

Just as the proponents of public education have zealously guarded public monies, they have now begun to view the private philanthropic dollar as their own. It has reached the point that if an individual or organization publicly announces a contribution of a few thousand dollars to a privately funded voucher program to enable low-income families to send their children to a private school, public school supporters cry foul. They consider it a bad precedent that should not be duplicated because such contributions divert money and attention away from public education, which desperately needs all the help it can get.

Assuming no increase in philanthropic giving, when the insatiable public education system begins winning private gift money for its purposes, it takes money away from an important source of support for private education.

The negative effect of Annenberg's grant on private education is not limited to the fact that he didn't award any of the $500 million to private schools. The grants are matching grants. For example, in order to

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receive his $50 million grant, the New York City coalition must raise another $100 million: $50 million from private sources and $50 million from public funds. This means that the private sector in the New York City area is going to be directly pressured to come up with an additional $50 million and taxed for yet another $50 million. One hundred million dollars sucked out of the local community doesn't bode well for private education or any private-sector charitable cause.

Imagine for a moment—admittedly, we can only imagine this now—that Walter Annenberg decided the best thing he could do for the poor and disadvantaged children in this country was to donate $500 million to private education. Let's say that he offered supporters of private education in 20 American cities an average of $25 million each (amounts depending on population) in matching grant money to set up privately funded programs that provide tuition-aid grants for low-income families. This is precisely the kind of opportunity private education needs to overcome its image of elitism and to show, if given the financial resources, it can provide the basis for addressing the educational needs of the poor and the rich alike where public education has failed.

Just imagine what kind of media attention such a gift would have drawn, and what an opportunity it would also have been to promote parental choice and educational freedom as opposed to governmental reform programs.

I have not read or heard of any response on behalf of private education regarding the Annenberg grant. If a similar grant, even one of one-tenth the size, had been awarded to private education as a movement, every major newspaper in the country would have been filled with protests from the public education establishment.

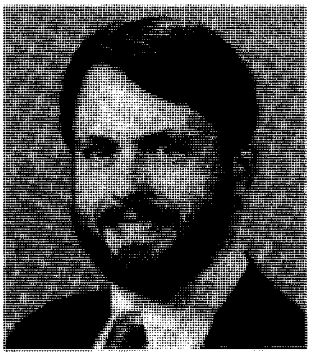
Public school advocates fear that private education might have the opportunity on a widespread basis to show it can address the needs of all types of children, including the disadvantaged, in ways that the public schools cannot. They also are afraid that private education in general will gain recognition as a way of life.

One of the reasons private education has not won over such benefactors as Annenberg is that there has been no coordinated presentation of private education as the real basis on which our nation's educational problems can be solved. While private education does not guarantee a good education, it has a degree of independence and freedom from government control—characteristics essential for good schooling.

Government funding is inefficient and ineffective. This would also apply to any government-funded voucher program. It couldn't redistribute the money as efficiently or as effectively as a foundation. Nor will government voucher programs be able to curb the government's desire to regulate and control education. Private voucher programs, however, are proving to be models of simplicity and efficiency. The private voucher programs have also shown it is possible in the private sector to provide money without taking away the freedom of the schools and that poor parents can make responsible decisions concerning their children's education without the government's help or interference.

Some say that private schools will always have to defend themselves from state regulation, regardless of whether they accept money from the government or not. This may be true, but in the long run the best and only defense for private education is financial independence from the government. The strength of this defense will increase as the financial independence of individual schools and the size of the private school movement increases. The gradual transition from government-welfare schooling to independent, private education can begin with many small endeavors.

Let private sector money flow to private voucher foundations, directly to schools, or to families: by whatever means best suits the situation. □



Paying for Other People's Politics

For decades the federal government has been inexorably expanding its power, spending, taxing, and regulating almost at will. It was bad enough that Uncle Sam promiscuously redistributed people's incomes to meet one alleged public need or another. Even worse has been Congress' readiness to use taxpayer resources for explicitly political purposes. Washington currently provides advocacy groups with some $39 billion annually. Report Marshall Wittmann and Charles Griffin of the Heritage Foundation: "Over the past forty years, Congress has helped create a vast patronage network of organizations that enjoy tax-preferred status, receive federal funds, and engage in legislative or political advocacy."

The beneficiaries of federal largesse read like a Who's Who of advocates of big government. For instance, labor unions receive millions of dollars annually in grants—between mid-1993 and mid-1994 the Teamsters collected $3.5 million and the AFL-CIO pocketed $2 million. The American Bar Association grabbed $2.2 million over the same period. The Child Welfare League of America received $260,000; the Environmental Defense Fund collected $515,000. The National Council of Senior Citizens, which gets an incredible 96 percent of its revenues from Uncle Sam, grabbed $71.5 million, while the AARP, the prime lobbying force behind cash-consuming, bankruptcy-headed Social Security, collected $73.7 million. Other beneficiaries include the League of Women Voters, Planned Parenthood, Families USA, World Wildlife Fund, Consumer Federation of America, American Nurses Association, United Auto Workers, and AFSCME.

Virtually every department and agency in government contributes its share to the plunder: Labor, Education, Health and Human Services, Interior, EPA, and more. One of the most abusive bureaucracies is the Legal Services Corporation (LSC), which, in the name of representing the poor, has used taxpayer funds to oppose state and federal initiatives to cut spending, trim regulations, and reduce taxes. Americans are paying twice—first for LSC grants, and second for the bigger government promoted by LSC grantees.

Even the theoretically best of congressional intentions is often perverted by federal grantors and activist grantees. For instance, in the name of preventing alcohol abuse the Department of Health and Human Services, through the Center for Substance Abuse Prevention (CSAP), has used public funds to promote media and political campaigns for higher alcohol excise taxes, restrictions on advertising, and destruction of private billboards. At times officials appear to have skirted the ban on taxpayer-funded lobbying, violating the spirit if not the letter of existing law.

According to CSAP, its programs "are

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designed to help eliminate or reduce alcohol, tobacco, and other drug problems in our society." Few could disagree with such a goal in theory. In practice, however, CSAP is interested in far more than substance abuse. All too often the agency has interpreted its mission—through its grant process, research support, organizational activities, and public pronouncements—as organizing local groups to attack people's drinking preferences.

For instance, CSAP has lavished federal largesse on the Marin Institute. The Institute does far more than discourage problem drinking. The organization explains that "effective prevention must incorporate principles of social justice and a special focus on populations that have been traditionally disenfranchised" and emphasizes that it develops "new resources and strategies that are on the forefront of the prevention field and that do not shrink from controversy." Similarly, Institute Senior Fellow James Mosher has written that "the new alcohol policy movement offers the entire public health field the opportunity to reach new constituencies." This approach, he adds, "provides the means to build a coalition for broad social change in regard to health policy."

Politics is not merely a byproduct of CSAP grants to the Marin Institute, which promotes state and national networks of community activists and exhorts them to take political action. Politics often appears to be the agency's goal. CSAP provided nearly one million dollars between 1990 and 1993 for the Marin Institute's Youth Alcohol Environment On-Line Information Project. This federally-subsidized "media advocacy" project, explained the Institute's grant proposal, "tries to reframe health issues to focus on industry practices as a primary problem, exposing them as exploitive and unethical." Indeed, the Institute stated that this project would have been useful in handling past queries from local "alcohol control activists" about such issues as the industry's response to activists' positions, industrial ownership patterns, the background of industry spokesmen, industry promotional expenditures, and likely industry arguments. These sorts of questions have nothing to do with health concerns or substance abuse; rather, they involve political attacks on the alcohol industry and the very idea of social drinking.

The University Research Corporation (URC) of Bethesda, Maryland, another agency grantee, put together a set of "media advocacy case studies" at CSAP's behest. The report highlighted activists' use of the media in "reducing the presence of alcohol and tobacco advertising and sales in their neighborhoods." CSAP's underlying political agenda was clear: local activists "had to take on government and business. In some cases, they changed or created city and local ordinances. In other cases, they changed the policies and practices of advertising companies, stores, and even manufacturers."

Among the examples compiled at taxpayer expense was a San Diego campaign, involving ACT UP, among other gay groups, to link alcohol with the transmission of AIDS, increase alcohol excise taxes, expand condom availability, and eliminate advertising tying alcohol to sex. The report quotes one local activist who explained that: "We need sex, kids, gays, motion, emotion, and real university researchers." CSAP has also promoted a group of so-called guerrilla artists with an unprintable name who deface private billboards that feature alcohol advertising. The group, reported CSAP, "did not fear taking on corporate America." Since 1989 the group has illegally altered 41 billboards, painting their own messages. CSAP went on to list the "lessons learned," including that "sensationalism makes news" and "even with a sensational event, careful planning is necessary."

Local groups are free to attack the alcohol industry, of course. But why is the federal government using tax money to promote such activities? In the name of restraining substance abuse, political activists, aided by the federal government, are lobbying local officials to interfere with responsible drinking by the vast majority of Americans—and taxpayers.

CSAP also touts the importance of media

advocacy training for its own staffers and local activists. The agency assists political activists in other ways. For instance, CSAP helped develop and promote the National Prevention League (recently renamed the National Drug Prevention League). Federal money has also been used to assist activists in attending NDPL functions, even though the League considers itself to be a "super-group" advocacy organization that, among other things, lobbies Congress on CSAP's behalf. According to Dr. Michael Dana, CSAP's Director of the Office of Intergovernmental and External Affairs, the NDPL "will create mechanisms to discuss ways to educate the appropriate individuals, to make the case that prevention is the way to have an effect on drug use over the long haul." Among the "appropriate individuals" are congressmen and congresswomen. As Executive Director Sue Rusche put it: "Hardly anybody understands what prevention is, and certainly that has to apply to the United States Congress."

In fact, two years ago CSAP (then the Office for Substance Abuse Prevention) was reprimanded by the General Accounting Office for illicit political activities. Were it concerned about the law, the agency should have been exercising greater caution in its own activities and tighter oversight of its grantees' projects. Instead, the Center seems intent on operating as close to the line of illegal lobbying as possible.

The case for cutting the federal budget is clear enough. The case for eliminating grant money for political activists is even clearer. As Thomas Jefferson put it: "To compel a man to furnish funds for the propagation of ideas he disbelieves and abhors is sinful and tyrannical." It is time that taxpayers, rather than legislators, decided which groups they want to support. Democracy means very little if influential interests are able to regularly raid taxpayers' wallets to underwrite their political campaigns and lobbying activities. □

Economic Winners Deserve to Be Respected, Not Vilified

by Mark J. Perry

Many people deplore the fact that the top 20 percent of U.S. households account for 55 percent of the nation's after-tax income, and the top one percent own nearly 40 percent of the country's wealth. Such inequality seems to offend some sense of justice and fairness and this prompts policies to tax the rich and redistribute income to people on the bottom. The very nature of the U.S. progressive income tax is intended to tax the rich at increasingly higher rates to achieve a more "equitable" distribution of income.

In discussions on equality, we often do not define our terms well. Most of us would agree that equality of opportunity is desirable. But, equality of opportunity in no way guarantees that outcomes will be equal. In fact, inequality of outcomes is the natural and expected result of any fair, competitive process, whether the competition is for Olympic medals, Nobel Prizes, grades, or dollars.

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For example, in the 1992 summer Olympic games, almost 100 countries competed in over 230 individual and team events in 26 different sports. In all, 815 gold, silver, and bronze medals were awarded. The countries that received the most medals represented only ten percent of the total number of countries that competed. Yet that top ten percent won more than 65 percent of the total medals awarded. The top 20 percent of the countries won more than 85 percent of the total medals awarded.

An analysis of Nobel Prizes awarded in the four science categories—physics, chemistry, medicine, and economic science—also shows a dramatic inequality of outcome. Since 1901 there have been 447 Nobel Prizes awarded to individuals from over 30 countries. Three countries (United States, Great Britain, and Germany) earned almost 300 Nobel awards. In other words, the top 10 percent of the countries receiving awards got 67 percent of the total Nobel Prizes. The top 20 percent (United States, England, Germany, France, Sweden, and Switzerland) earned over 80 percent of the total prizes granted.

As long as everyone is free to compete in a fair contest with well-defined rules, no one is offended by the inequality of outcomes at the Olympics or in Nobel Prize competition. No one ever seriously suggests that Olympic medals or Nobel Prizes (with the possible exception of the prize for literature and peace) be redistributed to achieve "equality of outcome."

Why then do people object to an unequal distribution of income or wealth? The results of income distribution conform very closely to the inequalities outlined above in the Olympics and for Nobel Prizes. An unequal distribution of income is a natural and expected outcome—just like the unequal distribution of Olympic medals or Nobel Prizes. The economy is a competitive marketplace and there will always be people who excel in business, science, or the arts. Through some combination of skill, perseverance, hard work, and luck, successful people like Bill Gates, Oprah Winfrey, and Michael Jordan make more in a year than most of us make in a lifetime. But then the United States usually wins more Nobel Prizes in a year than Japan has won all century.

Taxing the most successful people in our society and redistributing income to the most unproductive members of society is not a solution to the so-called evils of income inequality. Redistribution through a punitive, progressive tax system harms everyone—it makes the richest, most successful people less productive and the least productive people even less productive. In the same way that redistributing Olympic medals would weaken and undermine athletic competition, income redistribution weakens our economic system.

The medal winners of the Olympics and the Nobel Prize winners are honored, respected, and admired. We should pay the same respect to the winners and true heroes of the free enterprise system—the successful business people at the top of the economic ladder. □

THE FREEMAN
IDEAS ON LIBERTY

Why They're Mad

by Sarah J. McCarthy

The most incredible question to arise from the horror in Oklahoma City is not that a lunatic or two could engage in an atrocity, but why 1,000 people in February 1995 felt the need to attend a meeting with speakers from the Michigan Militia in the sleepy Norman Rockwell town of Meadville, Pennsylvania.

The first time I'd heard of the rural rage that is sweeping the mountains and prairies of the American West like a wildfire was from Kathleen Marquardt, Montana resident and author of *AnimalScam*. "Militias are sprouting up all over," she said. "We're truly on the verge of a revolution."

"They're ready to start shooting out West," said Ms. Marquardt. "People in Idaho are strapping on their guns and talking about secession. It's not to be pooh-poohed. I know that people have threatened federal prosecutors." Ms. Marquardt followed this with an urgent plea for concerned lawyers to help with a problem that has arisen in "Heaven-on-Earth, Montana."

If one dismisses this rural rage as just some rabid reaction to radio talk shows or a childish national tantrum, rather than trying to understand it, one would be making the same mistake as those who ignored the widespread unrest about the Vietnam war and blamed it on Jane Fonda. When a goodly number of Americans coast-to-coast are angry, as we saw in the anti-Vietnam war and the civil rights movements, they usually have some very good reasons.

Living in Last Chance Gulch near Helena, Montana, Kathleen Marquardt described her transformation from an apolitical mother to an angry "grassroots rabble-rouser" the day that her daughter came home in tears, vowing never to return to school. An animal rights group, she said, was visiting her daughter's school for a week to convince the children of ranchers, farmers, and hunters that their parents were murderers. Ms. Marquardt's daughter began crying when she was told in front of the entire class that because her mother was a hunter, she was also a murderer.

"The children weren't told," says Ms. Marquardt "that ranchers and farmers put the food on America's tables, that ranchers and miners and loggers provide their clothes and products that build their homes and schools, cars, and video games." Ms. Marquardt became an activist, founding a group she calls "Putting People First."

Protecting Owls, Endangering People

The Endangered Species Act, which enables the federal government to take control of private property without compensation, is among the most controversial of environmental regulations angering farmers and ranchers. A law innocently devised to protect owls and wolves is playing a major part in fermenting a rural revolution.

Tales abound of people like Margaret Rector, a 74-year-old woman, who in 1973 purchased 15 acres of land near Austin, Texas, that was bought with her life savings and intended for her retirement income. The U.S. Fish and Wildlife Service, however, had other plans for her small farm. In 1991 they decided that her land was a suitable habitat for the Golden Cheeked Warbler. As a result, Mrs. Rector's land, previously assessed at $800,000 is now unusable for development, and is worth a mere $30,000. The only thing Mrs. Rector can do with her land is pay taxes.

Ms. McCarthy has been published in Barron's, Forbes, *and* The New Quotable Woman.

Radical green politics and animal rights extremism is the New Age socialism, says Kathleen Marquardt, citing examples of environmentalists who are unyielding in their disdain for property rights. Even environmentalists considered moderate, such as Peter Berle, President of the Audubon Society, has said, "We reject the idea of private property."

Grizzly bears and wolves and spotted owls now take precedence over human beings in the mountains and prairies of the West, say farmers and ranchers. Bears and wolves have been reinstated into their former habitats amongst farms and ranches, and it's estimated that spotted owl regulations will result in the loss of 72,000 logging jobs in Washington, Oregon, and California.

"If a wolf or grizzly threatens your sheep," says Ms. Marquardt, "you have ten days to ameliorate the situation. If it is not resolved by then, then YOU get out. People of Idaho are strapping on their guns and saying, 'We're not leaving.' The next time representatives from New York's silk stocking district release wolves onto our lands, we're gonna release them in Central Park!"

To people who have lost control of their basic values, property, schools, and incomes to Ivy League values and Big Government social-engineering projects, paranoia about One-World-Government is just a baby step, or perhaps a couple of umbrella steps, away. "We're just sick of our values being under attack," says the editor of *Farm Times*, a newspaper in Rupert, Idaho. Paranoia in the Heartland of America has been generated more by the warrior mentality of federal regulatory agencies than by radio talk shows.

Former Senator George McGovern, appearing on C-Span a few days after the tragedy in Oklahoma City, derided the attitudes of people he called "gun nuts," saying that anyone who is against the Brady Bill is, by definition, a "gun nut." Guns, however, seem to look very different to the folks who inhabit the vast wilderness of the West than they do to urban subway riders. Miles from butcher shops and police departments, their guns are instruments of survival, food, and protection.

In a society that watched an almost total collapse of law and order in Los Angeles, and a criminal justice system that has trouble keeping violent offenders in jail, the habitually self-reliant people of the West believe that they have no one to rely on but themselves.

Guns are seen to be one of their few remaining vestiges of power, security, and safety in a political atmosphere that stereotypes them as Forrest Gumps from flyover country. Rural people say they are losing their farms, homes, retirement nests, and basic values to a federal government that is micromanaging their lives at every turn. As you listen to them, they sound like people with their backs to the wall. "If we want to preserve Western culture," said Kathleen Marquardt, "we're gonna have to fight for it."

The executive branch and its regulatory agencies have been operating in a search-and-destroy mode against American citizens who are on the wrong side of the liberal political agenda. Doctors, pharmaceutical companies, construction firms, tire companies, restaurants, ranchers, farmers, miners, radio shows, and small businesses have felt the heavy hand of Big Government and its big fines and verbal assaults. "We must identify our enemies and drive them into oblivion," said Bruce Babbitt, before he was appointed Secretary of Interior. "Freeloaders" and "profiteers" and "whores for the insurance industry" are a few of the epithets Washington heavies have hurled at their political opposition in mainstream America.

As representatives from the current administration tour the country pointing fingers at radio talk show hosts, and militias, their own incendiary rhetoric and heavy-handed policies have been inflaming people like a matchstick set to dry prairie grass. Let's hope they will not wait as long as previous Establishment officials, such as Robert McNamara, to recognize the error of their ways. □

THE FREEMAN
IDEAS ON LIBERTY

The Big Apple: Cigarettes and Central Planners

by Ralph R. Reiland

"People should be free to settle things on their own," Jimmy Duke tells a *New York Times* reporter. Duke owns Drake's Drum, a restaurant on Second Avenue at 90th Street in New York City.

What has Mr. Duke talking about individual freedom is Local Law 5, a new city ordinance that outlaws smoking in all restaurants with 35 or more seats, except at the bar (if they have one). Duke, a nonsmoker, has just tossed out over half of his dining room chairs in order to seat precisely 34 customers.

Duke may be auctioning off his final 34 chairs if the Coalition for a Smoke Free City gets its way. The Coalition is seeking to eliminate the size exemption and expand the smoke-free mandate to every eating and drinking establishment.

Duke's restaurant, renamed, is now Drake's Drum—The Smoke Inn. Illustrating the Law of Unintended Consequences, any health risks from secondhand smoke at Drake's, with its now higher concentration of smokers, will most likely be increased because of Local Law 5. "Why should bureaucrats get involved?" Duke asks. "I run a pub. I don't do behavior modification."

For outdoor diners in New York City's sidewalk cafes, Local Law 5 decrees that only 25 percent of the customers can be smoking at any one time. Pedestrians, walking by the cafe tables, can smoke in any percentages.

After the first month of operating under the smoking ban, a poll of 1,000 New York City restaurant owners shows 81 percent saying that Local Law 5 represents "overregulation of small business," and 55 percent saying that their sales had declined.

Multiple Chemical Sensitivity may be Jimmy Duke's next headache. Allegedly, for folks with MCS, a whiff of secondhand perfume can bring on anything from a headache to cardiac arrest. If the hostess at Drake's Drum seats too many heavily fragranced customers at one time, Duke may end up as a co-defendant in a manslaughter-by-environment lawsuit.

Emboldened by the enactment of Local Law 5, anti-smoking activist Nancy Coleman says, "We can now redirect our efforts to the area of toxins and fragrances." The *New York Post* reports that perfume wearers already face restrictions in San Francisco. Charcoal grills may be next on Ms. Coleman's list.

The Market at Its Best

In Manhattan's NYNEX Yellow Pages, religious organizations fill only three-quarters of one page. The city's restaurant listings, starting on the next page, go on for 28

Ralph Reiland, Associate Professor of Economics at Robert Morris College, owns Amel's Restaurant in Pittsburgh, Pennsylvania.

pages of tiny print, beginning with Abyssinia Ethiopian Restaurant and ending with Zutto's on Hudson.

There are nearly 300 restaurants listed on each of those 28 phone directory pages, with a total of more than 8,000 restaurants in New York City. It's the free market at its best—a creative, competitive, and thriving industry, providing superb opportunities to entrepreneurs and an infinite array of choices to customers.

If there's any industry that is fully capable of self-regulating itself regarding smoking, while meeting the needs of its varied clientele without new laws, surely it's the New York City restaurant business. With over 8,000 restaurants, owned by people who know that they profit most through satisfying their customers, it seems clear that the market is thoroughly adept at adjusting to customers who prefer a smoke-free environment, if they request it, and equally capable of catering to others who wish to have a cigarette after dinner.

The Russian Tea Room, for instance, has two floors of dining rooms, each with well over 35 seats. Rather than entirely outlawing smoking on both floors, as Local Law 5 mandates, why not permit the owners of the restaurant to designate one floor as smoking and the other as non-smoking, if that's what their patrons wish?

Other restaurant owners could fully ban smoking, but that would be purely a decision by the owners, not a city-wide regulation. In the end, the result might be 3,000 smoke-free restaurants, 2,500 restaurants that don't regulate smoking, and 2,500 that had separate accommodations for smokers and non-smokers, all dictated primarily by the market.

That would hardly be a dilemma when tourists stopped at the hotel concierge to ask for a good Chinese restaurant. "Let's see, we have 106 good ones that are smoke-free and 92 where you're permitted to smoke. The best dozen or so are marked with a star." □

THE FREEMAN
IDEAS ON LIBERTY

William Penn—America's First Great Champion for Liberty and Peace

by Jim Powell

William Penn was the first great hero of American liberty. During the late seventeenth century, when Protestants persecuted Catholics, Catholics persecuted Protestants, and both persecuted Quakers and Jews, Penn established an American sanctuary which protected freedom of conscience. Almost everywhere else, colonists stole land from the Indians, but Penn traveled unarmed among the Indians and negotiated peaceful purchases. He insisted that women deserved equal rights with men. He gave Pennsylvania a written constitution which limited the power of government, provided a humane penal code, and guaranteed many fundamental liberties.

For the first time in modern history, a large society offered equal rights to people of different races and religions. Penn's dramatic example caused quite a stir in Europe. The French philosopher Voltaire, a champion of religious toleration, offered lavish praise. "William Penn might, with reason, boast of having brought down upon earth the Golden Age, which in all probability, never had any real existence but in his dominions."

Penn was the only person who made major contributions to liberty in both the New World and the Old World. Before he conceived the idea of Pennsylvania, he became the leading defender of religious toleration in England. He was imprisoned six times for speaking out courageously. While in prison, he wrote one pamphlet after another, which gave Quakers a literature and attacked intolerance. He alone proved capable of challenging oppressive government policies in court—one of his cases helped secure the right to trial by jury. Penn used his diplomatic skills and family connections to get large numbers of Quakers out of jail. He saved many from the gallows.

Despite the remarkable clarity of Penn's vision for liberty, he had a curious blind spot about slavery. He owned some slaves in America, as did many other Quakers. Antislavery didn't become a widely shared Quaker position until 1758, 40 years after Penn's death. Quakers were far ahead of most other Americans, but it's surprising that people with their humanitarian views could have contemplated owning slaves at all.

There were just two portraits of Penn painted during his lifetime, one depicting

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him as a handsome youth, the other as a stout old man. A biographer described young Penn's "oval face of almost girlish prettiness but with strong features, the brusqueness of the straight, short nose in counterpoint to the almost sensuous mouth. What gives the face its dominant character are the eyes, burning with a dark, luminous insistence . . . it is known from verbal descriptions that Penn was fairly tall and athletic. Altogether, the young man must have been both handsome and impressive."

William Penn was born on October 14, 1644, in London. The most specific description of his mother, Margaret, came from a neighbor, the acid-tongued diarist Samuel Pepys who described her as "well-looked, fat, short old Dutch woman, but one who hath been heretofore pretty handsome." She did the child-rearing, since her husband, William Penn Sr., was seldom at home. He was a much sought-after naval commander because he knew the waters around England, could handle a ship in bad weather and get the most from his crew. Admiral Penn had a good personal relationship with Stuart kings and for a while served their most famous adversary, the Puritan Oliver Cromwell.

Left mostly to himself, young William became interested in religion. He was thrilled to hear a talk by Thomas Loe, a missionary for the Society of Friends—derisively known as Quakers. Founded in 1647 by the English preacher George Fox, Quakers were a mystical Protestant sect emphasizing a direct relationship with God. An individual's conscience, not the Bible, was the ultimate authority on morals. Quakers didn't have a clergy or churches. Rather, they held meetings where participants meditated silently and spoke up when the Spirit moved them. They favored plain dress and a simple life rather than aristocratic affectation.

After acquiring a sturdy education in Greek and Roman classics, Penn emerged as a rebel when he entered Oxford University. He defied Anglican officials by visiting John Owen, a professor dismissed for advocating tolerant humanism. Penn further rebelled by protesting compulsory chapel attendance, for which he was expelled at age 17.

His parents sent him to France where he would be less likely to cause further embarrassment, and he might acquire some manners. He enrolled at *l'Académie Protestante*, the most respected French Protestant university, located in Saumur. He studied with Christian humanist Moïse Amyraut, who supported religious toleration.

Back in England by August 1664, Penn soon studied at Lincoln's Inn, the most prestigious law school in London. He learned the common law basis for civil liberties and gained some experience with courtroom strategy. He was going to need it.

Admiral Penn, assigned to rebuilding the British Navy for war with the Dutch, asked that his son serve as personal assistant. Young William must have gained a valuable inside view of high command. Admiral Penn also used his son as a courier delivering military messages to King Charles II. Young William developed a cordial relationship with the King and his brother, the Duke of York, the future King James II.

Penn's quest for spiritual peace led him to attend Quaker meetings even though the government considered this a crime. In September 1667, police broke into a meeting and arrested everyone. Since Penn looked like a fashionable aristocrat rather than a plain Quaker, the police released him. He protested that he was indeed a Quaker and should be treated the same as the others. Penn drew on his legal training to prepare a defense. Meanwhile, in jail he began writing about freedom of conscience. His father disowned him, and young Penn lived in a succession of Quaker households. He learned that the movement was started by passionate preachers who had little education. There was hardly any Quaker literature. He resolved to help by applying his scholarly knowledge and legal training. He began writing pamphlets, which were distributed through the Quaker underground.

In 1668, one of his hosts was Isaac Penington, a wealthy man in Buckinghamshire. Penn met his stepdaughter Gulielma Springett, and it was practically love at first sight.

Poet John Milton's literary secretary Thomas Ellwood noted her "innocently open, free and familiar Conversation, springing from the abundant Affability, Courtesy and Sweetness of her natural Temper." Penn married Gulielma on April 4, 1672. She was to bear seven children, four of whom died in infancy.

Meanwhile, Penn attacked the Catholic/Anglican doctrine of the Trinity, and the Anglican bishop had him imprisoned in the notorious Tower of London. Ordered to recant, Penn declared from his cold isolation cell: "My prison shall be my grave before I will budge a jot; for I owe my conscience to no mortal man." By the time he was released seven months later, he had written pamphlets defining the principal elements of Quakerism. His best-known work from this period: *No Cross, No Crown*, which presented a pioneering historical case for religious toleration.

The Conventicle Act

He wasn't free for long. To curb the potential power of Catholics, notably the Stuarts, Parliament passed the Conventicle Act, which aimed to suppress religious dissent as sedition. But the law was applied mainly against Quakers, perhaps because few were politically connected. Thousands were imprisoned for their beliefs. The government seized their properties, including the estate of his wife's family.

Penn decided to challenge the Conventicle Act by holding a public meeting on August 14, 1670. The Lord Mayor of London arrested him and his fellow Quakers as soon as he began expressing his nonconformist religious views. At the historic trial, Penn insisted that since the government refused to present a formal indictment—officials were concerned the Conventicle Act might be overturned—the jury could never reach a guilty verdict. He appealed to England's common-law heritage: "if these ancient and fundamental laws, which relate to liberty and property, and which are not limited to particular persuasions in matters of religion, must not be indispensably maintained and observed, who then can say that he has a right to the coat on his back? Certainly our liberties are to be openly invaded, our wives to be ravished, our children slaved, our families ruined, and our estates led away in triumph by every sturdy beggar and malicious informer—as *their* trophies but our forfeits for conscience's sake."

The jury acquitted all defendants, but the Lord Mayor of London refused to accept this verdict. He hit the jury members with fines and ordered them held in brutal Newgate prison. Still, they affirmed their verdict. After the jury had been imprisoned for about two months, the Court of Common Pleas issued a writ of habeas corpus to set them free. Then they sued the Lord Mayor of London for false arrest. The Lord Chief Justice of England, together with his 11 associates, ruled unanimously that juries must not be coerced or punished for their verdicts. It was a key precedent protecting the right to trial by jury.

Penn had become a famous defender of liberty who could attract several thousand people for a public talk. He traveled in Germany and Holland to see how Quakers there were faring. Holland made a strong impression because it was substantially free. It was a commercial center where people cared mainly about peaceful cooperation. Persecuted Jews and Protestants flocked to Holland. Penn began to form a vision of a community based on liberty.

He resolved to tap his royal connections for his cause. With the blessing of King Charles II and the Duke of York, Penn presented his case for religious toleration before Parliament. They would have none of it because they were worried about the Stuarts imposing Catholic rule on England, especially since the Duke of York had converted to Roman Catholicism and married a staunch Catholic.

The Founding of Pennsylvania

Penn became convinced that religious toleration couldn't be achieved in England. He went to the King and asked for a charter enabling him to establish an American colony. Perhaps the idea seemed like an easy way to get rid of troublesome Quakers. On March 4, 1681, Charles II signed a charter for territory west of the Delaware River and north of Maryland, approximately the present size of Pennsylvania, where about a thousand Germans, Dutch and Indians lived without any particular government. The King proposed the name "Pennsilvania" which meant "Forests of Penn"—honoring Penn's late father, the Admiral. Penn would be proprietor, owning all the land, accountable directly to the King. According to traditional accounts, Penn agreed to cancel the debt of £16,000 which the government owed the Admiral for back pay, but there aren't any documents about such a deal. At the beginning of each year, Penn had to give the King two beaver skins and a fifth of any gold and silver mined within the territory.

Penn sailed to America on the ship *Welcome* and arrived November 8, 1682. With assembled Friends, he founded Philadelphia—he chose the name, which means "city of brotherly love" in Greek. He approved the site between the Delaware and Schuylkill rivers. He envisioned a 10,000-acre city, but his more sober-minded Friends thought that was overly optimistic. They accepted a 1,200-acre plan. Penn named major streets including Broad, Chestnut, Pine, and Spruce.

Penn was most concerned about developing a legal basis for a free society. In his *First Frame of Government*, which Penn and initial land purchasers had adopted on April 25, 1682, he expressed ideals anticipating the Declaration of Independence: "Men being born with a title to perfect freedom and uncontrolled enjoyment of all the rights and privileges of the law of nature . . . no one can be put out of his estate and subjected to the political view of another, without his consent."

Penn provided that there would be a governor—initially, himself—whose powers were limited. He would work with a Council (72 members) which proposed legislation and a General Assembly (up to 500 members) which either approved or defeated it. Each year, about a third of members would be elected for three-year terms. As governor, Penn would retain a veto over proposed legislation.

His *First Frame of Government* provided for secure private property, virtually unlimited free enterprise, a free press, trial by jury and, of course, religious toleration. Whereas the English penal code specified the death penalty for some 200 offenses, Penn reserved it for just two—murder and treason. As a Quaker, Penn encouraged women to get an education and speak out as men did. He called Pennsylvania his "Holy Experiment."

Penn insisted on low taxes. A 1683 law established a low tax on cider and liquor, a low tariff on imports and on exported hides and furs. To help promote settlement, Penn suspended all taxes for a year. When the time came to reimpose taxes he encountered fierce resistance and had to put it off.

Penn's *First Frame of Government* was the first constitution to provide for peaceful change through amendments. A proposed amendment required the consent of the governor and 85 percent of the elected representatives. Benevolent though Penn was, people in Pennsylvania were disgruntled about his executive power as proprietor and governor. People pressed to make the limitations more specific and to provide stronger assurances about the prerogatives of the legislature. The constitution was amended several times. The version adopted on October 28, 1701 endured for three-quarters of a century and then became the basis for Pennsylvania's state constitution, adopted in 1776.

Collecting rent due Penn as proprietor was always a headache. He never earned enough from the colonies to offset the costs of administration which he paid out of his personal capital. Toward the end of his life, he complained that Pennsylvania was a net loss, costing him some £30,000.

Penn's practices contrasted dramatically with other early colonies, especially Puritan New England which was a vicious theocracy. The Puritans despised liberty. They made political dissent a crime. They whipped, tarred, and hanged Quakers. The Puritans stole what they could from the Indians.

Penn achieved peaceful relations with the Indians—Susquehannocks, Shawnees, and Leni-Lenape. Indians respected his courage, because he ventured among them without guards or personal weapons. He was a superior sprinter who could out-run Indian braves, and this helped win him respect. He took the trouble to learn Indian dialects, so he could conduct negotiations without interpreters. From the very beginning, he acquired Indian land through peaceful, voluntary exchange. Reportedly, Penn concluded a "Great Treaty" with the Indians at Shackamaxon, near what is now the Kensington district of Philadelphia. Voltaire hailed this as "the only treaty between those people [Indians and Christians] that was not ratified by an oath, and that was never infringed." His peaceful policies prevailed for about 70 years, which has to be some kind of record in American history.

Defending Pennsylvania

Penn faced tough challenges defending Pennsylvania back in England. There was a lot at stake, because Pennsylvania had become the best hope for persecuted people in England, France, and Germany. Charles II tried to establish an intolerant absolutism modeled after that of the French King Louis XIV. Concerned that Pennsylvania's charter might be revoked, Penn turned on his diplomatic charm.

Behind the scenes, Penn worked as a remarkable diplomat for religious toleration. Every day, as many as 200 petitioners waited outside Holland House, his London lodgings, hoping for an audience and help. He intervened personally with the King to save scores of Quakers from a death sentence. He got Society of Friends founder George Fox out of jail. He helped convince the King to proclaim the Acts of Indulgence which released more than a thousand Quakers—many had been imprisoned for over a dozen years.

Penn's fortunes collapsed after a son was born to James II in 1688. A Catholic succession was assured. The English rebelled and welcomed the Dutch King William of Orange as William III, who overthrew the Stuarts without having to fire a shot. Suddenly, Penn's Stuart connections were a terrible liability. He was arrested for treason. The government seized his estates. Though he was cleared by November 1690, he was marked as a traitor again. He became a fugitive for four years, hiding amidst London's squalid slums. His friend John Locke helped restore his good name in time to see his wife, Guli, die on February 23, 1694. She was 48.

Harsh experience had taken its toll on Penn. As biographer Hans Fantel put it, "he was getting sallow and paunchy. The years of hiding, with their enforced inactivity, had robbed him of his former physical strength and grace. His stance was now slightly bent, and his enduring grief over the death of Guli had cast an air of listless abstraction over his face." His spirits revived two years later when he married 30-year-old Hannah Callowhill, the plain and practical daughter of a Bristol linen draper.

But he faced serious problems because of his sloppy business practices. Apparently, he couldn't be bothered with administrative details, and his business manager, fellow Quaker Philip Ford, embezzled substantial sums from Penn's estates. Worse, Penn signed papers without reading them. One of the papers turned out to be a deed transferring Pennsylvania to Ford who demanded rent exceeding Penn's ability to pay. After Ford's death in 1702, his wife, Bridget, had Penn thrown in debtor's prison, but her cruelty backfired. It was unthinkable to have such a person govern a major colony, and in 1708 the Lord Chancellor ruled that "the equity of redemption still remained in William Penn and his heirs."

In October 1712, Penn suffered a stroke while writing a letter about the future of Pennsylvania. Four months later, he suffered a second stroke.

While he had difficulty speaking and writing, he spent time catching up with his children whom he had missed during his missionary travels. He died on July 30, 1718. He was buried at Jordans, next to Guli.

Long before his death, Pennsylvania ceased to be a spiritual place dominated by Quakers. Penn's policy of religious toleration and peace—no military conscription—attracted all kinds of war-weary European immigrants. There were English, Irish, and Germans, Catholics, Jews, and an assortment of Protestant sects including Dunkers, Huguenots, Lutherans, Mennonites, Moravians, Pietists, and Schwenkfelders. Liberty brought so many immigrants that by the American Revolution Pennsylvania had grown to some 300,000 people and became one of the largest colonies. Pennsylvania was America's first great melting pot.

Philadelphia was America's largest city with almost 18,000 people. It was a major commercial center—sometimes more than a hundred trading ships anchored there during a single day. People in Philadelphia could enjoy any of the goods available in England. Merchant companies, shipyards, and banks flourished. Philadelphia thrived as an entrepôt between Europe and the American frontier.

With an atmosphere of liberty, Philadelphia emerged as an intellectual center. Between 1740 and 1776, Philadelphia presses issued an estimated 11,000 works including pamphlets, almanacs, and books. In 1776, there were seven newspapers reflecting a wide range of opinions. No wonder Penn's "city of brotherly love" became the most sacred site for American liberty, where Thomas Jefferson wrote the Declaration of Independence, and delegates drafted the Constitution.

By creating Pennsylvania, Penn set an enormously important example for liberty. He showed that people who are courageous enough, persistent enough, and resourceful enough can live free. He went beyond the natural right theories of his friend John Locke and showed how a free society would actually work. He showed how individuals of different races and religions can live together peacefully when they mind their own business. He affirmed the resilient optimism of free people. □

Henry Salvatori—A Man of Integrity

by James L. Doti

Everyone seems to have strong beliefs these days. No one seems to be reticent about sharing those beliefs with anyone who will listen. Whether it is a question about government being bigger or smaller or taxes being higher or lower or welfare spending going up or down, most people have definite views.

What is uncommon nowadays is not people with strongly held beliefs but people who are willing to put their beliefs into action. I have had the honor and privilege to come to know personally a wise man who has the guts and fortitude to act on his convictions.

Henry Salvatori's deep and abiding love for the United States, which is based on the opportunity that awaited him and his immigrant family when they arrived from Italy in

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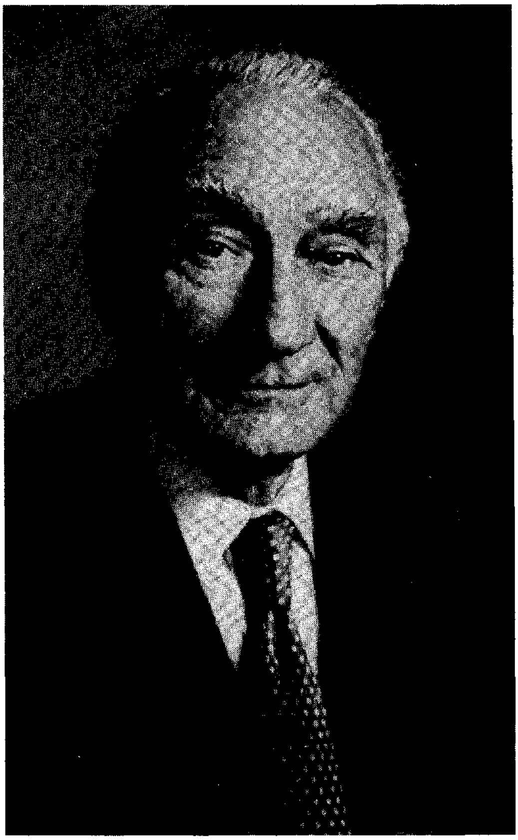
1906, drives his desire to see that our youth acknowledge what made our country great. This desire finds expression through the Henry Salvatori Foundation—a foundation established to help preserve and revitalize America's founding principles and ensure that we do not lose sight of what our forefathers created.

In a society where academe is increasingly dominated by the multicultural view that the United States has no shared culture and nothing special to offer the rest of the world, American values and traditions may strike one as outdated. But before concluding that promoting such values and traditions is an anachronistic attempt to stimulate a blind and jingoistic patriotism, one should look at the visionary life's work of Henry Salvatori.

After graduating from the University of Pennsylvania in 1923, he received a master's degree in physics from Columbia University in 1926. Mr. Salvatori played a leading role with the development of the seismic method of oil exploration that is still an industry standard. In 1933, he founded Western Geophysical Company. Under his ownership and leadership, it became a great success in providing geophysical exploration services to the oil industry in the United States and world wide.

Long before the subject of computer science became fashionable in higher education, Henry Salvatori's passion for scientific development led him to establish a computer science center and chair in computer science at the University of Southern California and a chair in computer and cognitive sciences at the University of Pennsylvania.

Mr. Salvatori's forward thinking was also evident in the area of political philosophy. His financial assistance to William Buckley Jr. in the 1950s helped start the *National Review*. When the Great Society was in full bloom in the late 1960s, The Henry Salvatori Center for the Study of Individual Freedom in the Modern World was established at Claremont-McKenna College. He was an early supporter of the Intercollegiate Studies Institute, which among its many other



Henry Salvatori

activities oversees The Salvatori Center for American Founding Studies at Boston University.

After chairing Barry Goldwater's presidential campaign in California, Henry Salvatori was instrumental in convincing Ronald Reagan to run for governor, thereby launching a career that would lead to the presidency and the Reagan revolution. During those revolutionary years when the New Deal coalition unraveled, Henry Salvatori was part of Reagan's "Kitchen Cabinet."

Given Mr. Salvatori's penchant for backing trends long before they become popular, it is not surprising that he has been a long-time financial supporter of the Heritage Foundation, a think tank in Washington, D.C. committed to the Jeffersonian philosophy of limited government.

The establishment of the Henry Salvatori Foundation is an earnest attempt to make coming generations aware of the great truths that lie at the heart of our country's constitutional order. While it may strike one as unfashionable to help young people now and in the future better understand our nation's traditions, heritage, and common culture, it is probably more important than ever to be enlightened by the ideas of federalism, the separation of powers, free markets and free speech, individual rights, the culture of principled dissent, and the dangers of majoritarian rule. In a world slowly sliding into intolerance and rigidity, a rigorous examination of individual freedom and responsibility seems to take on heightened importance.

Political Correctness Takes Hold

A recent article by Evan Gahr in *The Wall Street Journal* (January 27, 1995) points out that most major foundations are bankrolling political correctness on college campuses across the nation. Gahr cites the work of a project director for several Ford Foundation grants, Johnella Butler, who wrote in a recent essay: "We are only beginning to undo the effects of the distortions set in motion 500 years ago when Columbus brought massacre and the most brutal form of slavery known to these shores, all in the interest of spreading Western civilization with all its long lasting assumptions of racial, cultural and male superiority."

Are those the assumptions of Western civilization? What about the Greeks' reliance on reason and rational disputation in advancing the search for truth or the Judeo-Christian tradition of independence from the state? What about John Locke's view of "natural law" or the English tradition of freedom and limits on the tyrannical use of power? What about Adam Smith and laissez faire?

And what about our Constitution—a work of creative genius with its separation of powers, checks and balances, and Bill of Rights that seeks to limit the power of government and provide personal freedom and equality under the law? Certainly, few would deny the significance of the Constitution—perhaps the finest document ever written for the establishment of self-government. Yet, the Constitution was not among the 31 "standards" included by the authors of the soon-to-be-released list of "National Standards for United States History" that these authors believe are critical for student understanding.

Herman Cubillos, a former foreign minister of Chile, recently stated:

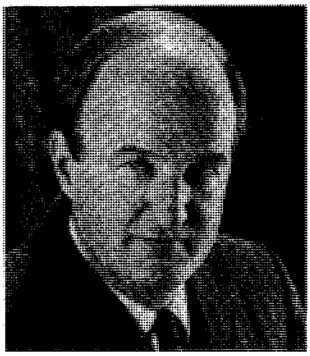
> The countries of Latin America have always looked for example to the world's great melting pot, the U.S. Now we see that the U.S. is exacerbating its inter-group differences by making group membership the basis for government favors and handicaps, as well as by treating the culture of George Washington and Abraham Lincoln as an embarrassing anachronism. If the U.S. doesn't want to sink into the Third World out of which we are rising, it must treasure its culture.

Establishing a foundation committed to supporting efforts that lead to an enlightened love of our country and the justice and nobility of its heritage is not passé. These are values and traditions that should not be shunted aside but rather examined carefully in order to understand the challenges to our society posed by the ideas of freedom and reason. Henry Salvatori has again been a visionary in identifying a need before the rest of the pack—namely the need to encourage scholarship and teaching that foster the articulation of those great truths that lie at the heart of freedom.

I recently asked Henry Salvatori what he believes is the secret for success. He replied briefly but succinctly, "There should be complete and absolute integrity in everything one does."

It is Henry Salvatori's integrity that not only gives him the courage of his convictions but also the qualities of heart and mind that lead him to act on those strongly held convictions. To those of us concerned about preserving American values and traditions, it is reassuring to know that one person can still make a significant difference in the world. □

 by Mark Skousen



Econ 101: Do We Really Need Another Samuelson?

"Every economics editor in the business has been looking for the new Samuelson since the 1970s."

—*The New York Times*, March 14, 1995

The economics profession is all abuzz with the news, recently announced in *The New York Times*, that N. Gregory Mankiw, a 37-year-old economics professor at Harvard, was paid an incredible $1.4 million advance by Harcourt Brace to write the next "Samuelson" textbook.

What Harcourt Brace is hoping for is a blockbuster textbook that will shape the thinking of the 1.5 million college students who take Economics 101 each year. Paul Samuelson, the Nobel Prize-winning MIT economist, set the standard when his new Keynesian-style textbook took colleges by storm following World War II. Since its first edition in 1948, Samuelson's *Economics* has sold over 4 million copies and been translated into an estimated 41 languages. But Samuelson is 80 years old and his textbook, now in its 15th edition, is no longer considered *avant garde*.

Can the youthful Professor Mankiw fill his shoes? Frankly, I doubt it. Anyone who named his dog Keynes is not likely to write a breakthrough textbook reflecting the new realities of a market-driven global economy. The next breakthrough textbook must be post-Keynesian, if not anti-Keynesian, in tone.

A Short Review of Samuelson's Textbook

But do we really want another Samuelson textbook? I think not. His textbook may have been a bestseller, but it fails miserably on a number of counts to teach sound economics. As part of an independent study at Rollins College, one of my students and I systematically reviewed all 15 editions of *Economics* and found numerous errors of commission and omission.

Among the sins of commission, Samuelson stressed time and again that the key to economic stability and growth was to encourage big government and a high propensity to consume. Saving, he said, was only beneficial at times of full employment. But full employment was historically exceptional, which meant that most of time saving was "perverse" because it caused money to "leak" out of the system. According to Samuelson's "paradox of thrift," higher savings means lower economic growth, a conclusion that flies in the face of all historical evidence.[1]

In introducing the Keynesian "balanced-budget multiplier," Samuelson argued that federal spending was more stimulative than a tax cut of equal size (because part of a tax cut would be saved).

He accepted at face value Soviet growth statistics, declaring in his 12th edition (1985)

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that the Soviet economy since 1928 "has outpaced the long-term growth of the major market economies," including the U.S., the U.K., Germany, and Japan. In his 13th edition, written a year before the collapse of the Berlin Wall, he boldly declared, "The Soviet economy is proof that, contrary to what many skeptics had earlier believed, the socialist command economy can function and even thrive." Not surprisingly, the word "thrive" was dropped from the next edition.

In my reading of his textbooks, I found that Samuelson failed repeatedly to anticipate the major economic problems and issues of the future: he failed to foresee the inflationary recessions of the 1970s, the banking crisis of the 1980s, and the collapse of socialist central planning in the 1990s. In addition, he has been an unwavering apologist for the Welfare State, the Federal Reserve and the current Social Security system, a grossly expensive and inefficient way to finance old-age retirement.

Sins of Omission

One of the great tragedies of Samuelson's textbook is his failure to include adequate references to the free-market schools of economics. In his Family Tree of Economics, no mention is made of the Chicago school of Friedman, Stigler, Knight, or Simons until 1985. In earlier editions, Samuelson discusses the Quantity Theory of Money but omits any references to Irving Fisher, the father of the Quantity Theory, or to Milton Friedman. One of his first citations of Friedman is a misquote ("We are all Keynesians now"). The Austrian school of Mises, Hayek, and Rothbard is never mentioned at all in the Family Tree of Economics. Schumpeter, his own teacher at Harvard, is given only a cursory reference.

Samuelson devotes one paragraph to the post-war German economic recovery. He says virtually nothing about the Japanese economic miracle, or the incredible growth of Hong Kong, Singapore, Korea, and Taiwan (the four tigers). No mention is made of the Chile Model, which more and more Latin American nations are emulating. There's no discussion of the exciting new worldwide trend of privatization (or Chile's successful privatization of its Social Security system). Meanwhile, Samuelson has always devoted numerous pages to the failed socialist economics of the Soviet Union and China.

I could go on and on, but you get the point. The economics profession desperately needs a new textbook in economics, but not one that simply imitates and emulates Samuelson.

Desperately Seeking a New Textbook

Slowly but surely, free market economists are making headway in the textbook field. College textbooks with a free-market bent have been written by Gwartney and Stroup, Dolan and Lindsey, and Roger Leroy Miller, among others. Unfortunately, they all suffer from unsound macro sections. For example, these authors don't believe in aggregate supply and demand (AS-AD), but they are forced to include them. Paul Heyne's *Economic Way of Thinking* (Macmillan, 1994) omits AS-AD diagrams in its 7th edition, but it is considered primarily a micro text.

In short, there is no real sensible college textbook on the market today offering a sound theory of macroeconomics. I am attempting to fill this gap with my forthcoming textbook, *Economic Logic*. This is a revolutionary new approach to teaching economics, integrating the concepts of business, finance, and economics in both micro and macro. So far I've written six chapters, and hope to finish the first draft this year. Several major publishers are interested, but they need evidence that other professors will adopt it. I will send a copy of the manuscript to any college professor who would be willing to make comments to improve the contents. Send your inquiry to me at P.O. Box 2488, Winter Park, Florida 32790. □

1. For a critique of Samuelson's infamous "paradox of thrift," see my work, *The Structure of Production* (New York University Press, 1990), pp. 244–59, and *Economics on Trial* (Irwin, 1991), pp. 47–62. Also, James C. W. Ahiakpor, "A Paradox of Thrift or Keynes's Misrepresentation of Saving in the Classical Theory of Growth?", *Southern Economic Journal*, July, 1995.

BOOKS

Free to Try

Introduction by Hans F. Sennholz

The Foundation for Economic Education, Inc. • 1995 • 156 pages • $14.95 paperback (special price until October 31: $11.95)

Reviewed by William H. Peterson

Where else in America but in law-passing, tax-imposing, and regulation-issuing Washington, D.C., is private success so roundly condemned? And where else is it so punished, especially when it involves entrepreneurship and "the rich"?

(A measure of U.S. "capital" punishment is seen in the climb of the top income tax rate from 28 percent in 1987 to 39.6 percent today. Said President Clinton in his 1994 State of the Union Address: "Only the top 1—yes, listen—only the top 1.2 percent of Americans, as I said all along, will face higher income tax rates.")

I ask: Where? But perhaps the sharper question is: Why?

Back in 1966 German sociologist Helmut Schoeck gave one answer to why in his pathfinding book, *Envy*. Envy is a major force shaping—really distorting—man and society, history and politics, says Schoeck. He finds it rearing its ugly head from Greek democracy 2,500 years ago to Western democracy today.

How good then to get this FEE collection of essays from *The Freeman* glorifying future-oriented entrepreneurship, justifying the rich, and excoriating the politics of envy.

Such politics can be seen in the progressive income tax—a tax called for, by the way, in Marx's 1848 *Communist Manifesto* as a means of undermining capitalism. It can be seen again in the current opposition to a flat tax or a cut in the entrepreneur-strapping capital gains tax—a cut which opponents unjustly and counterproductively brand a "handout" to the rich. (A handout to the nonrich, including the poor, is closer to the mark.)

Indeed, entrepreneurship along with capital investment is the secret of American prosperity. More often than not, the rich gain their wealth through entrepreneurship. In a brief but pungent essay here, Ludwig von Mises portrays the entrepreneur as indispensable to a free society, as one who enriches that society, as the driving force behind the whole market system, as a kind of an unsung hero who in a sense shares his wealth with society through what Mises called "social liability," his recognition that investments have to be monitored scrupulously, that they can and do fail.

In his introduction to this volume, FEE's Hans Sennholz hails futurists and visionaries like John D. Rockefeller, J. P. Morgan, and Henry Ford. These giants bequeathed capital investment, industrial might, and labor productivity to succeeding generations of Americans.

The rub is that Americans are largely ignorant of this bequest, are apt to snap at "robber barons," and vote anticapitalists into office. A deadly business. Cautions Dr. Sennholz in punchy terms: "The future is purchased today. We have a number of choices. But all sales are final."

In a refreshing essay, contributor Jane Shaw of the PERC research center in Bozeman, Montana thanks the entrepreneurship behind Bozeman eateries for gastronomic delights. She calls attention to George Gilder's idea that entrepreneurs are "givers"—altruistic people who give first and get rewards later, *if* profits kick in.

Contributor Israel Kirzner of New York University says the glory of free enterprise lies in its ability to attract vigorous and imaginative individuals who establish long-run capital-conserving *profitable* firms—profitable to themselves and, of at least equal importance, profitable to their customers, i.e., to the American consumer.

Wal-Mart is such a firm and its founder Sam Walton was such an entrepreneur, notes David Laband of Auburn University's economics department in his contribution. Dr. Laband sees Wal-Mart giving significant benefits to its customers and a hard time to its big competitors such as Sears and K-Mart and to its local, small competitors such as independent drug and hardware stores.

But that competition is anything but "unfair," as charged by many of Wal-Mart's rivals. As he writes: "It is true that Wal-Mart's competitors lost business. However, let's get the cause and the effect straight: Wal-Mart never put anybody out of business, *American consumers* (his emphasis) did."

Chinese consumers in Beijing's big 500-seat, fast-food Kentucky Fried Chicken restaurant also exercise quite a degree of sovereignty, observes contributor Lawrence Reed of Michigan's Mackinac Center. But that sovereignty and Kentucky Fried Chicken's entrepreneurship are still held back in post-Mao, ongoing socialist China.

The Chinese government, for example, insists on majority ownership. Kentucky Fried Chicken's share is held to 40 percent. Too, its management has to put up with state-set wages and a state-owned utility refusing to provide any heat before November 15th or after March 15th, regardless of any intervening but not uncommon freezing weather.

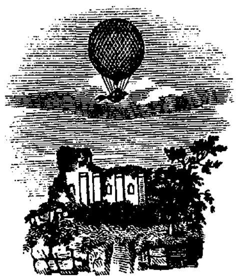
In his contribution, the Reverend John K. Williams of Australia tells of Ralph Nader on a speaking tour Down Under, with the so-called consumer advocate suggesting to Aussies that "big business" executives should be sent to prison for defrauding the public. The suggestion received rapturous applause. Reverend Williams attributes that applause to what he calls "the business bogey."

No doubt about the bogey. Throughout the West the highly constructive role of business in society is not only very often unappreciated at the university lectern, church pulpit, editorial office, and so on but, ironically, all too frequently by businessmen themselves.

Mr. Businessman, in other words, often inadvertently supports anticapitalist causes by mindlessly sending a check to his left-wing alma mater. Or he lets the battle of ideas go by default. Comments John Williams: "That is his failing, and possibly his fatal failing." He might have added a line from FEE writer Admiral Ben Moreell back in the 1950s: to communism via majority vote.

This reviewer, on the firing line of defending the rich for more years than he cares to remember, suggests: Let those critics attacking "greed" and "fat cats" redirect their frustration into a new outlet: Don't get mad, get even—get rich. Remember, critics, you's free to try. But watch out: You may become the butt of your own diatribes. □

Dr. Peterson, an adjunct scholar at the Heritage Foundation, is the Distinguished Lundy Professor Emeritus of Business Philosophy at Campbell University in North Carolina.



The Tyranny of Numbers

by Nicholas Eberstadt

AEI Press, Washington, D.C. • 1995 • 305 pages • $24.95 cloth

Reviewed by Julian L. Simon

In this book about political systems, economic development, and demography, Nicholas Eberstadt displays a firm grasp on the right end of the stick. His data well demonstrate his unifying theme, which is that to understand social phenomena, we must look at experience over a long stretch of time, across a varied group of countries, and with as large a sample of countries as possible. It is because they do exactly the opposite that the doomsters arrive at precisely the wrong conclusions about the way that things are going in society.

Among the specific issues that Eberstadt deals with are poverty, health, life expectancy, infant mortality, population growth, and economic development. These issues are discussed in the comparative context of capitalistic United States and socialistic Eastern Europe and Asia. Eberstadt is well-skilled to tackle these topics. He is a fine demographer, and his 1976 article in *The New York Review of Books* on world food production—written at age 19—was as good an attack on prevailing false common beliefs as was written in that decade.

The basic idea in the book is that wealth leads to health and long life, political freedom leads to wealth, and therefore in the long run political freedom leads to health and the other good things of life.

The Communist bloc—of which Eberstadt is a very competent scholar—will long remain the classic proof of this truth. For example, life expectancy in eastern Europe has been declining during the past decades, whereas everywhere else in the world it has been rising. Part of the explanation may be the enormous pollution of air and water that is inevitable under Communism, and perhaps it is related to the fascinating patterns of smoking and drinking about which Eberstadt presents data. But the most important reason almost surely is the decline in the overall standard of living in those countries.

To illustrate Eberstadt's position that not consulting the long view of history leads to unsound conclusions, consider the public's beliefs about black infant mortality. Almost everyone's reaction is that black infant mortality is a bad situation. But look at the decreases in black and white infant mortality in the United States since 1915. In 1915 white infant mortality was almost 100 deaths per 1,000 births, and black infant mortality was fully 180 deaths per 1,000 births. Both are horrifying. And the rates were even more horrifying in earlier years in some countries—up to 300 or 400 deaths per thousand births.

Nowadays white infant mortality is about eight per thousand, and black infant mortality about 16 per thousand. Of course it is regrettable that mortality is higher for blacks than for whites. But should we not be impressed by the tremendous improvement for both races—both falling to about ten percent of what they were—with the black rate coming ever closer to the white rate? Is not this extraordinary improvement for the entire population the most important story—and a most happy story? Yet the press gives us the impression that we should be mainly distressed about the state of black infant mortality. This is the error of thought that Eberstadt warns us against.

Someone once said to Voltaire: "Life is hard." Voltaire replied: "Compared to what?" Every evaluation requires that we make some sort of comparison. And the comparisons one chooses to make are decisive in the judgments one makes about whether things are getting better or worse.

Though the ideas in *The Tyranny of Numbers* are sound and important, and should be part of the mental contents of every policymaker in our society, the book is not a great success as a monograph. It cannot claim novelty because its ideas are not new; they are the staples of classic liberal thought about economic development, as exemplified by Lord Peter Bauer, Margaret Thatcher's first economic guru. And the main conclusions are only implicit rather than explicit because the volume lacks integration. It reads more like a set of essays than like a book with a basic unifying theme. Additionally, the art of making a book from separate essays was scanted by both author and editor. Similar material pops up in several parts of the book.

But leave those cavils aside. The content of the book is sound and important. The more policymakers who read it, the better. And there are lots of interesting data, even for the scholar. □

Dr. Simon is the author of The State of Humanity *and* The Ultimate Resource *(2nd edition forthcoming).*

The Death of Common Sense: How Law is Suffocating America

by Philip K. Howard

Random House • 1994 • 202 pages • $18.00

Reviewed by James L. Payne

It is rare that a book should carry in its title a double entendre so embarrassing to the author. Howard intends to say that common sense has died in the morass of modern law and legal regulation, which he finds wasteful, counterproductive, and laughably ineffective. "Modern law has not protected us from stupidity and caprice," he says, "but has made stupidity and caprice dominant features of our society." The book lays bare regulation's ugly underbelly, with case after case of silly governmental action angrily recounted by the author.

So what should we do about it? Here the reader is treated to a second death of common sense: Mr. Howard's. He just can't bring himself to see that the solution to the abuses of government is less government.

The opening case nicely illustrates his hangup. Mother Teresa's Missionaries of Charity wanted to reconstruct a burned-out building in New York City to make it into a homeless shelter. They didn't want, and would refuse to use, an elevator, but city regulations insisted they spend the extra $100,000 to put one in anyway. As a result of the impasse, the nuns gave up on the project. Howard is appalled by this outcome. "There are probably 1 million buildings in New York without elevators. Homeless people would love to live in almost any one of these."

What's the way to prevent this kind of regulatory absurdity? The common sense reply is: get government out of deciding things like who must have an elevator. How could a government agency ever have the wisdom and sensitivity to know, for scores of thousands of different buildings every year, when an elevator was appropriate and when not? Let owners, architects, builders, and tenants figure it out.

This answer never occurs to Howard, not in this case and not in connection with the dozens of other regulation horror stories he presents. He's a man of the left, it appears, with the old New Dealer's deep, unexamined faith in government. He believes it should manage everything: schools, medicine, businesses, environment, safety, housing, zoning. Anyone who suggests government is overextended, he says in an impatient aside, is guilty of "dreaming of an agrarian republic." Howard is the first to agree that all this massive regulation has gone painfully wrong, but that doesn't mean that the idea of big government is flawed; it's just been carried out incorrectly.

What's the right way to do it, then? How do we avoid dehumanizing red tape, bureaucracy, and litigation, and still give government the power to regulate everything in sight? Howard doesn't stress his answer, but it clearly lurks in his pages: we give government officials arbitrary power to regulate as they see fit. "When we demand that the welfare state address difficult human problems like poverty and homelessness, and ordinary ones like education, we must allow the humans doing the job to operate appropriately."

To Howard's way of thinking, bureaucrats should be free to use their own judgment in deciding who has to have an elevator, let us say. When Mother Teresa comes by, he assumes they would let her off the hook. But Howard doesn't seem to worry about the negative side of this arbitrary power. What happens when someone rubs an official the wrong way and is ordered to put an elevator in his dog's house? He can't be permitted to complain to anyone. If the courts hear the case, that would restart the litigation engine Howard so deplores. Appealing to a councilman or congressman would lead to the massive legislation he has spent his book criticizing. So taxation with representation must go by the board. Obviously, Howard hasn't thought through his idea "to let bureaucrats loose without precise instructions."

Judging from this book's great popularity, there are lots of people these days in the same boat with Howard: they hate how government works but they still believe in it. It hasn't yet dawned on them that government is based on force, and that no matter how you slice it, force is a defective foundation for social reform. □

Dr. Payne, a contributing editor of The Freeman, *is director of Lytton Research and Analysis and the author of* Costly Returns: The Burdens of the U.S. Tax System.

The Careless Society: Community and Its Counterfeits

by John McKnight

Basic Books • 1995 • 185 pages • $21.00

Reviewed by Doug Bandow

There is little doubt that the sinews of American society have weakened over the last 40 years. One need not treat the 1950s as a long-lost utopia to recognize that families are now more likely to break up and, indeed, not to form at all; that communities are crumbling as they fill with fractured families; and that even prosperous middle America seems ever-less cohesive.

What is the cause of this phenomenon, which has created a social catastrophe in many inner cities? Much of it results from misguided and perverse government policies, as John McKnight, now at Northwestern University, details. But he identifies a broader villain: professionalism. As he explains, "our problem is not ineffective service-providing institutions. In fact, our institutions are too powerful, authoritative, and strong. Our problem is weak communities, made ever more impotent by our strong service systems."

His is a provocative, if somewhat misguided, thesis. In virtually every aspect of life—medicine, poverty, crime—McKnight contends that professionals are taking over. The result has been to "destroy the sense of community competence by capturing and commodifying the citizens' capacity to solve problems and to care." We have become a nation of clients.

McKnight directs much of his fire at the medical profession. He is mightily irritated with physicians for reasons that are not entirely clear. For instance, he seems to blame doctors for the fact that Americans like to engage in unhealthy activities and then want to be healed. In such cases doctors are merely responding to our irresponsibility.

Still, this desire that someone else counteract the effects of our own foolishness suggests a serious moral problem. The fault lies not with the servers, but with us, for believing that responsibility for solving our problems lies outside of ourselves.

This tendency to yield control is perhaps most evident in the field of social services, where *The Careless Society* is at its most persuasive. Here we see coercion at work, with the government using taxpayers' money to foist "services" upon the most vulnerable members of our society. As McKnight reports, the resulting picture is not pretty:

> When the services grow dense enough around people's lives, a circular process develops. A different environment is created for these individuals. The result of a noncommunity environment is that those who experience it necessarily act in unusual and deviant ways. These new ways, called inappropriate behavior, are then cited by service professionals as proof of the need for separation in a forest of services and for more services.
>
> The disabling effect of this circular process is devastating to the client and to our communities.

Not surprisingly, the rangers in this forest of services develop into a potent political lobby. As a result, complains McKnight, the bulk of "anti-poverty" spending goes to the largely middle-class servers, whose incentive is to create yet more programs. This tends to push out genuine citizen activists, who offer the intimate personal relationships which are what community is all about.

The loss caused by this sort of social service imperialism is enormous, but intangible. Even the poorest communities, when convinced that they control their own destinies, can achieve much. McKnight details the case of one Chicago neighborhood where local activists assessed the most common reasons for treatment at the local hospital, and then began addressing problems like dog bites. Rather than marching on city hall, they used local block clubs to create a system of bounties for stray dogs. The number of bites went down and, reports McKnight, "the people began to learn that their action, rather than the hospital's, determines their health."

How to encourage more of such activism? McKnight emphasizes deregulation. People and communities must be free to act, he writes, yet "in thinking about extending spheres of free action, one is constantly impressed by the barriers imposed by various forms of state regulation." Although these restrictions are always defended as protecting the public, McKnight warns that "they are usually means to ensure professional monopolies, central authority, and preferred technologies."

Eliminating barriers is not enough. The author also worries about jobs and economic growth, though his more interventionist economic proposals contradict the lessons that he advances about the failure of government central social planning. Moreover, he emphasizes the role of associations, which are "the result of people acting through *consent*." Officials have to recognize the power of this voluntary sector, for it, observes McKnight: "provides a social tool in which consent is the primary motivation, interdependence creates wholistic environments, people of all capacities and fallibilities are incorporated, quick responses are possible, creativity is multiplied rather than channeled, individualized responses are characteristic, care is able to replace service, and citizenship is possible." In short, community is the most important antidote for what ails us.

McKnight closes with an interesting reflection on Christianity, which has provided such an impulse for service. Would Christ approve of today's institutionalization of service, asks McKnight? Not if Christ saw "help becoming control, care becoming commercialized, and cure becoming immobilizing." Rather, McKnight argues, the highest expression of service is people helping people. Ultimately, he argues, we should seek not to be servants, but friends, which Christ proclaimed his disciples to be during the Last Supper. As McKnight so nicely concludes a powerful, though at times flawed, book: "In our time, professionalized servants are people who are limited by the unknowing friendlessness of their help. Friends, on the other hand, are people liberated by the possibilities of knowing how to help each other." □

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Economic Thought Before Adam Smith—An Austrian Perspective on the History of Economic Thought, Volume 1

by Murray N. Rothbard

Edward Elgar • 1995 • 556 pages • $99.95

Reviewed by Gregory P. Pavlik

Libertarian theory did not emerge from a vacuum. Yet, often it seems that the deepest antecedents that movement libertarians would bequeath to us lie in the Enlightenment. Indeed, some would not proceed backward past Ayn Rand. The truth is, libertarian thought has an ancestry extending down through the ages to antiquity. To be specific, those roots are both Western and Christian. There can be no clearer exposition of this fact than the last major work of Murray Rothbard.

Economic Thought Before Adam Smith is a deceptively titled volume. It is actually a full-blown history of ideas from a natural rights-natural law perspective in philosophy as well as a critique of economic doctrine and theory from within the Misesian paradigm of mainstream Austrian economics. Professor Rothbard's treatment is a thorough overview of the roots of the libertarian system that informed his life's work.

This book is all the more valuable for Rothbard's general approach to historiography. Working through the Austrian paradigm, Rothbard delivers a devastating blow to the standard chronology of economic theory as a linear and correct development from Adam Smith to modern neo-classical economics.

As the title implies, there was a wealth of analysis developed before the time of Adam Smith. Although most was imbedded in moral theology or appeared in fragments, a body of sound economic thought existed, much emerging from Thomistic Scholasticism. One of the most impressive examples of advanced theoretical contributions was the fourteenth-century French philosopher Jean Buridan de Bethune, who was responsible for "the virtual creation of the modern [Austrian] theory of money." As Rothbard explains:

> Foreshadowing the Austrians Menger and von Mises, Buridan insisted that an effectively functioning money be composed of a material possessing a value independent of its role as money. . . . Buridan went on to catalogue those qualities that lead the market to choose a commodity as a medium of exchange . . . portability, high value per unit weight, divisibility, and durability.

In short, a sophisticated commodity theory of money. This served the additional function of beginning to sever monetary theory from the Aristotelian notion of money as a unique creation of the state, barren of intrinsic value, that plagued early economic considerations, and formed the basis of the early Christian prohibitions on interest.

It is most informative to note that there were in fact modern general treatises on economics that preceded Adam Smith, the most important being *Essai Sur La Nature Du Commerce En General*, by the "gallicized Irish merchant" Richard Cantillon. Cantillon was sound on his analysis of market pricing, providing a sophisticated discussion of consumer demand coupled with supply. He was "the first to stress and analyze the entrepreneur." Cantillon's work pioneered "spatial economics . . . the analysis of economic activity in relation to geographic space." Most importantly, all of this was done some 70 years before Adam Smith, the alleged father of economics.

The subject of Adam Smith is where Rothbard will perhaps raise the most eyebrows. He is almost without exception hostile, deeming Smith a proto-Marxist, and, following Schumpeter, an obstacle for the development of sound economic theory. For Rothbard, Smith interjected the labor theory of value into economics and pioneered an extreme variant of the egalitarianism that plagues political dialogue to this day. Contrary to conventional wisdom, Rothbard holds that even Smith's famous "invisible hand" was not original, and that Smith's emphasis on the division of labor neglected the importance of specialization in the economy as a whole. In the wake of Rothbard's dissection, laissez-faire promoters of Adam Smith have a lot of explaining to do.

Rothbard's book also serves as a history of the development of natural law theory, a discussion which moves from Aristotle through to modernity. Notable again is the emphasis on the positive role played by Christianity, and Catholicism in particular, on the emergence of a coherent natural rights-based libertarian doctrine. As the author points out, the Catholic professor at Bologna, Huguccio, in his *Summa* of 1188, established the doctrine that "private property was to be considered a sacrosanct right derived from the natural law." In theory, private property was to be immune from the aggressions of the state.

This analysis leads to an interesting reinterpretation of more well known proto-libertarian natural rights theorists like John Locke. In the case of Locke, Rothbard regards his theory as "neo-Scholastic Protestantism," a resurrection of previously held Christian doctrine regarding the natural law. Of course, there were radical innovations within the Lockean system, most importantly with regard to social contract theory. But the author's point is extremely important, and must lead to a reconsideration of the religious roots of the doctrines of political freedom.

Further, Professor Rothbard takes the reader through an in-depth analysis of the social ramifications of the Protestant Reformation, and of the great theological divides in Europe. There is an extensive survey of Mercantilism in theory and practice. The Enlightenment comes under scrutiny for its mysticism and perversion of libertarian doctrine. No essential subject in economic or political theory is left untouched.

This is an immensely important work, a judgment that must be reserved for a select number of titles. As a fresh history of economic theory it is invaluable. As a learned analysis of the roots of libertarian thought, it is revolutionary. This is a book that deserves to be read carefully and repeatedly. □

Mr. Pavlik is director of The Freeman *Op-Ed Program at The Foundation for Economic Education.*

Tax Free 2000: The Rebirth of American Liberty

by Murray Sabrin

Prescott Press, Inc., Lafayette, Louisiana • 1995 • 240 pages • $12.99 paperback

Reviewed by Robert W. McGee

If you hate taxes, then you'll love Murray Sabrin's *Tax Free 2000*. Dr. Sabrin traces the history and evolution of taxes from ancient times through the Middle Ages and up until the ratification of the 16th Amendment, which gave the federal government the legal authority to impose an income tax. He also analyzes the impact of taxation on the economy and concludes that taxes distort production by transferring resources from the peaceful and productive sector—the free market—to the "coercive" sector of society—the government.

If after reading chapters one through four you are not convinced the government is not your friend, then Sabrin's discussion of the government's monetary policies should convince you that the U.S. dollar could be headed for the trash can if sound money is not restored.

So how do we get out of this statist mess? Sabrin demonstrates how a taxless society would function. He systematically analyzes all levels of government spending and concludes that they do not pass the test of either efficiency or justice.

Without a foundation of freedom to guide social relations, the hallmark of a laissez-faire economy, government spending by definition creates conflict among the citizenry by creating a perpetual civil war for the spoils of taxation. Sabrin thus takes the Jeffersonian doctrine of limited government to its logical conclusion—extreme noninterference.

At the federal level, government must provide a national defense to protect the territorial integrity of the United States, but not the "democracy" of Haiti, the safety of South Korea, or the stability of the Balkans. States, counties, and municipalities also must downsize because they too deliver services by using massive coercion.

According to Sabrin, we can phase out all taxes by the year 2000 and eliminate virtually all government spending by the early years of the next century. By the next millennium Social Security, Medicare, Medicaid, foreign aid, farm subsidies, welfare, education, and all the other spending programs that have become the components of the American welfare state or mixed economy should be abolished. Sabrin asserts that both the profit and non-profit sectors would deliver the services the American people desire, not what the special interests want. This would be in keeping with the principles of 1776 that, he claims, were overturned in the quiet revolution of 1913, the year the income tax amendment was added to the Constitution and the Federal Reserve Act was signed into law by President Wilson.

You don't have to be a radical rightist or a libertarian to appreciate *Tax Free 2000*. If America is going to once again become a truly free country, then the income tax, sales tax, property tax, estate tax, inheritance tax, and the myriad of government depredations of the people must end. And the sooner the better.

Sabrin has offered a bold prescription for America's future. If we want to achieve both freedom and sustainable prosperity, then *Tax Free 2000* is the book we need. □

Dr. McGee teaches at Seton Hall University.

The American Revolution Resurgent

by Raphael G. Kazmann

Scott-Townsend Publishers: Washington, D.C. • 1994 • 186 pages • $15.00 paperback

Reviewed by Robert Batemarco

Take a heavy dose of principle, add some solid economic reasoning and a scattering of historical examples, leaven it with some unconventional definitions, and you have *The American Revolution Resurgent*. This book clearly lays out the consequences of America's jettisoning the constitutional republic the Founding Fathers bequeathed us in favor of majoritarianism. Its cogent suggestions as to how to return are unfortunately well ahead of their time.

Democracy has by and large degenerated into majorities voting themselves a share of the property of the minority. Raphael Kazmann redefines democracy as what a polity should be: one in which majority rule, *constrained by morality and justice*, is applied to solve those problems common to *all* members of society. Kazmann's natural law approach to morality and justice draws from such diverse sources as Ayn Rand and the Bible. Government actions that we take for granted permit him to provide us with many examples of the consequences of failing to adhere to the natural law. Public schooling, progressive taxation, protectionism, Social Security, and foreign aid all come in for a drubbing. On progressive taxation, for instance, Kazmann observes: "The idea that taxation should be based on the 'ability to pay' can be paraphrased as 'let's have a gradation in robbery, those who are the richest shall be robbed the most, those who are less rich shall be robbed less, but no one who earns anything shall escape.'"

Nowhere does Kazmann go further against the grain of what currently passes for democracy than in questioning the desirability of the universal franchise. He illustrates, through the example of investment clubs, that where electoral majorities have no power to transgress the rights of minorities, those less qualified to make decisions are only too glad to leave that task to those better qualified. The key here is the pursuit of a *common* goal, rather than some factions seeking to gain at the expense of others which characterizes our actual political system.

He fleshes out this notion with a plan to restrict the franchise to that 60 percent of the population with the greatest Adjusted Gross Incomes. His presumption is that those who are running their own lives successfully, at least in this single dimension, are more likely to make correct decisions in the public arena. Those who would argue that this standard may be somewhat arbitrary would have a tough time convincing anyone that the current qualification for voting, i.e., to have been breathing for the last eighteen years, is not arbitrary.

He concludes the book with five general policy proposals: stabilizing the currency, abolishing all transfer payments, maintaining order, converting our current progressive income tax to a flat consumption tax, and permitting all voluntary exchanges.

Kazmann does not skimp on specifics to back up his general points. His discussion of the harm done by government water resource programs draws on his professional training as a hydrologist. His discussions of the German hyperinflation, Social Security, and the minimum wage are filled with relevant facts soundly interpreted.

All too many free market thinkers revere democratic capitalism in a manner which emphasizes the democratic part over the capitalism. The main contribution of this work is to place the mechanism of voting in its proper place as a means rather than an end. As Kazmann concludes, "It is not the organizational structure that determines whether or not a society will survive. It is the extent to which the organizational structure conforms to the natural laws that govern human societies." □

In addition to editing the book review section of The Freeman, *Dr. Batemarco is a marketing research project manager in New York City and teaches economics at Marymount College in Tarrytown, New York.*

Government Nannies: The Cradle to Grave Agenda of Goals 2000 and Outcome Based Education

by Cathy Duffy

Noble Publishing Associates • 1995 • 263 pages • $13.00 paperback

Reviewed by Kenneth Lloyd Billingsley

Few forces in American life have postured as more messianic than public education, whose prophets predicted a golden age of creativity, equality, and prosperity if only the government could run the schools and children be forced to attend. They got their wish, and billions of dollars in the people's money, but the result was quite different.

Instead of imparting a body of knowledge and transmitting the time-honored cultural and moral values to students, American public education—really government education—serves mainly to reinforce ignorance, enhance credulity, and put its inmates at the mercy of society's eager brainwashers, with recording studios and TV cameras at their disposal. Home-education expert and curriculum consultant Cathy Duffy knows this all too well.

In the early 1800s, before we had compulsory schooling, she points out, the literacy rate surpassed that of today, when students who can read advertisements are considered literate. In economic education the situation is even more dismal. America's educational establishment also knows its own failures and has embarked on a grandiose program it claims will fix the problems. In this tough, well-documented book, Cathy Duffy gives them a report card.

Duffy goes to the heart of the problem with her diagnosis that American educational problems are iatrogenic, induced by the system itself, particularly in its attempts at reform. As Richard Mitchell and other educational critics have shown, even calls for reform only feed the bureaucratic brontosaurus by providing it with a pretext for yet more studies, more support personnel, and of course increased taxes. The latest of these are "Goals 2000" and "Outcome Based Education," subjects of this helpful volume.

The author shows a keen ability to translate from the language of bureaucrats, which some call "educanto." This is the pretentious dialect that calls grades "outcomes," tests "assessments," and libraries "learning resource centers." But there is no mistaking the author's purpose: to "stimulate more people to value their freedom and autonomy enough to stand against the encroachment of benevolent government-nanny programs that would keep us all perpetual children."

Goals 2000, Duffy says, includes some reforms but in reality "goes out of the classroom, into the home, beyond instruction and into indoctrination. In reality it provides the framework for a cradle-to-grave takeover of America's families." For example, the author shows how the screening processes of ostensibly benevolent "parent educators" (PEs) are based on a massive mistrust of parents. The plan's call for "partnership," Duffy says, "is shaping up to be an invasion." The official pretext is the desire that "all children shall start school ready to learn."

The intrusive PE's, Duffy shows, can easily manipulate parents into uncritical acceptance of programs under the Goals 2000 umbrella. These include the declaration of certain children "at risk." But the standards are so broad that some schools declare all students "at risk." And Duffy documents the disturbing liaisons between schools and social service agencies which, when in doubt, tend to break up families first and ask questions later.

Duffy casts doubt upon every high-minded plank in the Goals 2000 program, whose cost she estimates at up to $1 billion a year. She notes that the Elementary and Secondary Education Act is an $11 billion per year "investment" in education that even dwarfs Goals 2000.

The much-promoted Outcome Based Education (OBE) while promising improved results, turns out to rely more on the feelings of students than their thinking powers and mastery of knowledge. As the California CLAS tests confirm, it also allows schools to become yet more intrusive with students and parents.

The one certainty of such reforms is that they will be expensive. Another is that they will serve bureaucratic interests. Based on those realities the prospects for success may well be doubted. Duffy makes a convincing case that these goals could well make things worse but at the same time raises key questions for those dealing with the system.

Do children belong to the state, as in the Prussian system on which ours is based? Are citizens rapidly become slaves to the government? As C.S. Lewis put it, there is a fundamental difference between the methods of an eagle which teaches her young to fly and fend for themselves, and the poultry farmer who raises birds for the slaughter. American education is very much in the second camp. "We are faced with two choices," the author concludes, "We can choose the security of the government womb and pay the price of freedom. Or, we can choose a challenging future that holds both risks and responsibilities."

Cathy Duffy provides solid analysis to push the reader toward that more difficult second path, ringing defenses of freedom to challenge the reader, and resources to help them proceed. *Government Nannies* will prove a most useful tool for parents and educators alike in the closing years of this century. □

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IDEAS ON LIBERTY

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PERSPECTIVE

School Choice, 1886 Style

Zach Montgomery, nominated in 1886 for Assistant Attorney General, was falsely accused of having advocated the teaching of Roman Catholicism in the public schools. To be confirmed, he had to defend his position in the U.S. Senate. He was critical, he said, not of the public schools' teachings but of their anti-parental control by the political State.

[T]he chief vice of the [public school] system lies in its usurpation of parental authority, and in its attempting to do for each child, through political agencies, that which can be properly done by nobody else in the world, except by its own father and mother. . . . The question which we are discussing . . . is not whether the Bible ought or ought not to be read in school; nor whether "Johnson's Cyclopedia" is a proper book for school libraries; nor whether a particular class of teachers are or are not the best adapted to school work; . . . nor whether the teaching of religion and the physical sciences ought or ought not to go hand in hand, nor whether good children, who have been carefully and morally trained at home, ought or ought not to be sent to the same school with the vicious and depraved, with the view of reforming the latter. That there is a wide and an honest difference of opinion amongst the American people as to these questions no candid and intelligent citizen will deny. And accepting this honest difference of opinion as an existing fact, the question which we now propose to discuss is this: Does it rightfully belong to the political state to determine these questions for parents and children, and to compel them to submit to its decision? . . .

If the political State has the legitimate power and the rightful jurisdiction to make a binding decision the question—whether it be in favor of or against the use of the Bible in the school—its decision must be equally binding . . . [I]f the State may rightfully, and without trenching upon the doctrine of religious liberty, *forbid* the teaching of the Bible in the schools, to the children of parents whose judgments and consciences demand such teaching, or may *enforce* the teaching of the Bible to the children of those whose judgments and consciences are opposed thereto, it then follows as a matter of course, that the State must have jurisdiction to decide as to which one of all the various versions and translations of the Bible is the correct one. . . . Not only that, but if the State can . . . enforce the teaching of such

Bible in the schools, against the judgments and consciences of the parents of the children who are so taught, it must also have jurisdiction to decide, as between conflicting interpretations, which is the *meaning* of the various texts of the Bible. . . .

[W]e are not discussing the question as to what kind or whether any religion *ought* or *ought not* to be taught to children; but we are only considering the question as to whether or not it rightfully belongs to the "political State" to determine that question, and in doing so, to override the judgments and consciences of the fathers and mothers of children. . . .

[I]n our humble opinion, the true and proper course to be pursued by the friends of educational reform is to keep prominently before the people as the fundamental, the vital issue, this question, namely: Shall the parent or the political State determine for a child who shall be its teacher, its companions, and what books it shall or shall not study?

—ZACH MONTGOMERY
The School Question

When Is Price Too High?

On the first day of my college Principles of Economics class I often ask students to bring a list of at least five things which they think cost too much. Since I allow them to do this anonymously a few wise guys will start off with such things as cigarettes and beer. But most students approach the assignment seriously.

I quickly dispense with the more frivolous items by suggesting they learn to roll their own cigarettes—something many of them have never heard of—and brew their own beer. After thinking it over they usually decide it is worth the price to have their cigarettes rolled and their beer brewed commercially.

This lays the groundwork for a more serious discussion of how much they estimate it would actually cost for them to produce the "overpriced" items themselves. In most cases they would have to obtain raw materials, arrange for their transport, hire workers, build factories, and so on. The students soon come to realize that they couldn't produce the things they want at any price. They begin to understand the specialization of labor, the complementary function of capital investment, and the role of entrepreneurs in bringing together the factors of production, capital, as well as skilled and specialized workers. Then they begin to look at prices in a different light.

—ROGER CLITES

Professor Clites teaches at Tusculum College in Tennessee.

How to Get from Here to There

It is not difficult to criticize current government programs. With some understanding of basic free market principles, it is also possible to describe the ideal free market society of private enterprise and open competition. But it is not so easy to outline steps to take us from here to there, from our present hampered market economy, to, or at least toward, a free market.

Granted, it wouldn't be easy for everyone to adjust if their subsidies and protective regulations were removed. Producers and consumers of many goods and services, who have become accustomed to government subsidies and/or government-guaranteed "protection," would have to learn to be self-reliant. They would have to rely for support, not on the taxpayers, but on those who actually used their goods or services. But such adjustments are possible.

At times when government interventions become intolerable, people begin to ignore them even while the subsidies and regulations are still in place. Innovative and ingenious individuals conceive of new solutions to old problems that fall outside the purview of government controls and regulations. For instance, government postal systems throughout the world are already being superseded by private express delivery services, telephones, fax machines, and e-mail. The public schools are being increasingly bypassed by parents who homeschool or send their children to private schools. And when government money systems have been inflated until commercial transactions become impossible, people turn to barter and alternate moneys. Under present conditions, only the gold standard can rescue us from the ever-present threat of inflation. Yet few economists have given much thought to "privatizing" money and reviving gold as money. In this issue, several articles discuss this problem and review the proposals that have been made for restoring the gold standard.

—BETTINA BIEN GREAVES
November Guest Editor

THE FREEMAN
IDEAS ON LIBERTY

Should We Cancel the National Debt?

by Daniel J. Pilla

This question is popping up more and more. The idea of canceling the debt seems to gain support in direct proportion to the increase in the debt itself. Should we or shouldn't we? At present levels, the national debt is about $5 trillion. It grows by hundreds of billions each year. Current levels of federal spending will add about $1 trillion more in debt over the next four to five years.

As the debt grows, government's interest burden grows with it. The more of our tax dollars consumed by interest, the fewer dollars available for discretionary spending. What's worse, more pressure is then exerted to use tax increases to fund mandatory spending programs, such as Social Security, Medicare, and Medicaid. To illustrate how the interest burden is growing, consider this: in 1963, the federal government spent just 6.9 percent of its total budget on net interest. By 1993, the total interest outlay was 14.1 percent of total spending. But judging interest as a percentage of *spending* is not the real story. We all know government spends more than it collects. The federal interest burden exists simply because government, like you and me, must actually *service* its debt. Interest, of course, represents the cost of debt service.

To see a true measure of the problem, we should examine interest payments as a percentage of revenue *collected*, not as a percentage of total spending. Congress only spent a total of $92.642 billion in 1963. What's more, the federal government ran a very small deficit. As a result, the amount of interest paid as a percentage of revenue *collected* was still around 6 percent. By 1993, however, Congress collected $1.153 trillion, and spent $292.502 billion on net interest. That puts the interest component of total federal revenue at 25.3 percent of revenue collected. As you can see, that is nearly double the less telling number of 14.1 percent.

This problem is exacerbated when we add to the mix the question of entitlements. Entitlements include those programs which guarantee a payment to citizens. Chief among them are Social Security, Medicare, and Medicaid, but entitlements also include federal pensions of every description. As these mandatory spending demands increase along with interest payments, the government's latitude to spend elsewhere, including for defense, is greatly inhibited. Consider this observation from the opening remarks of the Final Report of the Bipartisan Commission on Entitlement and Tax Reform. At page 4, we are handed this most sobering bulletin: "The gap between federal

Mr. Pilla is a tax litigation consultant and author of eight books on successful methods of dealing with IRS abuse. He is editor of the Pilla Talks Taxes *newsletter and has appeared on over 2,500 radio and TV talk shows discussing taxpayers' rights issues.*

spending and revenues is growing rapidly. Absent policy changes, entitlement spending and interest on the national debt will consume almost all Federal revenues in 2010. In 2030, Federal revenues *will not even cover* entitlement spending." (emphasis added)

Even if Congress resolved to balance the budget tomorrow (which we know it will not do, since it turned away the Balanced Budget Amendment), it will continue to face and be forced to handle interest on the $5 trillion debt it has already amassed. Market conditions, not the government, will dictate what interest rates will be paid. As a result, the question of its interest burden is largely uncontrollable.

The next question then is, why not begin paying off the debt? That of course is what a reasonable person would do, and that is what every American family would have to do under similar circumstances. But before it would make sense for you to start paying off your debt, before it would do any good for you to do that, you must first stop going further into debt. And this the federal government has steadfastly refused to do.

In his *Wall Street Journal* article of February 9, 1995, Stephen Moore, director of fiscal policy studies at the Cato Institute, discussed some problems inherent in paying off the existing national debt. The following is a portion of Mr. Moore's observations:

> Here's an experiment. What if we were to try to pay off the $4-plus trillion national debt by having Congress put one dollar every second into a special debt buy-down account? How many years would it take to pay off the debt? One million seconds is about 12 days. One billion is roughly 32 years. But one trillion seconds is almost 32,000 years. So to pay off the debt, Congress would have to put dollar bills into this account for about the *next 130,000 years*—roughly the amount of time that has passed since the Ice Age. Even if we were to require Congress to put $100 a second into this debt-buy-down account, it would still take well over 1,000 years to pay the debt down. (emphasis added)

Neither Moore nor Cato has specifically called for repudiating the national debt. However, others have. And the call is not new, but facts as sobering as those Steve Moore presented provide fuel for the fire. The day Moore's article appeared in the *Journal,* Rush Limbaugh began talking about repudiating the debt. Like Moore, he did not specifically say the debt should be repudiated. However, he misunderstood the clear message of the article.

The underlying premise of the article was not to suggest or argue for repudiation of the debt. Rather, it was to emphasize the magnitude of the problem and to create a sense of urgency for the idea of a *balanced budget.* As I said earlier, the debt cannot even begin to be addressed until we begin to live as a nation under a balanced budget. That is the mandatory first step. Without taking that step, nothing else matters. Instead of realizing that point from the article, Rush Limbaugh used the facts presented to jump to the conclusion the debt could "never be paid." He did not specifically state it should be repudiated, but he did say economists should begin to address the ramifications of doing so. In response to a caller who phoned with his position on the matter, Rush contended he did not understand the full ramifications of repudiating the debt, and thus stopped just short of making the claim.

To Repudiate or Not

So, my question to you is, based upon the above facts, should we repudiate the debt or not?

Before we answer the question, let us understand exactly what constitutes the "national debt." We hear the term over and over, but we also hear much misinformation about it. For example, we should begin by learning to whom this debt is owed. Many times, politicians will say, "We owe it to ourselves." In fact, one of the callers to the Rush Limbaugh program that day said, "If we owe it to ourselves, why *not* just repudiate it?" If you owed your home mortgage to "yourself," you might be inclined to cancel the debt. And if you did, what difference would it make? Who, if anybody, would be hurt by that act? If you truly "owed it to yourself," perhaps nobody would be hurt.

Let us understand, however, that the United States does not owe the money "to itself." Just as you owe your home mortgage to the organization that loaned you the money to allow you to purchase it in the first place, the federal debt is owed to *specific creditors*. How does one become a creditor of the United States? To finance its deficit spending, the federal government must do exactly what you and I do before we can spend money we do not have. It must first *borrow* that money. When the United States borrows money, it must enter into a promise to repay the debt. It is no different than your home mortgage. If you borrowed $100,000 to buy or refinance a home, you must guarantee the bank you will pay back the principal, with interest at a stated rate, within a stated period of time.

Bonds and Bondholders

When the United States borrows money, it does much the same thing. Instead of signing a mortgage note, however, government issues debt instruments. The debt instruments assume three forms. Long-term debts take the form of *bonds,* medium-term debts take the form of *notes,* and short term debts take the form of *bills*. When the United States overspends by, say, 300 billion in a given year, it raises the money to pay the difference by issuing these debt instruments. The Treasury first decides how much of the debt is to be financed through long, medium, or short term obligations. It then offers these obligations to the public through an auction. For simplicity's sake, I will refer to all government debt instruments as bonds.

The government debt instruments—bonds—are purchased at auction at a discount to their face value. The deeper the discount, the higher the rate of interest the government will pay to the bondholder. The smaller the discount, the lower the rate of interest the Treasury will pay. The bond discount rate, and hence the interest rate, is largely determined by Federal Reserve interest rate settings and the market place. The point is, government does not set the rate. Bonds are sold, like anything else at auction, to the highest bidder, assuring the lowest rate for that particular issue.

The bond is an obligation not unlike your own mortgage note. The United States agrees to pay the bondholder a specific principal, at a stated interest rate over a fixed period of time. The entirety of the federal debt, some $4.8 trillion, is financed in this manner. Thus, the United States *does not* owe the money to "itself," it owes the money to bondholders. They are the parties who lent their cash to the government to finance its operations.

But who are these bondholders? When the Treasury offers bonds for auction, the largest segment of the bonds are purchased by major brokerage houses. Institutions such as Salomon Brothers and Merrill Lynch purchase major blocks of these debt instruments. They in turn resell them to individual investors. Of course, they sell them at a rate which allows the brokers to make money on the transaction. However, the brokerage fee can easily be avoided by purchasing bonds "Treasury direct," which in effect, bypasses all broker middlemen.

The ultimate purchasers of government bonds fall under three categories: (1) foreign governments, (2) institutional investors, such as banks, insurance companies, mutual funds and pension funds, and (3) individual citizens. This answers the question "To whom do we owe the money?"

In the February 1995 Treasury auction of two- and five-year notes, we find that more than $25 billion was raised through "competitive tenders from the public." In addition, another $1.5 billion was awarded to "Federal Reserve Banks as agents for foreign and international monetary authorities." (See *Public Debt News,* U.S. Treasury Department, February 22, 1995.)

Repudiation Fallout

Now that we understand to whom we owe the debt, let us explore the likely consequences of repudiating the debt. I have classified the fallout into three types of problems: small scale, medium scale, and large scale. Let us take them in ascending order.

Small-Scale Problem. From the government's point of view, a small-scale problem is created for the individual holders of government bonds. If the federal government defaults on payments, those owners—a person here, a person there—lose part of their savings. To the extent that that person invested to save for his retirement, to build a college fund, or to buy a home, that money is lost. Is that the end of the world? Ask the guy who loses his savings. If he's young enough to recover over time, maybe not. Maybe he can swallow the fact that his money was stolen from him by a dishonest government. Maybe he can work extra hard in the remaining productive years he has left to make up the difference. Maybe.

What about those millions of older or retired citizens who have invested heavily in government bonds because of the "guaranteed" safety and return on investment? Suppose such a person is 65 years old. Suppose his entire life savings is invested in bonds, and he is dependent on the interest every month to keep him out of soup lines. How will that person recover from having his money stolen from him by a dishonest government?

Medium-Scale Problem. If you're not an owner of government bonds, what do you care? If those people were shortsighted enough to put all their eggs in one basket, maybe they deserve what they get. Maybe you don't have to worry because your money is invested with your insurance company, or mutual fund, or even better, in your company's pension fund. But maybe you should worry.

The largest investors in government bonds are institutional investors such as these firms and banks. With nearly $3.5 trillion in pension cash alone invested throughout the world, a huge share of that money is in "guaranteed" government bonds. There are hundreds of billions more invested through insurance companies. Add to that the billions in mutual fund investments and you start to appreciate the problem is quite a bit broader than just a few old people losing some spare change.

I submit to you that if you have any kind of life insurance policy, pension fund, or mutual fund investment of any kind, *you* are the proud owner of federal government bonds at some level. If the government defaulted on these obligations, it would send shock waves through the entire financial market. It would destabilize much of the insurance and pension sector, and could spell the outright destruction of countless mutual funds. Even if you do not own an insurance policy or pension fund of any kind, I would be surprised if you did not have a bank account. Banks also invest heavily in government bonds.

I suspect that if the federal government were to default on bond debts owed just to the banking industry, the fallout would make the S&L crisis look like a mere bank overdraft. In fact, by defaulting on government bonds owed to banks, my guess is the entire commercial banking industry would be destabilized, risking the money of every depositor, large and small.

Large-Scale Problem. But even if the financial markets were rocked, pension and insurance funds were lost, and millions upon millions of American citizens lost money to a dishonest government through bank closures, that is not even the worst of it. The worst is the effect it could have on our world trading partners and military allies. Hundreds of billions more in federal debt are owned by foreign governments, foreign insurance companies, and foreign mutual funds. Japan alone has helped finance American deficit spending for decades, to the tune of billions. If the federal government defaulted on debts owed to these foreign investors, our government would likely face financial retaliation of immeasurable proportion.

For example, I could well imagine all assets of U.S. investors in foreign nations being frozen by that government. You don't think that can happen? The United States does it all the time. Remember the Gulf War? After Iraq invaded Kuwait, some $2 billion in Iraqi assets held in U.S. banks were frozen by executive order of President Bush. If we can do it to foreign investors in the United States, why can't foreign governments do it to U.S. investors?

And that may not even be so bad. What could be worse is the prospect that a foreign government may *nationalize* the assets of U.S. companies located in that country. By the way, the term *"nationalize"* is how governments refer to the act of stealing what does not belong to them. Is it all that hard to imagine, for example, the government of France or Germany nationalizing the assets of Ford Europe in an effort to recoup its own losses? During the 1950s, U.S. businesses lost billions when Castro's government took over Cuba and nationalized *all* U.S. assets held in that nation.

Even if the affected foreign governments did not openly retaliate against U.S. assets held in their country, what effect do you suppose repudiation of debt will have on our military alliances? Do you suppose the governments of the Western world will be so quick to jump to the aid of any United States interest after they have had billions stolen from them by a dishonest government? Don't bet on it.

The bottom line is, repudiation of the federal debt would be fundamentally immoral. It would constitute a dishonest act of the highest order. The ramifications would be felt in every home in the country, and every capital in the world. The United States could be ruined politically, financially, and perhaps militarily. After all, how many of our government's military actions are financed through borrowing?

But, as the saying goes, every cloud has a silver lining. If the government of the United States repudiated its debt to investors, you can be sure we would have a balanced budget, whether Congress liked it or not. *That is because nobody would ever lend the United States another dime!* □

How to Destroy Wealth

by Richard W. Stevens

Anyone can demonstrate the fundamental flaw in the welfare state by engaging in a simple experiment which illustrates that the coercive "redistribution" of wealth destroys wealth. Legislators who take funds from taxpayers coercively to create "wealth" by building a dam in Colorado or a library in Pittsburgh, for instance, actually destroy wealth. This simple experiment with my two sons shows how.

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Andrew, age eight, enjoys books about magic and riddles. Jason, age six, loves construction toys like dump trucks and cranes. One Saturday afternoon, I took from Andrew his books of riddles and magic and gave them to Jason. I took from Jason his construction toys and gave them to Andrew.

Rebellion erupted. Both boys complained that my naked exercise of power was not fair. I explained that I had not damaged their toys in any way; the total money price of the things they had received was the same as what they had given up; they should both be just as happy as before the swap.

The boys screamed and yelled. In the first place I had forcibly interrupted their play. They might soon get over this, they said, if I would only return their original toys. They even admitted that if I gave them something extra, "something really neat," they might be willing to forgive the interruption. However, I had forcibly taken away their favorite toys and this was unjust on its face. How would I feel, they asked, if someone came and took my chess computer away from me? I told them they hadn't really lost anything— it was as if I had taken a five dollar bill from each of them and given them each another five dollar bill. The money value of the toys each had received was the same. They had both gotten something of equal money value. But they weren't mollified.

The boys had a difficult time explaining another reason for their resentment, but it was no less real. By taking away the toys they valued most, and giving them toys they valued less, I had stolen something of value from them—their fun, their satisfaction. Although the toys had not lost *money* value, the *real* value of their toys had decreased through the redistribution. The market price of Andrew's books and that of Jason's construction toys were about the same. But in Andrew's hands the books were more valuable than the trucks and cranes. And to Jason the trucks and cranes were more valuable than the books on magic and riddles. By the redistribution both had lost value. The fact that they cost about the same in dollars was immaterial. Their values in the eyes of Andrew and Jason were neither objective nor measurable; they were subjective "psychical and personal," as Ludwig von Mises wrote.[1]

When I left the boys alone and told them they could trade back again, they promptly did so, grumbling as they did about why Daddy had bothered them in the first place.

This simple experiment demonstrates several economic truths. First, economic values are subjective. The fact that the books and trucks cost the same was immaterial.

Second, no outsider, no parent or government official can forcibly redistribute goods from one person to another without decreasing the satisfaction of at least one of the parties. Andrew and Jason had already arranged their toys to satisfy their personal wants and interests. By forcibly interfering, I had reduced the satisfaction of both boys, as they told me in no uncertain terms.

Third, exchanges of goods of equal monetary value are not equal exchanges. The objective "market value," i.e., the price of a good is not the same as the subjective value in the minds of the particular persons involved. Individuals trade goods voluntarily with one another only if each expects to receive in return something that will be more valuable to him or her than what he or she is giving up.

Fourth, there is no way to compare the unhappiness of two different people. From their yells I could tell that neither Andrew nor Jason liked the new order of things. Yet there was no way to judge whether one child was harmed more or less than the other. We cannot measure the harm that forced transfers cause to people, but we know the harm exists.[2]

This little experiment with Andrew and Jason shows that transferring wealth forcibly from some individuals to others interferes with the voluntary arrangements people make among themselves, destroys personal subjective values, and actually reduces the amount of wealth in society.[3] Thus social programs that aim to improve the lives of some persons by taking funds forcibly from others are bound to destroy wealth in society—although there is no way to measure how much. □

1. Ludwig von Mises, *Human Action*, 3rd rev. ed. (Chicago: Henry Regnery Co., 1966), p. 97.

2. *Human Action*, pp. 204–205; *cf.* Henry Hazlitt, *Economics in One Lesson* (Norwalk, Conn.: Arlington House, 1970), pp. 31–34.

3. Murray Rothbard, *Power & Market: Government & the Economy*, 2nd ed. 1977, Kansas City, Kan: (Sheed Andrews and McMeel, Inc.).

THE FREEMAN
IDEAS ON LIBERTY

Education vs. Democracy

by Sheldon Richman

Part of the allure of public, or, more precisely, government-run, education is its supposed democratic nature. Most citizens see a virtue in having the schools set in the arena of majority rule, where "the people" are said to be the ultimate decisionmakers. It is taken as self-evident that the greatest accountability is to be found in that arena and to even suggest removing the schools from the democratic process would deal a mortal blow to education.

But is democracy really good for education? The implicit belief in its goodness has gone too long unexamined. Democracy is sacred in American culture, and so to suggest that it is detrimental to anything is a secular heresy. Nevertheless, I'll argue that democracy is inimical to education, if by "education" we mean the family-based assisting of children to become moral, competent, and well-rounded human beings.

The Essence of Democracy

A critique of democracy in the context of education can't help but begin with a look at democracy per se. The sacred mantle draped over the democratic process obscures something rather profane. What is thought to be the rule of the majority turns out in actuality to be the rule of well-organized minorities, or special-interest groups.[1] A chief reason for that fact is the phenomenon, discussed at length in the Public Choice literature, of dispersed costs and concentrated benefits. Most government programs entail a small cost to any individual (although the aggregate cost may be immense). Thus, most people will have little incentive to actively oppose a given program; it just isn't worth the time and effort. In contrast, the benefits are great to a smaller, well-organized group of citizens. It *will* pay them, or the trade group they support, to lobby energetically for "their program." That essentially is why the United States has programs to benefit farmers and steel manufacturers, for instance, though consumers of farm products and steel far outnumber producers of farm products and steel.

That unromantic fact about democracy—that well-organized minorities not unorganized majorities rule—is well established in the literature of political economy.[2] As important as it is, however, it's not crucial to the present purpose. After all, it is a secondary issue whether majorities impose on minorities or minorities impose on majorities. Of primary importance is that *someone imposes something on someone else.* I find it peculiar indeed that freedom and democracy should so often be coupled when by its nature, democracy requires that some people be forced to abide by the will of others. What leads so many to embrace this dubious idea is the belief that democracy is the only peaceful alternative to autocracy, in which one person's will is imposed on everyone. Let someone get wind of your aversion to democracy and sooner or later you'll be accused of favoring authoritari-

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anism. (America's greatest antidemocrat, H. L. Mencken, was so accused repeatedly.)

It seems not to have occurred to the enthusiasts of democracy that there is a third alternative: individual liberty. Or if they thought of that alternative, they rejected it as a comprehensive solution on the ground that public-goods and free-rider problems make some form of collective decision-making necessary at least for some purposes. Some things, it is said, cannot be left to the voluntary sphere, in particular, things that when provided to some are simultaneously provided to all and that are consumed nonrivalrously.[3] These twin traits are said to rob entrepreneurs of the incentive to produce any such good or service or, at least, to grossly underproduce them. In either case, the will of the people is thwarted. Governmental production, that is, coercive, tax-financed provision, is proposed as a remedy for such "market failure." That theory, for all its elegance, has taken a beating in the last few decades from a variety of economists, political scientists, and game theorists. It seems that there is less to the public-goods problem than meets the eye.[4]

The Free-Rider Argument

Theorists have made an equally important counterargument with respect to the purported solution to the alleged problem, namely, government. Several authors have exposed the free-rider objection to the market as a boomerang: when hurled at the advocates of the market, it circles back to hit the thrower square in the back of the neck. In other words, the same objections made to voluntarism are applicable to the state. Any generally beneficial government services are provided to all and are consumed nonrivalrously. Taxation is supposed to overcome that problem, but the problem runs deeper than that. Why should any individual citizen participate in a campaign for generally beneficial legislation or decent candidates when he can free-ride on the efforts of others? Why should anyone vote? One vote makes little difference. If the free-rider problem is insurmountable, legislation and candidates that would truly benefit all citizens will be "underproduced" by the political system. That leads to the preponderance of special-interest government action referred to earlier. Such action bestows great benefits on a relatively small group, while spreading the costs across the whole of society. Moreover, unlike in the market, when a "public good" is obtained through government, the beneficiary group pays only a small portion of the costs, since government shifts most of the expense to the taxpayers. "This makes it possible for organized groups to get the state to provide bogus public goods, goods and services which in fact cost much more than the beneficiaries would be willing to pay even if exclusion were possible and they could not free-ride. In this manner, the state generates externalities, and ones that are negative. Rather than overcoming the free-rider problem, the state benefits free-loaders. . . ."[5]

The advocates of democracy believe that the free-rider problem can be overcome; after all, many people vote. But if that's so, why then can't it also be overcome in the marketplace? Could it be the case that the free-rider phenomenon is not necessarily insurmountable?[6]

Those problems aside, it is far from clear that the public-goods problem even applies to education. Nonpayers can be excluded from the schoolhouse. Moreover the resources used in education are scarce and thus are consumed rivalrously.[7] The only sense in which there is a free-rider phenomenon—everyone benefits from a well-educated society even if we don't pay for others' education—applies equally well to myriad features of society. Indeed, the very notion of society includes spillover benefits from people's self-interested activities. Spontaneous orders, such as custom, the market, money, and language, by definition include what economists call positive externalities. But that is no reason for government to take over those institutions. As a matter of fact, most of the benefits would disappear if government did so.

Democracy

The essence of democracy, as I've said, is that one group imposes its will on another. Let's see how that's so. In a representative democracy, such as the United States, citizens typically vote not on particular issues but for members of legislatures and school boards. The "representatives" then vote on legislation and policies to govern their particular jurisdictions. Obviously, all those votes entail losers. Citizens who voted for the losing candidates are bound nonetheless by the winners' decisions, and citizens whose representatives are on the losing side of legislative votes are likewise bound by the decisions of the representatives who prevail. (We'll skip the added complication that representatives often break campaign promises.)

A classic defense of the system was made in an essay by Anthony Downs, who wrote:

> The basic arguments in favor of simple majority rule rest upon the premise that every voter should have equal weight with every other voter. Hence, if disagreement occurs but action cannot be postponed until unanimity is reached, *it is better for more voters to tell fewer what to do than vice versa*. The only practical arrangement to accomplish this is simple majority rule. Any rule requiring more than a simple majority for a passage of an act allows a minority to prevent action by the majority thus giving the vote of each member of the minority *more weight* than the vote of each member of the majority.[8]

The late liberal Italian jurist and political scientist Bruno Leoni, however, demolished Downs' argument that majority rule assumes that "every voter should have equal weight with every other voter." He pointed out that in fact "we give much more 'weight' to each voter ranking on the [winning] side . . . than to each ranking on the [losing] side. . . . The fact that we cannot possibly foresee who will belong to the majority does not change the picture much."[9] In other words, Leoni argued, when a bare majority prevails in an electorate of 100, 51 have the weight of 100 and 49 the weight of zero.[10]

The problem, of course, is that the legislative process is a winner-take-all matter. That fact refutes the various attempts of political scientists to liken the process to the marketplace. As Leoni noted:

> Only voters ranking in winning majorities (if for instance the voting rule is by majority) are comparable to people who operate on the market. Those people ranking in losing minorities are not comparable with even the weakest operators on the market, who at least under the divisibility of goods (which is the most frequent case) can always find something to choose and to get, provided they pay the price.[11]

In the legislative process, Leoni argued, you either get what you asked for or you get nothing. "Even worse, you get something that you do not want and you have to pay for it just as if you had wanted it."[12] That makes the legislative process, he added, more like the battlefield than the marketplace. In an imaginative application of the Ludwig von Mises' criticism of socialism, Leoni also compared the legislative representative to the central economic planner; by the very nature of their systems, both are cut off from information that is critical to the jobs they are theoretically doing because the spontaneous processes that produce that information are squelched. As he put it:

> No solemn titles, no pompous ceremonies, no enthusiasm on the part of applauding masses can conceal the crude fact that both the legislators and directors of a centralized economy are only particular individuals like you and me, ignorant of 99 percent of what is going on around them as far as the real transactions, agreements, attitudes, feelings, and convictions of people are concerned.[13]

Democracy and the Schools

We see the truth of those insights in the controversies over education. In school districts throughout the nation, communities are torn over such issues as whether condoms should be distributed, whether young children should be exposed to the issue of homosexuality, whether books offensive to parents should be required reading, whether reading should be taught by the "whole language" method instead of phonics, whether and what values shall be taught, and so on. Since a majority vote of school-board members decides those controversies, parents represented by members voting in the minority are effectively disfranchised. They must abide by the majority decision. Even if they take their children out of the schools, they must go on paying for a system they abhor.

An additional problem with democratic rule over schools is that nonparents have the same voting rights as parents, despite the greater stake of the latter. The public-goods theory of education (see above) is invoked to tax everyone in a community, including nonparents and people with grown children, to support the government schools. But if those people are taxed, they must also be permitted to vote or else they become victims of taxation without representation. Thus the votes of parents are diluted by people who, at best, have only a small stake in the schools. As John Chubb and Terry Moe have written:

> The fundamental point to be made about parents and students is not that they are politically weak, but that, even in a perfectly functioning democratic system, the public schools *are not meant to be theirs to control* and are literally not supposed to provide them with the kind of education they might want. *The schools are agencies of society as a whole*, and everyone has a right to participate in their governance. Parents and students have a right to participate too. But they have no right to win. In the end, *they have to take what society gives them.*[14]

Government schools, in other words, are not the agents of parents and their children. Others besides them pay and therefore help call the tune. That inevitably turns the schools into laboratories for social engineering. No parent would want children's shoe stores run that way. It is hard to believe that's the education system parents would choose, given a free choice.

Democratic control of schools, then, necessarily usurps parents' child-raising authority. The big decisions—such as the selection of schools and curricula—are made by others. Whatever the intentions, government schools rob families of essential freedom and responsibility.[15] From any standpoint, it cannot be good for parents to bring children into the world expecting someone else to educate them. Considering that the most critical factor in the success or failure of children's education is the family, a school system that devitalizes families would seem a particularly self-defeating institution.

Democracy also bureaucratizes schools. Since government schools procure their revenue and students by compulsion, and do not face a profit-and-loss test, the normal accountability of a firm to its customers is absent. Simply put, parents cannot take their business elsewhere. If they wish to change school policy, they must undertake a costly campaign to elect a new school board. But that strategy is plagued by the free-rider problem discussed above. The contrast, in this regard, between a democratic institution and a market institution could not be more stark. Lord Beveridge put the problem in general terms:

> In a totalitarian State or in a field already made into a State monopoly, those dissatisfied with the institutions that they find can seek a remedy only by seeking to change the Government of the country. In a free society and a free field they have a different remedy; discontented individuals with new ideas can make a new institution to meet their needs. The field is open to experiment and success or failure; secession is the midwife of invention.[16]

Bureaucratic schools display all the features of classic bureaucracies: poor service, inefficiency, bloated budgets, empire-building, turf-protection, capture by special interests such as teachers unions, and more. In his great work *Bureaucracy*, Mises showed that a bureaucracy's "main concern is to comply with the rules and regulations, no matter whether they are reasonable or contrary to what was intended."[17] As Chubb and Moe wrote:

> Institutions of democratic control are inherently destructive of school autonomy and inherently conducive to bureaucracy. This

happens because of the way all the major participants—politicians, interest groups, bureaucrats—are motivated and empowered by their institutional setting to play the game of structural politics. . . . Schools, we believe, are the products of their institutional settings. . . . Our reasoning is that much of [the bureaucratization of the schools] is an inevitable and logical consequence of the direct democratic control of schools.[18]

In sum, then, democratic rule produces schools that are unaccountable, detrimental to families, bureaucratic, and incompatible with individual freedom. What does anyone see in them?[19]

Bruno Leoni may not have had schools in mind when he lamented the "large area occupied" by democratic rule, but his insight is fully applicable to them.

I am convinced that the more we manage to reduce the large area occupied at present by group decisions in politics and in the law, with all their paraphernalia of elections, legislation, and so on, the more we shall succeed in establishing a state of affairs similar to that which prevails in the domain of language, of common law, of the free market, of fashion, of customs, etc., where all individual choices adjust themselves to one another and no individual choice is ever overruled.[20]

The task of shrinking that large area now under occupation by the political authorities can begin at no better place than the government schoolhouse. □

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1. To sum it up in an aphorism: "Democracy: in theory, the tyranny of the majority; in practice, the tyranny of minorities." Of course, I'm using *minorities* here in the purely numerical sense.

2. The classic work on this and related issues is Mancur Olson, *The Logic of Collective Action: Public Goods and the Theory of Groups*, 2nd ed. (Cambridge, Mass.: Harvard University Press, 1971). I leave aside here the valid point that even democratic governments achieve an important degree of autonomy from those they purportedly represent. See Robert Higgs, *Crisis and Leviathan: Critical Episodes in the Growth of American Government* (New York: Oxford University Press, 1987), p. 63.

3. The classic case was held to be a lighthouse. Nonpayers can use the light as well as payers, and no one's use diminishes the beam. Thus, it was said that the market would not produce, or would underproduce, lighthouses. Broadcast television and radio seem to have the same characteristics—which should lead to some skepticism that they rule out profitable provision in the market.

4. For example, Nobel laureate Ronald Coase discovered that lighthouses were provided privately in England for more than a century before being taken over by the government. For Coase's paper and for other critical analyses of the public-goods problem, see Tyler Cowen, ed., *The Theory of Market Failure* (Fairfax, Va.: George Mason University Press/Cato Institute, 1988). David Friedman points out that without a market, the government would not know if the value of, say, a dam, exceeds the cost. See also, *The Machinery of Freedom: Guide to a Radical Capitalism* (1973; LaSalle, Ill.: Open Court, 1989), pp. 135–43, as well as David Schmidtz, *The Limits of Government: An Essay on the Public Goods Argument* (Boulder, Colo.: Westview Press, 1991).

5. Jeffrey Rogers Hummel and Don Lavoie, "National Defense and the Public-Goods Problem" in Robert Higgs, ed., *Arms, Politics, and the Economy: Historical and Contemporary Perspectives* (New York: Holmes & Meier, 1990), p. 44.

6. For a full discussion of these issues, see *ibid.* Also see Joseph P. Kalt, "Public Goods and the Theory of Government," *Cato Journal* 1 (Fall 1981): 556–84. As I've heard Hummel put it, if the free-rider problem is soluble, state provision is unnecessary; if the problem is insoluble, state provision is impossible.

7. On whether the public-goods problem applies to education, see *Separating School and State: How to Liberate America's Families*, pp. 19–20, and E. G. West, *Education and the State: A Study in Political Economy*, 3rd edition, revised and expanded (1970; Indianapolis, Ind.: Liberty Fund, 1994).

8. Anthony Downs, *In Defense of Majority Voting* (Chicago: University of Chicago, 1960), quoted in Bruno Leoni, *Freedom and the Law*, expanded 3d ed. (Indianapolis, Ind.: Liberty Press, 1991), p. 237.

9. *Ibid.*

10. Leoni agreed that simple majority rule is consistent with "strongly organized minorities" imposing their will. He finds proposals for supermajority rule no better. *Ibid.* p. 242ff. See James Buchanan and Gordon Tullock, *The Calculus of Consent* (Ann Arbor, Mich.: University of Michigan Press, 1962).

11. Leoni, p. 235.

12. *Ibid.*

13. *Ibid.*, p. 23; see also pp. 20–23, 112–32.

14. John E. Chubb and Terry M. Moe, *Politics, Markets and America's Schools* (Washington, D.C.: Brookings Institution, 1990), p. 32. Emphasis added. Children, of course, get no vote at all.

15. Intentions have not always been praiseworthy. See Richman, pp. 37–52.

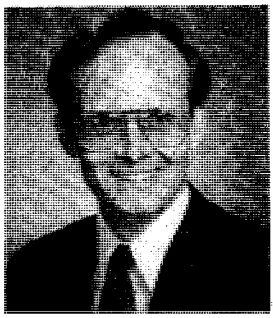
16. Lord Beveridge, *Voluntary Action* (London: Allen and Unwin, 1948), p. 58. Emphasis added.

17. Ludwig von Mises, *Bureaucracy* (1944; New Rochelle, N.Y.: Arlington House, 1969), p. 41. See also the classic by William A. Niskanen, Jr., *Bureaucracy and Public Economics* (Brookfield, Vt.: Edward Elgar, 1994).

18. Chubb and Moe, pp. 47, 67, 183. Education bureaucracies suffer in microcosm from the same "knowledge problem" as socialist economies. See Sheldon Richman, "Knowledge, Ignorance, and Government Schools," *The Freeman* 45 (June 1995): 340–43.

19. In Virginia, because of the number of students, some public-school children must eat lunch at 10:15 a.m. Do the schools serve the interests of children, or vice versa?

20. Leoni, p. 130.



Teachers as Entrepreneurs in the Classroom

When the socialist economies of the Soviet bloc disintegrated in the 1980s, the cause was evident to nearly everyone: the stifling directives of central planning had all but obliterated individual initiative and accountability. The cure was just as obvious: a healthy dose of entrepreneurship and private enterprise.

That lesson is relevant to today's debate over education reform in America, though it's a lesson still ignored by too many of the "reformers." The reform debate is cluttered with proposals for top-down mandates and directives that start from the implicit premise that teachers must be lifetime government employees and must be told what to do. If the new leaders of the Soviet bloc had simply replaced old central plans with new ones, without creating markets or empowering private citizens to be their own bosses, we would hardly call the result "reform" at all.

The most promising models for improving education are those that would infuse the virtues of the marketplace into the education system—and in a way that inspires teachers. One particular reform idea that would help accomplish that is the subject of a new report issued jointly in Michigan by the Mackinac Center for Public Policy and the Reason Foundation, titled *Teacher, Inc.: A Private Practice Option for Educators.* The report's author, Janet Beales, makes a powerful case for teachers as classroom entrepreneurs. In those places where it has already taken root, it is showing the potential to transform the way education is delivered and the careers of tens of thousands of teachers. Known as "private-practice teaching," it requires a lot of creativity and willingness to break with the status quo on the part of union leadership, school administrators, teachers themselves, legislators, and the general public.

Private-practice teachers are professional educators who provide their services to schools on a contract basis. Instead of being an employee of a school district—subject to all its rules and suffocating bureaucracy—a teacher can be owner of a professional practice or employed by a private educational service firm. It's not for every teacher—and certainly not for the risk-averse—because a private-practice teacher effectively gives up the safety net of district employment, collective bargaining, and tenure. But for those teachers who yearn to drive their own careers and have good ideas to market, the entrepreneurial freedom this option offers can be the liberating stimulus they've been looking for.

Beales paints a picture of many different forms of private-practice teaching. Imagine English teachers forming English instruction firms or science teachers offering innovative methods of science pedagogy under the banner, "Science Teachers, Incorporat-

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ed." Teachers in private practice could contract with schools or school districts to provide specialized instruction in remedial education or foreign languages. They could tutor students with special needs one at a time or teach entire classrooms. Some teachers might want to run their own business, taking on the dual responsibilities of teacher and business manager, while others would want to focus strictly on teaching by working for an established education company—perhaps even a company started by colleagues or local parents.

Still others might specialize in training teachers to teach—with more incentive for better results than we now get from the education departments of state universities. In any event, private-practice educators who do a good job will find their services in demand and their contracts renewed, while those who perform poorly at least would not be perpetual burdens on both children and taxpayers.

For freedom advocates, it doesn't matter where one stands on vouchers, tuition tax credits, and other prickly issues of government's role or private versus public schooling. Private-practice teaching can be an improvement for *any* educational environment. It can begin to create real markets for teaching—and all the dynamics that real markets promote on behalf of excellence and customer service. Free markets for teachers who compete and innovate and sell their services to customers might make it easier to achieve free markets for schools too.

Teachers as entrepreneurs in a competitive education marketplace is a vision that many accustomed to the status quo will find difficult to accept. Pointing the way, however, are successful examples from around the country. Educator Robin Gross of Bethesda, Maryland started Science Encounters more than a decade ago and now employs 20 full and part-time teachers who provide hands-on learning programs to private and public elementary schools in and around the nation's capital. Former tutor Evelyn Peter-Lawshé started Reading and Language Arts Centers in 1991 and now serves over 800 clients in the Detroit area, teaching students and training teachers who earn continuing education credits in the process. Sylvan Learning Systems provides tutoring, testing, and test-preparation courses to students through more than 500 franchised and company-owned centers in the United States and Canada, according to Beales. Other examples are appearing on the educational scene now with regularity.

If you think teacher unions will never buy into the concept of allowing schools to contract out to private companies, it might be useful to consider a lesson from my state of Michigan. The Michigan Education Association (MEA) represents most public school teachers and many school janitors and food service workers in the state. It publicly opposes any kind of privatization, but in its own headquarters in East Lansing, the MEA contracts out for such services as food, custodial, mailing, and security—and usually with non-union private companies!

When the most powerful state teacher union organization in America practices "privatization," a new awakening may be taking place. Reformers have a powerful rhetorical opportunity here—either we can persuade the MEA and its like-minded sister unions in other states of their hypocrisy when they oppose privatization, or we can drive home the point to teachers and parents that the unions don't really have their interests foremost in mind after all. Trimming the privileged sails of coercive teacher unions, in any event, may be inescapably necessary on the path to liberating teachers themselves.

One size doesn't fit all teachers. A lifetime of public employment in the conventional setting of bureaucracy and politics need not be the only option. For those teachers who want new professional opportunities and for children who would benefit from educators animated with new incentives, private-practice teaching is a reform idea whose time has come. □

THE FREEMAN
IDEAS ON LIBERTY

The Solution

by Murray N. Rothbard

To save our economy from destruction and from the eventual holocaust of runaway inflation, we the people must take the money-supply function back from the government. Money is far too important to be left in the hands of bankers and of Establishment economists and financiers. To accomplish this goal, money must be returned to the market economy, with all monetary functions performed within the structure of the rights of private property and of the free-market economy.

It might be thought that the mix of government and money is too far gone, too pervasive in the economic system, too inextricably bound up in the economy, to be eliminated without economic destruction. Conservatives are accustomed to denouncing the "terrible simplifiers" who wreck everything by imposing simplistic and unworkable schemes. Our major problem, however, is precisely the opposite: mystification by the ruling elite of technocrats and intellectuals, who, whenever some public spokesman arises to call for large-scale tax cuts or deregulation, intone sarcastically about the dimwit masses who "seek simple solutions for complex problems." Well, in most cases, the solutions are indeed clear-cut and simple, but are deliberately obfuscated by people whom we might call "terrible complicators." In truth, taking back our money would be relatively simple and straightforward, much less difficult than the daunting task of denationalizing and decommunizing the Communist countries of Eastern Europe and the former Soviet Union.

Our goal may be summed up simply as the privatization of our monetary system, the separation of government from money and banking. The central means to accomplish this task is also straightforward: the abolition, the liquidation of the Federal Reserve System—the abolition of central banking. How could the Federal Reserve System possibly be abolished? Elementary: simply repeal its federal charter, the Federal Reserve Act of 1913. Moreover, Federal Reserve obligations (its notes and deposits) were originally redeemable in gold on demand. Since Franklin Roosevelt's monstrous actions in 1933, "dollars" issued by the Federal Reserve, and deposits by the Fed and its member banks, have no longer been redeemable in gold. Bank deposits are redeemable in Federal Reserve Notes, while Federal Reserve Notes are redeemable in nothing, or alternatively in *other* Federal Reserve Notes. Yet, these Notes are our money, our monetary "standard," and all creditors are obliged to accept payment in these fiat notes, no matter how depreciated they might be.

In addition to cancelling the redemption of dollars into gold, Roosevelt in 1933 committed another criminal act: literally confis-

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cating all gold and bullion held by Americans, exchanging them for arbitrarily valued "dollars." It is curious that, even though the Fed and the government establishment continually proclaim the obsolescence and worthlessness of gold as a monetary metal, the Fed (as well as all other central banks) clings to its gold for dear life. Our confiscated gold is still owned by the Federal Reserve, which keeps it on deposit with the Treasury at Fort Knox and other gold depositaries. Indeed, from 1933 until the 1970s, it continued to be illegal for any Americans to own monetary gold of any kind, whether coin or bullion or even in safe deposit boxes at home or abroad. All these measures, supposedly drafted for the Depression emergency, have continued as part of the great heritage of the New Deal ever since. For four decades, any gold flowing into private American hands had to be deposited in the banks, which in turn had to deposit it at the Fed. Gold for "legitimate" non-monetary purposes, such as dental fillings, industrial drills, or jewelry, was carefully rationed for such purposes by the Treasury Department.

Fortunately, due to the heroic efforts of Congressman Ron Paul it is now legal for Americans to own gold, whether coin or bullion. But the ill-gotten gold confiscated and sequestered by the Fed remains in Federal Reserve hands. How to get the gold out from the Fed? How privatize the Fed's stock of gold?

Privatizing Federal Gold

The answer is revealed by the fact that the Fed, which had promised to redeem its liabilities in gold, has been in default of that promise since Roosevelt's repudiation of the gold standard in 1933. The Federal Reserve System, being in default, should be liquidated, and the way to liquidate it is the way any insolvent business firm is liquidated: its assets are parceled out, pro rata, to its creditors. The Federal Reserve's gold assets are listed, as of October 30, 1991, at $11.1 billion. The Federal Reserve's liabilities as of that date consist of $295.5 billion in Federal Reserve Notes in circulation, and $24.4 billion in deposits owed to member banks of the Federal Reserve System, for a total of $319.9 billion. Of the assets of the Fed, other than gold, the bulk are securities of the U.S. government, which amounted to $262.5 billion. These should be written off posthaste, since they are worse than an accounting fiction: the taxpayers are forced to pay interest and principle on debt which the Federal Government owes to its own creature, the Federal Reserve. The largest remaining asset is Treasury Currency, $21.0 billion, which should also be written off, plus $10 billion in SDRs, which are mere paper creatures of international central banks, and which should be abolished as well. We are left (apart from various buildings and fixtures and other assets owned by the Fed, and amounting to some $35 billion) with $11.1 billion of assets needed to pay off liabilities totalling $319.9 billion.

Fortunately, the situation is not as dire as it seems, for the $11.1 billion of Fed gold is a purely phoney evaluation; indeed it is one of the most bizarre aspects of our fraudulent monetary system. The Fed's gold stock consists of 262.9 million ounces of gold; the dollar valuation of $11.1 billion is the result of the government's artificially evaluating its own stock of gold at $42.22 an ounce. Since the market price of gold is now about $350 an ounce, this already presents a glaring anomaly in the system.

Definitions and Debasement

Where did the $42.22 come from?

The essence of a gold standard is that the monetary unit (the "dollar," "franc," "mark," etc.) is *defined* as a certain weight of gold. Under the gold standard, the dollar or franc is not a thing-in-itself, a mere name or the name of a paper ticket issued by the State or a central bank; it is the name of a unit of weight of gold. It is every bit as much a unit of weight as the more general "ounce," "grain," or "gram." For a century before 1933, the "dollar" was defined as being equal to 23.22 grains of gold; since there are 480 grains to the ounce, this meant that the dollar was also defined as .048 gold ounce. Put another way, the gold ounce was defined as equal to $20.67.

In addition to taking us off the gold standard domestically, Franklin Roosevelt's New Deal "debased" the dollar by redefining it, or "lightening its weight," as equal to 13.714 grains of gold, which also defined the gold ounce as equal to $35. The dollar was still redeemable in gold to foreign central banks and governments at the lighter $35 weight; so that the United States stayed on a hybrid form of international gold standard until August 1971, when President Nixon completed the job of scuttling the gold standard altogether. Since 1971, the United States has been on a totally fiat paper standard; not coincidentally, it has suffered an unprecedented degree of peace-time inflation since that date. Since 1971, the dollar has no longer been tied to gold at a fixed weight, and so it has *become* a commodity separate from gold, free to fluctuate on world markets.

When the dollar and gold were set loose from each other, we saw the closest thing to a laboratory experiment we can get in human affairs. All Establishment economists—from Keynesians to Chicagoite monetarists—insisted that gold had long lost its value as a money, that gold had only reached its exalted value of $35 an ounce because its value was "fixed" at that amount by the government. The dollar allegedly conferred value upon gold rather than the other way round, and if gold and the dollar were ever cut loose, we would see the price of gold sink rapidly to its estimated non-monetary value (for jewelry, dental fillings, etc.) of approximately $6 an ounce. In contrast to this unanimous Establishment prediction, the followers of Ludwig von Mises and other "gold bugs" insisted that gold was undervalued at 35 debased dollars, and claimed that the price of gold would rise far higher, perhaps as high as $70.

Suffice it to say that the gold price never fell below $35, and in fact vaulted upward, at one point reaching $850 an ounce, in recent years settling at somewhere around $350 an ounce. And yet since 1973, the Treasury and Fed have persistently evaluated their gold stock, not at the old and obsolete $35, to be sure, but only slightly higher, at $42.22 an ounce. In other words, if the U.S. government only made the simple adjustment that accounting requires of everyone—evaluating one's assets at their market price—the value of the Fed's gold stock would immediately rise from $11.1 to $92.0 billion.

From 1933 to 1971, the once very large but later dwindling number of economists championing a return to the gold standard mainly urged a return to $35 an ounce. Mises and his followers advocated a higher gold "price," inasmuch as the $35 rate no longer applied to Americans. But the majority did have a point: that any measure or definition, once adopted, should be adhered to from then on. But since 1971, with the death of the once-sacred $35 an ounce, all bets are off. While definitions once adopted should be maintained permanently, there is nothing sacred about any *initial* definition, which should be selected at its most useful point. If we wish to restore the gold standard, we are free to select whatever definition of the dollar is most useful; there are no longer any obligations to the obsolete definitions of $20.67 or $35 an ounce.

Abolishing the Fed

In particular, if we wish to liquidate the Federal Reserve System, we can select a new definition of the "dollar" sufficient to pay off all Federal Reserve liabilities at 100 cents to the dollar. In the case of our example above, we can now redefine "the dollar" as equivalent to 0.394 grains of gold, or as 1 ounce of gold equalling $1,217. With such redefinition, the entire Federal Reserve stock of gold could be minted by the Treasury into gold coins that would replace the Federal Reserve Notes in circulation, and also constitute gold coin reserves of $24.4 billion at the various commercial banks. The Federal Reserve System would be abolished, gold coins would now be in circulation replacing Federal Reserve Notes, gold would be the circulating medium, and gold dollars the unit of account and reckoning, at the new rate of $1,217 per ounce. Two great desiderata—the return of the gold standard, and the abolition of the Federal Reserve—would both be accomplished at one stroke.

A corollary step, of course, would be the abolition of the already bankrupt Federal Deposit Insurance Corporation. The very concept of "deposit insurance" is fraudulent; how can you "insure" an entire industry that is inherently insolvent? It would be like insuring the *Titanic* after it hit the iceberg. Some free-market economists advocate "privatizing" deposit insurance by encouraging private firms, or the banks themselves, to "insure" each others' deposits. But that would return us to the unsavory days of Florentine bank cartels, in which every bank tried to shore up each other's liabilities. It won't work; let us not forget that the first S&Ls to collapse in the 1980s were those in Ohio and in Maryland, which enjoyed the dubious benefits of "private" deposit insurance.

This issue points up an important error often made by libertarians and free-market economists who believe that *all* government activities should be privatized; or as a corollary, hold that *any* actions, so long as they are private, are legitimate. But, on the contrary, activities such as fraud, embezzlement, or counterfeiting should not be "privatized"; they should be abolished.

This would leave the commercial banks still in a state of fractional reserve, and, in the past, I have advocated going straight to 100 percent, nonfraudulent banking by raising the gold price enough to constitute 100 percent of bank demand liabilities. After that, of course, 100 percent banking would be legally required. At current estimates, establishing 100 percent to all commercial bank demand deposit accounts would require going back to gold at $2,000 an ounce; to include *all* checkable deposits would require establishing gold at $3,350 an ounce, and to establish 100 percent banking for all checking and savings deposits (which are treated by everyone as redeemable on demand) would require a gold standard at $7,500 an ounce.

But there are problems with such a solution. A minor problem is that the higher the newly established gold value over the current market price, the greater the consequent increase in gold production. This increase would cause an admittedly modest and one-shot price inflation. A more important problem is the moral one: do banks deserve what amounts to a free gift, in which the Fed, before liquidating, would bring every bank's gold assets high enough to be 100 percent of its liabilities? Clearly, the banks scarcely deserve such benign treatment, even in the name of smoothing the transition to sound money; bankers should consider themselves lucky they are not tried for embezzlement. Furthermore, it would be difficult to enforce and police 100 percent banking on an administrative basis. It would be easier, and more libertarian, to go through the courts. Before the Civil War, the notes of unsound fractional reserve banks in the United States, if geographically far from home base, were bought up at a discount by professional "money brokers," who would then travel to the banks' home base and demand massive redemption of these notes in gold.

The same could be done today, and more efficiently, using advanced electronic technology, as professional money brokers try to make profits by detecting unsound banks and bringing them to heel. A particular favorite of mine is the concept of ideological Anti-Bank Vigilante Leagues, who would keep tabs on banks, spot the errant ones, and go on television to proclaim that banks are unsound, and urge note and deposit holders to call upon them for redemption without delay. If the Vigilante Leagues could whip up hysteria and consequent bank runs, in which noteholders and depositors scramble to get their money out before the bank goes under, then so much the better: for then, the people themselves, and not simply the government, would ride herd on fractional reserve banks. The important point, it must be emphasized, is that at the very first sign of a bank's failing to redeem its notes or deposits on demand, the police and courts must put them out of business. Instant justice, period, with no mercy and no bailouts.

Under such a regime, it should not take long for the banks to go under, or else to contract their notes and deposits until they are down to 100 percent banking. Such monetary deflation, while leading to various adjustments, would be clearly one-shot, and would obviously have to stop permanently when the total of bank liabilities contracted down to 100 percent of gold assets. One crucial difference between inflation and deflation, is that inflation can escalate up to an infinity of money supply and prices, whereas the money supply can only deflate as far as the total amount of standard money, under the gold standard the supply of gold money. Gold constitutes an absolute floor against further deflation.

If this proposal seems harsh on the banks, we have to realize that the banking system is headed for a mighty crash in any case. As a result of the S&L collapse, the terribly shaky nature of our banking system is at last being realized. People are openly talking of the FDIC being insolvent, and of the entire banking structure crashing to the ground. And if the people ever get to realize this in their bones, they will precipitate a mighty "bank run" by trying to get their money out of the banks and into their own pockets. And the banks would then come tumbling down, because the people's money isn't there. The only thing that could save the banks in such a mighty bank run is if the Federal Reserve prints the $1.6 trillion in cash and gives it to the banks—igniting an immediate and devastating runaway inflation and destruction of the dollar.

Liberals are fond of blaming our economic crisis on the "greed of the 1980s." And yet "greed" was no more intense in the 1980s than it was in the 1970s or previous decades or than it will be in the future. What happened in the 1980s was a virulent episode of government deficits and of Federal Reserve-inspired credit expansion by the banks. As the Fed purchased assets and pumped in reserves to the banking system, the banks happily multiplied bank credit and created new money on top of those reserves.

There has been a lot of focus on poor quality bank loans: on loans to bankrupt Third World countries or to bloated and, in retrospect, unsound real estate schemes and shopping malls in the middle of nowhere. But poor quality loans and investments are always the consequence of central bank and bank-credit expansion. The all-too-familiar cycle of boom and bust, euphoria and crash, prosperity and depression, did not begin in the 1980s. Nor is it a creature of civilization or the market economy. The boom-bust cycle began in the eighteenth century with the beginnings of central banking, and has spread and intensified ever since, as central banking spread and took control of the economic systems of the Western world. Only the abolition of the Federal Reserve System and a return to the gold standard can put an end to cyclical booms and busts, and finally eliminate chronic and accelerating inflation.

Inflation, credit expansion, business cycles, heavy government debt, and high taxes are not, as Establishment historians claim, inevitable attributes of capitalism or of "modernization." On the contrary, these are profoundly anti-capitalist and parasitic excrescences grafted onto the system by the interventionist State, which rewards its banker and insider clients with hidden special privileges at the expense of everyone else.

Crucial to free enterprise and capitalism is a system of firm rights of private property, with everyone secure in the property that he earns. Also crucial to capitalism is an ethic that encourages and rewards savings, thrift, hard work, and productive enterprise, and that discourages profligacy and cracks down sternly on any invasion of property rights. And yet, as we have seen, cheap money and credit expansion gnaw away at those rights and at those virtues. Inflation overturns and transvalues values by rewarding the spendthrift and the inside fixer and by making a mockery of the older "Victorian" virtues.

Restoring the Old Republic

The restoration of American liberty and of the Old Republic is a multi-faceted task. It requires excising the cancer of the Leviathan State from our midst. It requires removing Washington, D.C., as the power center of the country. It requires restoring the ethics and virtues of the nineteenth century, the taking back of our culture from nihilism and victimology, and restoring that culture to health and sanity. In the long run, politics, culture, and the economy are indivisible. The restoration of the Old Republic requires an economic system built solidly on the inviolable rights of private property, on the right of every person to keep what he earns, and to exchange the products of his labor. To accomplish that task, we must once again have money that is produced on the market, that is gold rather than paper, with the monetary unit a weight of gold rather than the name of a paper ticket issued ad lib by the government. We must have investment determined by voluntary savings on the market, and not by counterfeit money and credit issued by a knavish and State-privileged banking system. In short, we must abolish central banking, and force the banks to meet their obligations as promptly as anyone else. Money and banking have been made to appear as mysterious and arcane processes that must be guided and operated by a technocratic elite. They are nothing of the sort. In money, even more than the rest of our affairs, we have been tricked by a malignant Wizard of Oz. In money, as in other areas of our lives, restoring common sense and the Old Republic go hand in hand. □

THE FREEMAN
IDEAS ON LIBERTY

How to Return to the Gold Standard

by Bettina Bien Greaves

There is no reason, technically or economically, why the world today, even with its countless wide-ranging and complex commercial transactions, could not return to the gold standard and operate with gold money. The major obstacle is ideological.

Many people believe that it would be impossible to return to the gold standard—ever! There are just too many people in the world, they say, and the economy is too complex. Many others look on a return to the gold standard as an almost magical solution to today's major problems—big government, the welfare state, and inflation. What is the truth of the matter?

Certainly if the United States went on a gold standard, it would have to carry out many reforms. The federal government would *really* have to stop inflating, balance its budget, and abandon welfare state programs. Most voters are not ready for such reforms. And politicians, pressured by voters and special interest groups for favors, hesitate to pass them. Thus the major stumbling block to monetary reform is ideological. If this basic obstacle could be overcome, however, a return to gold money would become a realistic possibility.

Mrs. Greaves, FEE's resident scholar, bases this proposal on the understanding and recommendations presented in the writings of Hans F. Sennholz, Henry Hazlitt, Percy L. Greaves, Jr., and Ludwig von Mises.

Let's consider possible ways for transforming our present paper and credit monetary system, based on fractional reserve banking, into a gold standard. There may be better ways and worse ways. Unfortunately the science of economics cannot prescribe a correct, scientific or "right" way. It can only help us choose among alternatives by analyzing their various consequences. A review of monetary history will also be helpful.

Several methods have been suggested for returning to a gold standard. All gold standard advocates agree that the goal must be to re-introduce gold as money, while making it possible to continue honoring outstanding contracts. The principal point on which they differ is with respect to the price that should be set for gold and how any existing paper currency should be defined.

The question of re-adopting gold as money always arises because inflation has persisted for some time, prices of almost everything, including gold, have risen, and the savings of the people have been eroded. Some gold standard proponents want to return to the pre-inflation gold/money ratio. Others want to raise the gold price to some arbitrary figure and allow the monetary expansion to play "catch-up." Still others say that the least disruptive way would be to discover the current market gold/money ratio and redefine the dollar on that basis.

Returning to Gold at an Artificially High Rate

Great Britain suspended specie payments in 1797 and inflated during the Napoleonic Wars. She finally returned to the gold standard in 1821, 24 years later. On the theory that it was only honorable to recognize debts made in British gold pounds at the old ratio, she re-established the 1797 gold/pound ratio. However, not all the debts outstanding in 1821 dated from before 1797. Many loans had been made in the interim. Persons who had borrowed relatively cheap inflated British pounds, then had to pay back their loans in higher-valued gold pounds. This worked a special hardship on tenants, farmers, merchants and others.

Britain abandoned the gold standard again in World War I. Before 1914, London had been the world's financial center. When the war started in August, shipments to England of gold, silver, and goods from all over the world were immediately disrupted. The shortage of funds put London's banks and stock exchange in crisis and they closed down for a few days. When they reopened, a debt moratorium was declared and the Bank Charter Act of 1844, fixing the gold/pound ratio and tying the quantity of paper pounds issued to the gold bullion reserves, was suspended. As the war continued and the government's costs increased, the government inflated more and more. By 1920, after the war was over, inflation had proceeded to such an extent that prices had tripled and the gold value of the British pound had fallen 10 percent on world markets, from US$4.86 to US$4.40.

Faced with a devalued pound that was worth less on the market than it had been, the British again chose, as they had after the Napoleonic wars, to try to return to gold at the pre-war, pre-inflation rate. On April 28, 1925, England went back on the gold standard at the artificially high rate for the pound of US$4.86. The immediate effect was to price British goods out of the world market. For instance, U.S. importers who had been paying US$4.40 to buy a British pound's worth of British wool or coal, now had to pay about 10 percent more. England was heavily dependent on exports, especially of coal, to pay for imported food and raw materials for her factories. As the cost of her goods to foreign buyers went up, they could buy less and British exports declined. Her factories and mines were hard hit. To keep the factories and mines open and men working, money wages would have had to be adjusted downward. This drop in money wages would not necessarily have affected real wages for, with the return to gold, the pound was worth more. But the unionized workers resisted and refused to work for less. Many went on the dole. And many went out on strike. Prices and production were seriously disrupted. Finally, on September 20, 1931, England announced that she would again suspend gold payments and go off the gold standard. The consequences were disastrous. The British monetary experiment played an important role in bringing about and prolonging the world depression of the 1930s.

Returning to Gold at an Artificially Low Rate

To consider returning to the gold standard in the United States at the long-since outgrown ratios of $20.67, $35.00, or even $42.42 per ounce of gold is obviously completely unrealistic. The U.S. dollar is now selling (mid-1995) at about $385 so that the value of the dollar has declined to approximately 1/385th of an ounce of gold. To re-value it at 1/20th, 1/35th or even 1/42nd of an ounce of gold would constitute an artificially high revaluation of the dollar and would undoubtedly lead to even more disastrous consequences than those resulting from the return to gold in Britain in 1925.

Realizing the problems England encountered in trying to establish an artificially high dollar/gold ratio, some gold standard advocates go to the opposite extreme and suggest an artificially low ratio. We are free, they maintain, to select any definition of the dollar we want. They then suggest dividing the quantity of gold mathematically by the total number of dollars in circulation, in commercial bank deposits, in checking accounts, and even in cashable savings accounts. By this method they arrive at several possible prices for the dollar, respectively $1,217/ounce, $2,000/ounce, $3,350/ounce, or even $7,500/ounce. Given the fact that an ounce of gold has been trading on the world market at about US$385, offering to pay any of these higher prices for a single ounce of gold would have an extremely inflationary influence. Prices would start to climb until they reflected the new dollar/gold ratio. For instance, anything that cost the equivalent of one gold ounce in today's market would soon rise to $1,217, $2,000 or whatever.

An announcement that the U.S. planned to start paying something between $1,217 and $7,500 for an ounce of gold would immediately lead to the import of gold into this country at an unprecedented rate. It would spark a tremendous increase in gold mining, gold processing, and all related activities, to the detriment of all other production. To attempt to return to a gold standard at any such rate would be extremely disruptive of all prices and production. It would also destroy completely the value of all dollar savings and all outstanding contracts or commitments expressed in U.S. dollars. As practically all international production and trade depend on the dollar, this would bring business transactions to a halt worldwide.

Returning to Gold at the Market Rate

The goal of returning to a gold standard must be (1) to reintroduce gold and gold coins as money, without producing deflation and without causing the economy to go into shock, while permitting the fulfillment of outstanding contracts, including those of the U.S. government to its bondholders, and (2) to arrange for the transfer of gold from the government's holdings into private hands, so that gold coins would be in circulation daily. As pointed out above, before this can happen, there must be a major ideological shift in the climate of opinion. The voters must be willing to be more self-reliant and accept personal responsibility for their actions. And the politicians must refrain from asking for more government spending at every turn. *If this ideological stumbling block to establishing a gold standard could be overcome, if the people were willing to forgo welfare state spending and were determined to reform their monetary standard and introduce gold money once more in the United States, and if politicians would cooperate, then a shift from our paper and credit monetary system could be accomplished without radically disrupting the market, prices, and production.*

Advocates of the gold standard should not be deterred by the three reasons given by critics who believe a gold standard could not work: that there isn't enough gold to serve the needs of the world, with its increasing population and its expanding production and trade; that gold would be an unstable money; and that a gold standard would be expensive.

In the first place, there is no shortage of gold. The size of the world's population, and the extent of production and trade are immaterial; any amount of money will always serve all society's needs.[1] Actually, people don't care about the number of dollars, francs, marks, pesos, or yen, they have in their wallets or bank accounts; what is important to them is purchasing power. And if prices are free and flexible, the available quantity of money, whatever that may be, will be spread around among would-be buyers and sellers who bid and compete with one another until all the goods and services being offered at any one time find buyers. In this way, the available quantity of money would adjust to provide the purchasing power needed to purchase all available goods and services at the prevailing competitive market prices.

In the second place, gold would be a *much more stable* money than most paper currencies. The purchasing power of government- or bank-issued paper currency may fluctuate wildly, as the quantity is expanded or contracted in response to the "needs" of business and/or political pressures, causing prices to rise or fall sharply. Under a gold standard, there would be some slight cash-induced price increases when the quantity of gold used as money rose, as more gold was mined, refined, and processed; and there would be some slight cash-induced price declines as the quantity of gold used as money fell, when gold was withdrawn from the market to be devoted to industry, dentistry, or jewelry. However, under a gold standard, price changes due to such shifts in the quantity of money would be relatively minor and easy to anticipate, and the purchasing power per unit of gold would be more stable than under an unpredictable paper currency standard.

In the third place, although it would cost more to introduce gold into circulation than a paper currency that requires no backing, in the long run a gold standard is not at all expensive as compared to paper. Again and again throughout history, paper moneys have proven to be extremely wasteful and expensive; they have distorted economic calculation, destroyed people's savings, and wiped out their investments. Yale economist William Graham Sumner (1840–1910), writing long before the world had experienced the disastrous inflations of this century, estimated that "our attempts to win [cheap money] have all failed, and they have cost us, in each generation, more than a purely specie currency would have cost, if each generation had had to buy it anew."[2]

Once it is agreed that the introduction of a market gold money standard is the goal, here are the steps to take:

First: All inflation must be stopped as of a certain date. That means calling a halt also to all expansion of credit through the Federal Reserve and the commercial banks.

Second: Permit gold to be actively bought, sold, traded, imported, exported. To prevent the U.S. government from exerting undue influence, it should stay out of the market for the time being.

Third: Oscillations in the price of gold would diminish in time and the "price" would tend to stabilize. At that point a new dollar-to-gold ratio could be established and a new legal parity decreed. No one can know what the new dollar-to-gold ratio would be. However, it is likely that it would stabilize a little above the then-current world price of gold, whatever that might be.[3]

Fourth: Once a new legal ratio is established and the dollar is newly defined in terms of gold, the U.S. government and the U.S. Mints may enter the market, buying and selling gold and dollars at the new parity, and minting and selling gold coins of specified weights and fineness. Gold might well circulate side by side with other moneys, as it did during the fiat money inflation time of the French Revolution, so that parallel moneys would develop, easing the transition to gold.[4]

Fifth: The U.S. Mint should mint gold coins of certain agreed-upon fineness and of various weights—say one-tenth of an ounce, one-quarter, one-half, and one ounce, etc.—and stand ready to sell these gold coins for dollars at the established parity and to buy any gold offered for minting.[5] As old legal tender dollars were turned in for gold, they should be retired, so that gold coins would gradually begin to appear in circulation.

Sixth: The financing of the U.S. government must be divorced completely from the monetary system. Government must be prevented from spending any more than it collects in taxes or borrows from private lenders. Under no condition may the government sell any more bonds to the Federal Reserve to be turned into money and credit; monetization of the U.S. government's debt must cease! A 100 percent reserve must be held in the banks for all future deposits, i.e., for all deposits not already in existence on the first day of the reform.

Seventh: Outstanding U.S. government bonds held by non-U.S. government entities, must be fulfilled as promised.[6]

Eighth: To avoid deflation, there should not be any contraction of the quantity of money currently in existence. Thus prices and outstanding debts would not be adversely affected. U.S. government bonds held by the Federal Reserve as "backing" for Federal Reserve notes may be retained, but should not be used as the basis for further issues of notes and/or credit. No bank may be permitted to expand the total amount of its deposits subject to check or the balance of such deposits of any individual customers, whether private citizen or the U.S. Treasury, otherwise than by receiving cash deposits in gold, legal tender banknotes from the public or by receiving a check payable by another bank subject to the same limitations.[7]

Ninth: The funds collected over the years from employees and employers, ostensibly for Social Security, were spent as collected for the government's general purposes. Thus the U.S. government bonds held as a bookkeeping ploy in the so-called Social Security Trust Fund are mere window-dressing. These U.S. bonds may be canceled. To keep its "promises" to those who have been led to expect "Social Security" benefits in their old age, arrangements could be made to phase out the program by a number of devices, including payments from the general tax fund to current retirees, to the soon-to-be-retired and, on a gradually declining basis, to others in the system—down to, say, ages 40–45 years. The program could then be closed down. No more Social Security "benefits" would be paid out and no more taxes would be collected for "Social Security." People would have to become personally responsible for planning for their own old age and retirement. Without "Social Security" taxes to pay, they would be better able to save. Moreover, given a sound gold standard, they would be confident that their savings would not be wiped out by inflation.

After the Reform

For U.S. monetary reform to be carried out it is essential that the U.S. government balance its budget and refrain from spending more than it collects from taxes and borrows from willing lenders. The prerequisite for this, as noted above, is a change in ideology. Once the public and the politicians were determined to cut government spending, reform would become a realistic possibility.

When the United States is again on a gold standard, the old legal-tender paper money could continue to circulate until worn out when it would be returned and replaced by gold coins. New issues of paper notes would not be designated "legal tender." But they should be strictly limited, always fully convertible into gold, and issued only against 100 percent gold. Gold coins would also be in daily circulation; should they start to disappear from the market, this would serve as a warning that the government was violating its strictures and starting once more to inflate.

Those who think that a gold standard would place such rigid limits on the market that money lending would no longer be possible should be reminded that what fully convertible money precludes is not money lending *per se*. Individuals and banks would, of course, still be able to lend, but no more than the sums savers had accumulated and were willing to make available. What the gold standard prevents is the involuntary lending by savers, who are deprived in the process of some of the value of their savings, without having any choice in the matter. Fully convertible money under the gold standard prevents more than one claim to the same money from being created; while the borrower spends the money borrowed, the savers forgo spending until the borrower pays it back.

Under the gold standard, banks would have to return to their original two functions: serving as money warehouses and as money lenders, or intermediaries between savers and would-be borrowers. These two functions—money-warehousing and money-lending—should be kept entirely separate. But that will not preclude a great deal of flexibility in the field of banking. With today's modern developments, computerized record-keeping, electronic money transfers, creative ideas about arranging credit transactions, credit cards, ATM machines, and so forth, lending and borrowing, the transfer of funds and money clearings could continue to take place rapidly and smoothly under the gold standard and free banking, even as they do now. However, under a market gold standard people need no longer fear the ever-impending threat of inflation, price distortions, economic miscalculations, and serious malinvestments. □

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2. "History of Banking in the U.S.," *The Journal of Commerce and Commercial Bulletin*, 1896, p. 472.
3. The present, mid-1995, price is in the neighborhood of US$385.
4. Louis Adolphe Thiers, *History of the French Revolution*, 7th ed. Brussels, 1838, Vol. V, p. 171; Henry Hazlitt, *The Inflation Crisis, and How to Resolve It*, Arlington House, 1978, pp. 176–178, 187–188.
5. In 1986, the U.S. government began to mint one-ounce 91.67 percent pure gold Eagles, which were labeled "Fifty Dollars" but were sold at a mark-up over the then-current world gold price. If it continued to mint such one ounce coins, however, it would seem preferable to label them in ounces rather than dollars.
6. Daniel J. Pilla, "Should We Cancel the National Debt?" in *The Freeman*, November 1995, pp. 684–688.
7. Ludwig von Mises, *The Theory of Money and Credit*, Yale, 1953, pp. 448–452; Liberty Fund, 1981, pp. 490–495.

THE FREEMAN
IDEAS ON LIBERTY

Central Banks, Gold, and the Decline of the Dollar

by Robert Batemarco

Are inflation, currency depreciation, and business cycles inevitable facts of life? Are they part of the very laws of nature? Or do their origins stem from the actions of man? If so, are they discoverable by economic science? And, if economics can teach us their origins, can it also teach us how to avoid them?

The particular need which all money, even fiat money which we now use, serves is to facilitate exchange. People accept money, even if it is not backed by a single grain of precious metal, because they know other people will accept it in exchange for goods and services.

But people accept the U.S. dollar today in exchange for much less than they used to. Since 1933, the U.S. dollar has lost 92 percent of its domestic purchasing power.[1] Even at its "moderate" 1994 inflation rate of 2.7 percent, the dollar will lose another half of its purchasing power by 2022. In international markets, the dollar has, since 1969, depreciated 65 percent against the Deutsche Mark, 74 percent against the Swiss franc, and 76 percent against the yen.[2] Many economists claim that this is the price we pay for "full employment." If so, I'd like to ask who among you thinks we've gotten our money's worth. We've experienced 11 recessions[3] since the advent of inflation as the normal state of affairs in 1933, with the unemployment rate reaching 10.8 percent as recently as 1982. Clearly, the demise of the business cycle—a forecast made during every boom since the 1920s—is but a mirage.

Other things being equal, if the quantity of anything is increased, the value per unit in the eyes of its users will go down. The quantity of U.S. money has increased year in and year out every year since 1933. The narrow M1 measure of the quantity of U.S. money (basically currency in circulation and balances in checking accounts) stood at $19.9 billion in 1933. By 1940, it had doubled to $39.7 billion. It surpassed $100 billion in 1946, $200 billion in 1969 (and 1946–1969 was considered a non-inflationary period), $400 billion in 1980, $800 billion in 1990, and today it stands at almost $1.2 trillion. That is over 60 times what it was in 1933.

For all practical purposes, the quantity of money is determined by the Federal Reserve System, our central bank. Its increase should come as no surprise. The Federal Reserve was created to make the quantity of money "flexible." The theory was that the quantity of money should be able to go up and down with the "needs of business."

Under the Fed, "the demands of govern-

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ment funding and refunding . . . unequivocally have set the pattern for American money management."[4] Right from the start, the Fed's supposed "independence" was compromised whenever the Treasury asserted its need for funds. In World War I, this was done indirectly as the Fed loaned reserves to banks at a lower discount rate to buy war bonds. In 1933, President Roosevelt ordered the Fed to buy up to $1 billion of Treasury bills and to maintain them in its portfolio in order to keep bond prices from falling. From 1936 to 1951, the Fed was required to maintain the yields on Treasury bills at 3/8 percent and bonds at 2.5 percent. Thereafter, the Fed was required to maintain "an orderly market" for Treasury issues.[5] Today, the Federal Reserve System owns nearly 8 percent of all U.S. Treasury debt outstanding.[6]

The Fed granted access to unprecedented resources to the federal government by creating money to finance (i.e., to monetize) its debt. It also served as a cartellization device, making it unnecessary for banks to compete with each other by restricting their expansion of credit. Before the emergence of the Fed upon the scene, a bank which expanded credit more rapidly than other banks would soon find those other banks presenting their notes or deposits for redemption. It would have to redeem these liabilities from its reserves. To safeguard their reserve holdings was one of the foremost problems which occupied the mind of bankers. The Fed, by serving as the member banks' banker, a central source of reserves and lender of last resort, made this task much easier. When the Fed created new reserves, all banks could expand together.

And expand they did. Before the Fed opened its doors in November 1914, the average reserve requirement of banks was 21.1 percent.[7] This meant that at a maximum, the private banking system could create $3.74 of new money through making loans for every $1 of gold reserves it held. Under the Fed, banks could count deposits with the Fed as reserves. The Fed, in turn, needed 35 percent gold backing against those deposits. This increased the available reserve base almost three-fold. In addition, the Fed reduced member bank reserve requirements to 11.6 percent in 1914 and to 9.8 percent in 1917.[8] At that point, $1 in gold reserves had the potential of supporting an additional $28 of loans.

Note that at this juncture in time, gold still played a role in our monetary system. Gold coins circulated, albeit rarely, and banknotes (now almost all issued by the Federal Reserve) and deposits were redeemable in gold. Gold set a limit on the extent of credit expansion, and once that limit was reached, further expansion had to cease, at least in theory. But then limits were never what central banking was about. In practice, whenever gold threatened to limit credit expansion, the government changed the rules.

Cutting off the last vestige of gold convertibility in 1971 rendered the dollar a pure fiat currency. The fate of the new paper money was determined by the whim of the people running the Fed.

The average person looks to central banks to maintain full employment and the value of the dollar. The historical record makes clear that a sound dollar was never the Fed's intention. Nor has the goal of full employment done more than provide them with a plausible excuse to inflate the currency. The Fed has certainly not covered itself with glory in achieving either goal. Should this leave us in despair? Only if there is no alternative to central banking with fiat money and fractional reserves. History, however, does provide us with an alternative which has worked in the past and can work in the future. That alternative is gold.

There is nothing about money that makes it so unique that the market could not provide it just as it provides other goods. Historically, the market *did* provide money. An economy without money, a barter economy, is grossly inefficient because of the difficulty of finding a trading partner who will accept what you have and who also has exactly what you want. There must be what economists call a "double coincidence of wants." The difficulty of finding suitable partners led traders to seek out commodities for which they could trade which were more marketable in the sense that more people were willing to accept them. Clearly, perishable, bulky items of uneven quality would never do. Precious metals, however, combined durability, homogeneity, and high value in small quantity. These qualities led to wide acceptance. Once people became aware of the extreme marketability of the precious metals, they could take care of the rest without any government help. Gold and silver went from being highly marketable to being universally accepted in exchange, i.e., they became "money."

If we desire a money that will maintain its value, we must have a money that cannot be created at will. This is the real key to the suitability of gold as money. Since 1492 there has never been a year in which the growth of the world gold stock increased by more than 5 percent in a single year. In this century, the average has been about 2 percent.[9] Thus with gold money, the kind of inflations that have plagued us in the twentieth century would not have occurred. Under the classic gold standard, even when only a fractional reserve was held by the banks, prices in the United States were as low in 1933 as they had been 100 years earlier. In Great Britain, which remained on the gold standard until the outbreak of World War I, prices in 1914 on the average were less than half of what they were a century earlier.[10]

Traditionally, the gold standard was not limited to one or two countries; it was an international system. With gold as money, one need not constantly be concerned with exchange rate fluctuations. Indeed, the very notion of an exchange rate is different under a gold standard than under a fiat money regime. Under fiat money, exchange rates are prices of the different national currencies in terms of one another. Under a gold standard, exchange rates are not prices at all. They are more akin to conversion units, like 12 inches per foot, since under an international gold standard, every national currency unit would represent a specific weight of the same substance, i.e., gold. As such, their relationships would be immutable. This constancy of exchange rates eliminates exchange rate risk and the need to employ real resources to hedge such risk. Under such a system, trade between people in different countries should be no more difficult than trade among people of the several states of the United States today. It is no accident that the closest the world has come to the ideal of free international trade occurred during the heyday of the international gold standard.

It is common to speak of the "collapse" of the gold standard, with the implication that it did not work. In fact, governments abandoned the gold standard because it worked precisely as it was supposed to: it prevented governments and their central banks from surreptitiously diverting wealth from its rightful owners to themselves. The commitment to maintain gold convertibility restrains credit creation, which leads to gold outflows and threatens convertibility. If government were not able to resort to the issue of fiat money created by their central banks, they would not have had the means to embark on the welfare state, and it is possible that the citizens of the United States and Europe might have been spared the horrors of the first world war. If those same governments and central banks had stood by their promises to maintain convertibility of their currencies into gold, the catastrophic post-World War I inflations would not have ensued.

In recent years, some countries have suffered so much from central banks run amok, that they have decided to dispense with those legalized counterfeiters. Yet they have not returned to the gold standard. The expedient they are using is the currency board. Argentina, Estonia, and Lithuania have all recently instituted currency boards after suffering hyperinflations. A currency board issues notes and coins backed 100 percent by some foreign currency. The board guarantees full convertibility between its currency and the foreign currency it uses as its reserves. Unlike central banks, currency boards cannot act as lenders of last resort nor can they create inflation, although they can import the inflation of the currency they hold in reserve. Typically, this is well below the level of inflation which caused countries to resort to a currency board in the first place. In over 150 years of experience with currency boards in over 70 countries, not a single currency board has failed to maintain full convertibility.[11]

While currency boards may be a step in the right direction for countries in the throes of central-bank-induced monetary chaos, what keeps such countries from returning to gold? For one thing, they have been taught by at least two generations of economists that the gold standard is impractical. Let's examine three of the most common objections in turn:

1. Gold is too costly. Those who allude to the high cost of gold have in mind the resource costs of mining it. They are certainly correct in saying that more resources are expended to produce a dollar's worth of gold than to produce a fiat dollar. The cost of the former at the margin is very close to a dollar, while the cost of the latter is under a cent. The flaw in this argument is that the concept of cost they employ is too narrow. The correct concept economically speaking is that of opportunity cost, defined as the value of one's best sacrificed alternative. Viewed from this perspective, the cost of fiat money is actually much greater than that of gold. The cost of fiat money is not merely the expense of printing new dollar bills. It also includes the cost of resources people use to protect themselves from the consequences of the inevitable inflation which fiat money makes possible, as well as the wasted capital entailed by the erroneous signals emitted under inflationary circumstances. The cost of digging gold out of the ground is minuscule by comparison.[12]

2. Gold supplies will not increase at the rate necessary to meet the needs of an expanding economy. With flexible prices and wages, any given amount of money is enough to accomplish money's task of facilitating exchange. Having the gold standard in place in the United States did not prevent industrial production from rising 534 percent from 1878 to 1913.[13] Thus it is a mistake to think that an increase in the quantity of money must be increased to assure economic development. Moreover, an increase in the quantity of money is not tantamount to an increase in wealth. For instance, if new paper or fiat money is introduced into the economy, prices will be affected as the new money reaches individuals who use it to outbid others for the existing stocks of sport jackets, groceries, houses, computers, automobiles, or whatever. But the monetary increase itself does not bring more goods and services into existence.

3. A gold standard would be too deflationary to maintain full employment. As for the relationship of a gold standard to full employment, the partisans of gold have both theory and history on their side. The absolute "level" of prices does not drive production and employment decisions. Rather the differences between prices of specific inputs and outputs, better known as profit margins, are keys to these decisions. It is central bank creation of fiat money which alters these margins in ways that ultimately send workers to the unemployment line. Historically, the gradual price declines which characterized the nineteenth century made way for the biggest boom in job creation the world has ever seen.

The practical issues involved in actually returning to a gold standard are complex. But one of the most common objections, determining the proper valuation of gold, is fairly minor. After all, the market values gold every day. Any gold price other than that set by the market is by definition arbitrary. If we were to repeal legal tender laws, laws which today require the public to accept paper Federal Reserve Notes in payment of all debts, and permit banks to accept deposits denominated in ounces of gold, a parallel gold-based monetary system would soon arise and operate side-by-side with the Federal Reserve's fiat money.[14]

A more difficult problem than that would be how to get the gold the government seized in 1934 back into the hands of the public. But even that surely can't be more difficult than returning the businesses seized by the Communists in Eastern Europe to their rightful owners. If the Czech Republic can do that, we should be able to get government-held gold back into circulation.

In all likelihood, the biggest problem gold proponents face is that people simply aren't ready to go back to gold. Most people aren't aware of the extent of our monetary disarray and many of those who are don't understand its source. Two generations of Americans have known nothing but unbacked paper as money; few realize that there is an alternative. In contrast, when the United States restored gold convertibility in 1879 and when Britain did so in 1821 and 1926, gold money was still seen as the norm. That is no longer the case.

It might take a hyperinflationary disaster to shake people's faith in fiat money. Let's hope not. In addition to the horrendous costs of such a "learning experience," it's not even a sure thing that it would lead us back to gold. Recent hyperinflations in places as disparate as Russia and Bolivia have not done so.

The desire to get something for nothing dies hard. Governments use central banks with the unlimited power to issue fiat money as their way to get something for nothing. By "sharing" some of that loot with us, those governments have convinced us that we too are getting something for nothing. Until we either wise up to the fact that governments can't give us something for nothing or, better yet, when we realize the moral folly of taking government handouts when offered, we will continue to get money as base as our desires. □

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A Solution to the Incentives War?

by Andrew Cline

In 1936, the Mississippi state legislature attempted to minimize the effects of the Great Depression by enacting the "Balance Agriculture With Industry" act, the nation's first state-sponsored economic development plan.

Fifty-nine years later, each of the 50 states runs its own economic development program, a government-controlled effort to actively recruit business. As was the case with the federal government, the role of the state governments was redefined in the 1930s. No longer were they relegated to providing infrastructure and education. Legislators of

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Counting Our Blessings

Criticism is said to be a basic amusement in which we like to indulge. We are quick to point out the faults of others, denounce their views, and decry their blunders. We enjoy lamenting the state of affairs, bewailing public policies, raising our voices against legislators and regulators, and deploring their motives and misunderstandings. We rarely are mindful that it is easier to destroy than to build up.

There is much to pull down when we view our society **in the light of our ideals.** We are guided by a set of ideals which are innate or acquired, and measure all things by them. We judge our society and its institutions by our ideal concepts of wisdom, righteousness, justice, and liberty. When seen in the bright light of the ideal, we are saddened by the wide gulf that separates the ideal from the real, particularly, by how the ways and injunctions of the Founding Fathers differ from the machinations of the Hoover and Roosevelt Deals and all others since. We lament the rise of the omnipresent, omnipotent polity and the politicization of many aspects of our lives. As political command and coercion encompass our lives, individual freedom is diminished.

If we compare our conditions with those of all other nations around the globe, we are tempted to sing about America, the beautiful. A brief look at our next–door neighbors and NAFTA partners as well as our trade partners in Europe and Asia makes us appreciate our lot.

In **Canada**, the Liberal Party of Jean Chrétien, with a comfortable majority in the House of Commons, is pursuing its stale tax–and–spend objectives. It is forging ahead with social assistance, unemployment insurance, and other transfer programs. As it labors under a heavy burden of federal, provincial, and local taxation and regulation, economic life stagnates and real wages fall. Unemployment is hovering about the 10 percent mark, federal deficits are running at 5.5 percent of GDP, and the Canadian dollar is changing hands at 74 U.S. cents. Nationalized healthcare is deteriorating, with thousands of doctors leaving for the U.S. Only two economic sectors continue to prosper: government and the underground economy. In Quebec, Ontario, and the three Maritime Provinces, merchandise worth many billions of dollars moves from the United States to Canada through the Akwesasne Indian reserve straddling the border. The smuggling is bringing new life to the St. Lawrence River valley. The migration of Canadian business to U.S. border states is bringing jobs and activity to the U.S.

In **Mexico**, the political difficulties usually permeate all aspects of life. Foreign observers raise concerns about Mexico's one–party dominance, corruption, and human rights abuses. The vast majority of its population of 93 million make ends meet on labor income of less than one–fifth of U.S. incomes. The rate of inflation often exceeds 10 percent per year. In 1994 the peso fell by some 45 percent against the U.S. dollar, causing the financial markets to plunge precipitously, interest rates to soar, and economic activity to sink into deep depression. Millions of workers managed to escape their wretched conditions in Mexico by seeking survival as illegal aliens in the U.S.

If we compare our plight with that of our **British** friends, we cannot help counting our blessings. Although the U.K.'s economic statistics tell a story of some progress, they reveal an unemployment rate of 9 percent. The chronic economic problems that plague the country are recession, high inflation, a rising tax burden, and record levels of government borrowing, exceeding 5 percent of GDP. Wage rates are some 25 percent lower than in the United States, with interest rates generally higher by one or two percentage points. The pound sterling which used to be the world's most trusted currency is one of the weakest now, losing exchange value even against the shrinking U.S. dollar.

Social and economic conditions in **Germany** are said to be among the best in Europe, even better than in the U.S. Productivity and income per capita are about the same. The crime rate is substantially lower, but the unemployment rate much higher since the reunification of East and West Germany in 1989. Yet, the ideological and political forces of socialism are very much alive, clouding the future of Germany.

The reunification created a double–barrelled welfare state which is paving the way for a new command system. One barrel was crafted by the advocates of the "social market economy" or "middle of the road" after the pure market economy à la Erhard had transformed the country devastated by war into a wonderland of miraculous recovery. The other barrel was added after the reunification when the legislators and labor leaders turned East Germany into a huge social asylum. They decreed a currency union on an exchange rate of 1:1, which made prodigious gifts to all East Germans, and ordered a rapid wage parity in East and West, which condemned many Easterners to chronic unemployment. A massive transfer of West German wealth sustains the asylum but does not invigorate and elate its inhabitants. Many are yearning for an early return of the command system.

Japan reports a per capita production of $31,450, which compares with only $24,700 in the U.S.A. But if we bear in mind that these statistics are based on the yen/dollar exchange rate, which undervalues the dollar in Japan by more than one third in terms of purchasing power, we realize that Japanese real wages and standards of living are still lower than those in the U.S. Yet, Japanese society is one of the most harmonious and peaceful in the world. The crime rate per 100,000 population is a small fraction of the U.S. rate: homicide 1 rather than 9.3, rape 1.3 rather than 42.8, robbery 1.5 rather than 263.6. The Japanese are a naturally orderly people who obey the rules, which may contribute to the popularity of the Socialist Party, the second largest party in the House of Representatives. The Socialist Tomiichi Murayama is the prime minister who heads the government formed by three allied parties.

Looking abroad to the political, social, and economic conditions of neighbors and friends, Americans are counting their blessings. Away from home, there is no happiness for them. At home the warm winds of change are blowing. There are real indications that we are reversing the anti–business climate which has depressed economic life throughout the Democratic and Republican Deals. The sixty–year–old death grip of government is loosening. We are witnessing the reduction of government on all levels; even labor unions which build on the Marxian exploitation doctrine are in retreat. There is new hope that tomorrow will be better yet.

Hans F. Sennholz

College Course in January

January 2–20, 1996

The Foundation for Economic Education is conducting a special three–credit course taught by FEE professors and staff in

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Don't miss the last chance to join us for our final Round Table of the Fall season. Our evenings begin with a reception at 5:00 P.M., followed by dinner at 6:00. We are then entertained by a presentation given by our featured speaker. After that, the floor is opened for an exciting exchange of ideas. Charge is $40 per person per event; certain discounts are available. Attendance is limited; call or write Dr. Barbara Dodsworth at FEE for reservations (phone 914–591–7230; address, 30 South Broadway, Irvington, NY 10533).

December 2 Round Table

Doug Bandow of the Cato Institute in Washington, D.C., will entertain us with his discussion of foreign aid in "Foreign Aid: New Bottles, Old Wines.

the time re-interpreted government's role from a passive one to an active one.

One of the results has been the creation of 50 different activist state governments, each trying to lure businesses into its boundaries with packages of tax cuts, outright bribes, or both. Even local governments have gotten into the act.

Most medium-sized or large American cities have some sort of economic development program with the intention of attracting businesses. The cities throw out public incentives packages, and the perception is that the city with the most attractive package gets the most attractive company. But incentives don't always work that way on the state or local level.

In 1993, Illinois gave Sears a $178 million package in exchange for locating an office complex in the state, New York City gave $362 million in incentives packages to numerous companies in just eight months, and Alabama gave Mercedes-Benz more than $300 million to locate its first U.S. manufacturing plant within the state boundaries. Now, just two years later, government leaders are beginning to realize that those cozy deals were not a wise investment of public money. In Alabama, the entire practice of luring companies with incentives is being rethought. But in North Carolina, the threat to such programs has come from two surprising sources: the state constitution and an aware lawyer.

How the Game Works

North Carolina Governor Jim Hunt has spent $12 million in public money to lure 12,000 jobs into the state since his Industrial Recruitment Competitive Fund was created in 1992. That's about $1,000 per job. And the legislature has given him $2 million more for the next fiscal year.

While the governor is trying to draw businesses away from other states, North Carolina's cities are trying to draw businesses away from one another and from neighboring states. For the past few years, tiny towns such as Sparta have been joining forces with counties to draw companies from Virginia, South Carolina, and Tennessee. Large cities such as Charlotte and Winston-Salem have been trying to draw the larger corporations that the smaller towns cannot get.

The theory set forth by government officials to justify their spending is this: public incentives attract large companies which hire large numbers of workers, thus creating jobs for large numbers of state residents. Because jobs are created, such incentives are in the public interest, and hence the use of public money is justified. But in practice, these incentives don't live up to their promise of serving the public.

For example, North Carolina gave Quaker Oats Co. $98,000 to build a new 98-worker plant in Asheville, fulfilling the state's $1,000-per-job rule. Apparently unnoticed in the transaction was that closing the old plant, also located in North Carolina, would eliminate 70 jobs. So the state paid $98,000 to create only 28 new jobs—a total of $3,500 per job. In other cases, companies have promised the state certain numbers of jobs, but after taking the state money have failed to deliver.

For some companies, subsidized incentives have literally no bearing on location decisions, but they grab for some of the free cash anyway. Hoping for a payoff, a mill told North Carolina officials that the company's expansion project would be valued at $100,000. But when the company finally moved to Virginia—because North Carolina utility rates were too high—it revealed the value of the expansion was only $80,000. Officials of a furniture company made state economic developers aware of the generous offers they received from other states and hinted that the company would not locate in North Carolina unless the state topped the other offers. The state did not, but the company's new distribution center sits in North Carolina anyway, in Rocky Mount. There is also academic evidence to support these anecdotes. A 1994 study by two professors at University of North Carolina at Charlotte found that, among North Carolina manufacturers, the first three factors in making location decisions were local public schools, local work attitudes, and labor availability. Government-subsidized incentives ranked 22nd.

Not only are incentive packages somewhat ineffective and open to rife abuses, but they are terribly unjust. A city taxes businesses. It then uses some of that tax money to lure outside companies. Every business in the city thus contributes to its own potential harm by subsidizing its competition. Incentives-crazed politicians don't seem to realize that businesses compete for more than customers. They compete for a limited pool of qualified employees, land, shopping mall space, and so on.

Government incentives also discriminate against small businesses and recent start-ups by offering money only to companies that can create large numbers of jobs. Small and newly created companies are automatically left out of the running for the funds. How can a mom-and-pop hardware store be said to benefit when part of its tax money subsidizes the relocation next door of an aircraft carrier-sized home improvement megastore that was given $50,000 in state money for bringing 50 jobs into mom and pop's neighborhood?

Another important issue no one seems to have noticed is this: North Carolina has a serious labor shortage. There simply are not enough qualified workers in the state to fill all of the good jobs. How then is it in the public interest to bring in more unfilled jobs?

Unfortunately, the government rhetoric has been effective; it has convinced many citizens that "more jobs are good, fewer jobs are bad." Furthermore, most citizens don't even consider the problems inherent in taxing the eastern Carolina residents of Wilmington to pay for new jobs in Asheville eight hours west by Interstate.

The most effective and just way for government to promote economic development is to maintain a pro-growth business climate by keeping taxes low and treating entrepreneurs as valued rather than despised citizens. Giving tax money to individual companies creates a tilted playing field that benefits large corporations at the expense of smaller entrepreneurs, who create most of America's jobs.

Stopping the Game

One North Carolinian has seen through the ruse. The issue of locally subsidized competition caught the eye of Winston-Salem lawyer William Maready. He met several times with the leaders of Winston-Salem and Forsyth County in an attempt to understand how taxing local businesses to pay for the relocation of other businesses could be construed as in the public interest. The officials failed to convince him.

Maready filed suit as a Winston-Salem taxpayer. He charged that the city's and county's use of economic incentives violated both the equal protection and public purpose clauses of the North Carolina constitution. He argued that "the use of tax money collected from the citizens of this county to subsidize corporations for moving here or expanding here is unconstitutional, illegal, unfair, unwise—and plain bad government." Superior Court Judge Julius Rousseau agreed and ruled in Maready's favor. Government "incentives" given to big business to entice them to locate within a political entity's borders, he said, do not constitute a legitimate public use of taxpayer money. "It's an arbitrary way of spending public money." Lawyers for the city and county decried the judge's decision and indicated the state Supreme Court would vindicate their clients on appeal.

According to North Carolina's Governor, the decision was "a mistake" and "bad public policy." But Maready stands on firm ground. To date, not one incentives proponent has been able to demonstrate that government incentives create a net benefit for the general public. □


Photo: Sherry Syphard

Conspiracy or Consensus?

In my more pessimistic moments, I can begin to understand the appeal of the so-called "conspiracy theory of history."

Sometimes there seems to be a kind of powerful force dragging modern society down. Surveying the bleak headlines, one wonders if the endless evils chronicled could be mere chance—or if they might have some conscious, common source and deliberate direction? After all, if it were only a series of "accidents," it seems that *good* things would happen at least half the time.

Over the years, I have met many decent, concerned Americans who deduce that the world is in the grip of a powerful, malevolently directed conspiracy. Logic seems to suggest that such plotters must be few (or else there would be defectors), at the pinnacles of power (or else they couldn't control things), malevolent (how else to explain the horrors in the headlines?), and supercompetent (for all the preceding reasons).

Many thus infer that a handful of the "high and mighty" spend their days behind closed doors around conference tables, carving up maps of the world.

Is this a valid explanation of current events? And even if it isn't, what's the harm in holding such a view?

The second question is the easier to answer. Successfully remedying the ills of the world depends upon their accurate diagnosis. It makes a great deal of difference if we believe that social evils are caused by widespread economic ignorance—or false philosophical ideas—or personal immorality—or the American two-party system—or a band of conspirators. Each theory logically implies a different response: economic education, a new philosophy, moral indoctrination, a third political party, or investigative exposés. Accepting the wrong theory *guarantees* that our remedial efforts will fail and that evils will persist.

And the "conspiracy theory" is wrong:

1. False logic. All conspiracy theories depend heavily on inferences about the *motives* of certain prominent people, based upon the *outcomes* of events with which they have been associated. The assumption, invariably, is that if the outcomes are bad, those responsible must have *intended* the harm.

This does not follow. Economists from Frederic Bastiat to Henry Hazlitt have demonstrated that many popular political programs lead to *unintended consequences*—results opposite those desired by their proponents. Minimum wage laws, meant to raise workers' incomes, lead instead to unemployment. Protective tariffs, meant to foster domestic industries, lead instead to reduced living standards. And so forth.

This isn't because advocates of such policies seek mass unemployment and poverty. It's due to their ignorance of basic economics. Which

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explanation is more credible: a deliberate conspiracy of a handful of world leaders to reduce their own people to poverty—or the appalling education they received in public schools?

At the root of conspiracy theories is the premise that whatever happens is *either* the result of "accident," *or* the result of "intention." But this doesn't exhaust the logical possibilities. People often intend things—for good *or* ill—contrary to their eventual outcomes. Even would-be conspirators aren't omniscient or omnipotent.

2. Naiveté. Many enamored of conspiracy theories are ordinary people with little occasion to rub elbows with the "high and mighty." They imagine such people to be surpassingly devious and competent—just the type to hatch diabolical plots.

If they were actually to encounter international movers and shakers, they might be shocked at their ineffectuality, uncertainty, and ignorance. To believe that most world events are the result of devious deliberation, is to ascribe to so-called "world leaders" levels of competence, courage, and cunning that their own wives would find laughable.

Conspiracy theories make compelling plots for novels and movies; sly schemers make worthy adversaries for fictional heroes. We like to fantasize about villains of stature. Perhaps regrettably, villains in real life are built to far smaller specifications.

3. Explanatory elasticity. There's an impressive malleability about conspiracy theories. Whenever something occurs contrary to what the theory predicted, its proponents offer some new, more complex conspiratorial machination to explain the unruly facts.

In the 1950s, the puppeteers of world events were supposedly the "international Communist conspiracy." The conspiracy was centrally directed from Moscow, from which it extended globally like the arms of an octopus. Iron discipline held the conspirators together; highly publicized feuds among various communist nations were merely clever propaganda, meant to lull the West into complacency.

But when the Soviet Empire disintegrated, it was obvious that there had never been iron discipline and unity within or among Communist regimes—that the potent conspirators were only gray geriatrics and blundering bureaucrats, who couldn't even hold their own armed forces and secret police in line.

With the Soviet collapse, the alleged locus of the conspiracy has moved to Washington and New York. We are now to believe that our own incompetent politicians and bankers—who can't even govern their own private lives and portfolios, or agree on what to do about Bosnia or the deficit—are calculatingly, cooperatively marching us toward a One-World Government.

Yes—there is a powerful force dragging society down. But that undertow is not an international conspiracy: it's an *intellectual consensus*. What conspiratorialists fail to appreciate is the *power of ideas*.

Virtually all of our cultural leaders accept the premise of collectivism: that individual rights should be subordinated to collective might. This moral premise logically leads them to similar conclusions on a wide array of issues. But such agreement isn't the consequence of conscious collusion; it's the fruit of a philosophical consensus.

For decades, Communism thrived in the world, despite all efforts to "expose" Communist activities. Why? Because millions accepted the collectivist premise at the core of Communism. They viewed Marxists not as vicious thugs, but as *extreme idealists*.

Unless the *moral premise* of collectivism is challenged and rejected, those millions still will be drawn, as if by some inner compass, toward collectivist ends; to cooperate with like-minded people; and to fight, as immoral, anyone who stands in their path. To those of us who *are* in their path, their concerted animosity might seem a matter of design and plan. But it's actually a tribute to the power of ideas.

It is *ideas* that dictate the actions of men—and it is on the battlefield of ideas that the fate of the world will be decided. Even conspiracies depend upon agreement by the conspirators over premises and ends.

To defeat them, we must not simply expose their branches. We must expose—and pull up—their intellectual roots. □

THE FREEMAN
IDEAS ON LIBERTY

The "Wall of Separation" Between Church and State

by Judd W. Patton

Most Americans have been conditioned to believe and to assume that the First Amendment to the U.S. Constitution requires a "wall of separation between Church and State." This concept is seldom challenged today . . . but it is not actually a part of the Constitution or any of the Amendments; it did not exist until well into the twentieth century.

The establishment and free-exercise clauses of the First Amendment state: "Congress shall make no law respecting an establishment of religion, or prohibiting the free exercise thereof." The meaning was crystal clear to Americans and American jurisprudence for generations. Very simply, the federal government was prohibited from establishing a single national denomination above all others (a state religion—endowed with public funding, special privileges, and penalties on other faiths that reject its doctrines—as Great Britain had) and secondly, the federal government could not interfere with the individual's right to freedom of worship.

The purpose of the First Amendment was not to protect Americans from religion, it was to protect religion from government intrusion. This "understanding" is in full and obvious accord with the raison d'être of the Bill of Rights to limit the federal government's power and thereby secure the freedom of individuals and the rights of the states. The Bill of Rights was a declaration of what the federal government could *not* do.

The intent of the First Amendment could never have been to separate church and state. Virtually all state constitutions of that day required their elected officials to affirm belief in the Christian faith.[1] Not one of the states would have ratified the First Amendment in violation of their constitutions had its purpose been to separate religious principles from public life.

Quotations from the framers of the Constitution and other leaders of early America illustrate this great principle. George Washington as our first President said, "Of all the dispositions and habits which lead to political prosperity, Religion and Morality are indispensable supports." And our second President, John Adams, told us, "It is Religion and Morality alone which can establish the principles under which Freedom can securely stand." Benjamin Franklin echoed Adams' sentiment: "Only a virtuous people are capable of Freedom. As nations become corrupt and vicious, they have more need of masters."

On the same theme, Dr. Benjamin Rush, a Signer of the Declaration and a leading thinker of the period, said that, "The only foundation for a Republic is to be laid in Religion. Without this, there can be no

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virtue, and without virtue there can be no liberty." And James Wilson, who signed the Declaration and the Constitution for Pennsylvania, pointed out that "Far from being rivals or enemies, religion and law are twin sisters, friends and mutual assistants. Indeed, these two sciences run into each other. The divine law, as discovered by reason and the moral sense, forms an essential part of both."

No "Wall" Planned

Yes, it would have been impossible for these God-fearing men to have deliberately built a "Wall of Separation" between church and state. Here is how the phrase and eventually the concept of this "wall of separation" originated.

In 1801, the Danbury Baptist Association wrote a letter to President Thomas Jefferson. They were alarmed about a rumor. Was a national denomination soon to be established? Jefferson responded by letter on January 1, 1802, assuring them that there was no basis to the rumor. He said, "I contemplate with solemn reverence that act of the whole American people which declared that their legislature should 'make no law respecting an establishment of religion, or prohibiting the free exercise thereof,' thus building a wall of separation between Church and State."

The Danbury Baptists were apparently satisfied. They understood the "wall" to be one-directional, protecting them and other churches from possible discrimination and harm by means of a "governmental-favored denomination" status. Nevertheless, Jefferson's eight-word phrase, "a wall of separation between Church and State," has become the defining metaphor for today's misinterpretation of the First Amendment.

Obviously, Jefferson's letter and this phrase are not part of the First Amendment and it appears far-fetched legal "reasoning" to give it the force of law or to infer intent by the delegates to the Constitutional Convention of 1787.

Jefferson's letter remained in relative obscurity until 1878, when the Supreme Court, in the case of *Reynolds vs. United States*, cited the whole letter. According to the Court, the "wall of separation between Church and State" meant, "Congress was deprived of all legislative power over mere [religious] opinions, but was left free to reach [only those religious] actions which were in violation of social duties or subversive of good order." Thus, the Court ruled against the Mormon practice of polygamy and bigamy because the Justices considered it to be subversive of good order. In other words, the Court used the concept of "separation of Church and State" to keep a general religious principle, monogamy, integral to our society.

Nearly 70 years later, in the 1947 Supreme Court case of *Everson vs. Board of Education*, a major conceptual change occurred. Citing *only* Jefferson's eight words ("a wall of separation between Church and State") and not their context or previous Supreme Court interpretations, it declared a new meaning: a separation of basic religious principles from public life. Indeed, Jefferson's eight words became the catch phrase for this new concept.

Then, in 1962 the Supreme Court, in the case of *Engel vs. Vitale*, redefined the word "church" to mean "a religious activity in public." The revolt against the roots of Americanism had begun in earnest. Separation of Church and State now meant the government (or state) and its institutions must be "protected" from religion.

Since 1962 there have been over 6,000 court cases challenging religious expressions in public institutions and public life. For example, numerous court cases ruled that verbal prayers in public schools, even if voluntary and denominationally neutral, were un-Constitutional. In 1980, it was ruled that it was un-Constitutional to hang the Ten Commandments on the walls of public school classrooms (ironically, the Ten Commandments are engraved on the chamber walls of the Supreme Court). And in Virginia, a federal court ruled a homosexual newspaper may be distributed on a high school campus, but religious newspapers may not. Needless to say, a cultural war of mammoth proportions was unleashed by the Everson and Engel rulings.

The Tide Is Turning

Interestingly, and significantly, the 1990s have seen more and more court decisions based on the original intent of our Founding Fathers. The Supreme Court ruled in 1990, for instance, that it is permissible to have prayer and Bible clubs at public high schools. The justices also decided in another case that premarital sexual abstinence programs, while religious in nature, can be taught in public schools. The tide appears to be turning back to our traditional, Godly American heritage. □

1. David Barton, *The Myth of Separation* (Wallbuilder Press, 1991), pp. 25–35.

The Right to Pray

by William Cage

The decisions of the Supreme Court on prayer in public schools apply only to religious practices in *public* institutions, of course. In order to understand these decisions, it is first necessary to understand the nature of a public institution under our government.

In spite of the practical deficiencies in our political system, our government operates on a democratic basis: each person has one vote to cast for the candidate of his choice. The elected officials are then supposed to do what they believe is their constituents' wishes (insofar as they believe it is the right thing to do). The political action thus taken is kept in check by the court system, to which every person has access. In this way, minorities are protected from unrestrained majority rule.

It should not be surprising that those people who profess atheism should take the matter of prayers in public schools to the courts; for after all, it was an action for which our system of government provides. Praying certainly discriminates against the atheist. And according to our philosophy and system of government, when this occurs in a public institution, he has legal recourse to the courts. This explains why the *nature* of a public institution is central to the discussion of the right to pray.

A public institution in the United States is not only publicly accessible but is also publicly supported. There is no hedging on this support: everyone contributes taxes, without regard to any specific characteristic of the individual, such as race or religion. Thus it follows that what is publicly provided should not discriminate in favor of or against people on any such basis as race or religion. Those who pay for it (theoretically, everyone) should also have the use of it. And, as they pay without regard to their race, religion, and so forth, so, too, should they have access to the public facilities without discrimination against them on such grounds. This must be the real nature of a public institution in the United States if we adhere to our principles of government.

Thus it is that in no public institution can those of us who believe in God rightfully impose our beliefs and practices on those who don't. Practically speaking, such imposition is not avoided by "voluntary"

The late Mr. Cage was an economist and entrepreneur in Joplin, Missouri. This article is reprinted from The Freeman, *August 1964.*

participation in the prayer. For whether the praying is voluntary or not, all taxpayers—atheist and theist alike—are providing shelter, light, and warmth for the theists' practices. Thus the atheist is compelled to contribute to practices in which he does not want to participate in any way; and further, everyone is aware that such practices are easily avoidable by the public institution, and are not at all necessary to accomplish the announced purpose of the institution.

A Duty to Educate?

The central issue here, hinging on the nature of public institutions, is not whether a government institution should assume the responsibility for prayer; instead, it is whether or not the government should assume the responsibility for educating the people. Just as there are a multitude of opinions on religion, there are also disagreements in virtually all areas of education as to what is right (or best). This shows up especially in colleges, where various schools have reputations for different viewpoints.

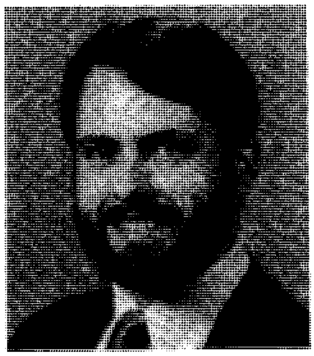
This means that in a public school where specific opinions are taught, other viewpoints are necessarily neglected: to have a certain opinion neglected is as much of an affront to the artist, economist, or political scientist who holds that opinion as it is to the atheist. Unlike the situation existing at the college level, where one can select the college which teaches the viewpoint with which the student (or parent) is most in sympathy, the public school system assigns students according to geographical location. In fact, no public school official has ever been so bold as to say that his school teaches a particular viewpoint in, for example, economics, to the exclusion of all others. Thus, no matter what method of assigning students is used, the education available to the student in any school is largely of arbitrary content; it is necessarily opinionated.

This is not consistent with our philosophical and legal concept of a public institution: public facilities cannot rightfully discriminate against certain people's opinions, for the whole of the populace pays for the institutions, without regard to whether the taxpayer agrees with the viewpoint being taught. There is again no escape offered by private schooling where public schooling is compulsorily financed, just as "voluntary praying" is no solution, for citizens pay taxes in support of public schools even if their children go to private schools.

Outside the Realm of Government Competence

The answer to the "right to pray" in public institutions is the same as the answer to the "right" to teach any particular theory or opinion on any other matter: there is no "right" involved. It is outside the realm of public institutions. Thus it is that general education, as well as religious instruction and practices, cannot be provided by public institutions within the framework of our original philosophy of government. Any institutional changes (e.g., an amendment to the Constitution) to permit prayers in public schools can only serve to distort that framework which has not only proved to be workable, but is internally consistent with and logically deducible from the original premise. The crucial question is not how we can legally institute praying in public schools, but rather can public schools rightfully provide any religious practices or teach any subject on which there is disagreement. The court decisions pointed up the difficulty in regard to religious practices; there remains, however, the broader question of whether public schools can rightfully advance certain opinions in preference to others in areas outside of religion.

Further examination of the entire matter of "rights" suggests that the education of free people should come in schools which those people choose to establish, support, and attend of their own volition. For it is only in these and similar private institutions that the individual has the *right* to pray, regardless of what other people may believe. □



Setting an Example

Washington, D.C., is not just the home of the national government. It also contains a local government struggling with the manifold problems that afflict so many cities across America. As such, it has become a dramatic showcase of the failure of statism.

The problem is really neither the city's *nonpareil* mayor nor extraordinary bloat and waste. Rather, the problem is that even the approach of fiscal Armageddon has not convinced the governing establishment that liberty beats politics. Never mind that the city is operating largely at the sufferance of a congressionally-established financial control board. Officials still hope to survive by playing fiscal shell games, begging more money from Congress, and tinkering around the edges.

The city's pork politics is mundane, however, compared to the chaos of Washington's schools. The city's liberal white elite send their kids to private institutions; most middle-class white families live in the suburbs, where the schools are adequate. The city's poor, largely black, population, however, remains trapped in the city—and their children are stuck in city schools. The results are horrifying.

By and large, the public schools don't teach. Inner-city students are warehoused and given diplomas that some have trouble reading. Many graduates have simply wasted 12 years of their lives. No wonder so many kids view the streets, drug gangs, and unwed parenthood as better alternatives.

But that's not all. Drug use and violence are rampant in city schools. In fact, the schools are not even able to guarantee the physical safety of students. Earlier this year a 14-year-old sophomore was gunned down at Cardozo High School. The apparent murderers were 14 and 17. "I don't think we could have avoided it," said school superintendent Franklin Smith. "In the last few years, we have installed metal detectors, trained more security personnel and . . . have secured police officers to patrol in and around our schools." He sounded as if he was talking about jails instead of schools.

Educational establishment lobbyists admit that murder and mayhem at school is bad, but seem to believe it is a result of inadequate government spending, too few federal programs, and the depredations of budget-cutting visigoths. Yet, according to the Department of Education, the District spent an astounding $9,377 per student per year in 1990—more than any state and the 40 largest school districts. This is *three times the average tuition of private and parochial schools*. Even Gonzaga High School, one of the city's elite institutions, was charging only $7,100 annually.

Incredibly, these numbers understate the government's outlays. D.C. apparently twists its figures to suggest greater school enrollment and attendance. According to David Boaz of the Cato Institute, it appears

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that "District schools are spending $12,875 for every student who's actually in a classroom on any given day." For that amount of money we could send *five* students to the average private school!

What is this situation if not a crisis? Children aren't learning, money is being wasted, and kids are being murdered. Something is drastically wrong. Dire measures would seem to be called for.

The D.C. City Council, to its credit, suggested a package of reforms, including charter schools, but the school board said no. Last year Superintendent Smith proposed privatizing the management of 15 schools. The school board refused to even consider his proposal. A few desperate board members have since rallied to his side, but privatization opponents boycotted meetings to prevent a vote.

A number of congressmen are also leading a campaign to find private individuals and firms to voluntarily fix up Washington's schools by donating materials and labor. Philanthropy is a good thing, of course, but it doesn't make much sense to repaint classrooms if drug deals and murders instead of learning still occur in them. The District's educational problems obviously run much deeper than a new coat of paint.

The real solution is to abolish the government's educational monopoly. Limited privatization and voluntary vouchers, though distressingly modest, would at least point the way for additional reform. Yet the bureaucracy, supported by a surprising number of citizens who apparently can't imagine a better world, want to do nothing. Thelmiah Lee, Jr., for example, has founded a group called D.C. Save Our Schools. Said Lee: "We will not allow vouchers, will not allow charter schools in the District of Columbia." What the heck—just do more of the same, irrespective of the consequences.

This position is seemingly shared by some intellectuals who should know better. Argues Robert Wright of the *New Republic*: "Even if it's true that mindless bureaucracy ruined the public schools and that welfare-state liberals created the underclass, the fact remains that at this point neither problem will be solved without lots of money, more wisely spent." More wisely spent *by whom*? The D.C. school board, which is already pouring almost $13,000 per student into failing institutions?

Such attitudes are also reflected in the congressional debate over the Department of Education. What could be more ludicrous than a $33 billion Cabinet office for a local function? In fact, federal money typically accounts for no more than six percent of school district spending. It would make more sense to leave the money there to start with.

Of course, supporters explain that the DOE is supposed to help localities do their job. But has it? Test scores are lower and schools are more violent than when Congress created the department in 1979; U.S. students remain woefully behind their international counterparts. Concluded a task force headed by Representative Joe Scarborough: "There can be no doubt that the Department of Education did not add value to the educational performance in the 1980s. In fact, there is significant evidence that we are doing our job more poorly than ever before." Yet opposition to dismantling the Department, President Jimmy Carter's present to the National Education Association, remains fierce. In addition to those directly benefiting from its spending are generic devotees of government. For instance, columnist Marianne Means complains that "the inescapable message" of those who want to eliminate DOE "is that they want to downgrade the importance of education in America's future." But wouldn't improving the schools be a better means of emphasizing education than inflating the bureaucracy?

Don't do what we do should be the motto of Washington. The failure to understand either the moral or practical benefits of freedom infects local officials no less than the federal establishment. As a result, the nation's capital continues to exhibit government's dismal failure. □

THE FREEMAN
IDEAS ON LIBERTY

Steal These Free Papers?

by Eric Longley

"Due to its racist nature, the *Diamondback* will not be available today—read a book!" Such was the advice on flyers left at campus distribution centers for the student newspaper at the University of Maryland at College Park. Someone had taken 10,000 copies of the paper. Two students were later disciplined by the college, but the local prosecutor did not bring charges. It was November of 1993. In the same month, 2,500–3,000 copies of the student paper were confiscated at The University of Maryland-Baltimore County. The University charged one of those responsible, but the campus police did not take action—"you can't steal free newspapers," they said.[1]

Should taking free papers, in bulk, be a crime? It should. Dealing with such theft as a crime is consistent with limited-government philosophy.

The media has focused on high-profile cases such as that of the University of Pennsylvania, where minority students seized copies of the *Daily Pennsylvanian* that contained allegedly racist material. But race is not the only motivating factor in the seizure of free papers.[2]

I did an informal tally, based on campus incident reports supplied by the Washington-based Student Press Law Center, which aims at protecting the interests of high school and college newspapers. From fall 1993 to the end of April 1995, there were 63 confiscation cases reported to the SPLC. Of these, there were 11 to 18 incidents in which the people who confiscated copies of a student newspaper were offended by the paper's attitude, real or perceived, toward ethnic minorities. In contrast, there were between 12 and 25 cases (with some overlap with the racial cases) where the motive was to suppress embarrassing news or comment about an individual or group, such as the arrest of a student or the disciplining of a professor or fraternity.[3]

Mike Hiestand, an attorney at the SPLC, says that high rates of newspaper confiscations began in 1992, and persist to this day.[4] Off campus as well as on, newspaper confiscation is an issue, an issue that "many consider to be an ongoing problem," according to Helene Siesel, Administrative Director of the Association of Alternative Newsweeklies.[5]

There are differences among the states as to how they deal with the confiscation of free newspapers.

A prosecutor in Mercer County, New Jersey, which includes Trenton, refused to consider incidents of student newspaper seizures at Trenton State College to be a crime. Prosecutor Edward Bertucio said that "[t]he newspapers were free. The public had [a] right to them. Once they are left there, people can pick them up and do anything they want to with them."[6]

A judge in Louisiana dismissed charges against a Southeastern Louisiana University student accused of taking papers, calling the affair a "college prank."[7]

Police did not respond to a confiscation

Mr. Longley is a freelance writer living in Durham, North Carolina.

incident in Marshall University in Huntington, West Virginia. City police sent editors of the *Statesman* to the campus police, who in turn did not make an investigation.[8]

The District Attorney responsible for the University of Northern Colorado in Greeley refused to make charges in a confiscation incident on the grounds that no one can steal a free paper.[9]

In a California case, campus police refused to act when 1,000 copies of a student paper were taken at San Jose City College. Since it was a free paper, the police felt unable to do anything.[10]

In 1992, San Francisco Police Chief Richard Hongisto had over 2,000 copies of the *San Francisco Bay Times*, a gay paper which had run a critical article and cartoon about him, seized by officers. No criminal charges were filed—the District Attorney said that the *Bay Times* had no "fair market value," hence the seizure did not constitute theft. However, Hongisto was fired and a jury later awarded damages to the paper, finding that Hongisto had violated the First Amendment.[11]

In Berkeley, California, Gene McKinney was charged with taking massive amounts of free papers and selling them to a recycling company. The publisher of one of the papers victimized by McKinney sent prosecutors a brief filed by the *Bay Times* in the Hongisto case, making arguments for protecting free papers. This may have helped persuade authorities to bring charges against McKinney.[12]

There are states where authorities have successfully treated the confiscation of free papers as theft. Four students at the University of Florida at Gainesville were convicted of theft in 1988 for taking copies of the free *Florida Review*.[13]

There are more recent examples. In the summer of 1993, two former journalism students at Pennsylvania State University pleaded guilty to criminal charges in connection with their confiscation of copies of a conservative student paper, *The Lionhearted*.[14] Two fraternity brothers at Mansfield University, also in Pennsylvania, were convicted of disorderly conduct for carrying off 1,200 copies of a student paper in March, 1995.[15]

In May 1994 it became a misdemeanor in Maryland for anyone to take copies of a newspaper, free or not, with the intent of stopping other people from reading them. A New York law imposes fines on "unauthorized person[s]" who "maliciously remove or destroy" newspapers from someone else's property, provided the newspapers come out at least once a week.[16]

So much for what the law *is*. The question is what the law should be.

Of the arguments against criminalizing the seizure of free papers, the most obvious is that "you can't steal a free paper." If a person has a right to take one copy of a free publication, he must necessarily have the right to take one hundred copies. This is not the only argument that people have voiced.

There are those who think that seizing free papers is itself a form of free expression. In an editorial, the *Washington Post* said that "[i]t can be argued" that this is true.[17] Less equivocal, the official student paper at Penn State, the *Daily Collegian*, said it definitely was an exercise of free expression to seize and burn copies of *The Lionhearted*.[18]

I consider the argument that people have a First Amendment right to confiscate papers "quite weak." The free expression interests involved are those of the vandalized papers. If would-be vandals don't like what a free newspaper says, they can express their disagreement by writing or speaking against the message they don't like, or even by pursuing legal or administrative action against the paper, which would at least give the paper a chance to defend itself in some form of hearing.

Free expression rights are not the only liberties at stake here. Private property rights, in their purest form, are involved as well. A newspaper publisher, no less than a distributor of other goods, has the right to be free of interference in getting a paper into the hands of willing customers. Those who advertise in a free newspaper have an interest in having the ads they paid for reach their intended audience.[19]

Moreover, some newspapers which I have classified as free in this article are not, in fact, free at all. Many college newspapers are paid for in part by fees assessed from all students. If a student has already paid for a paper through her fees, she has in effect taken out a subscription to that paper. Vandals who seize so many copies that students are denied access to the paper are stealing directly from the students, and can and should be prosecuted as thieves without benefit of additional legislation.

One final case where the authorities need not wait for further legislation before acting is a case where the newspaper publisher puts up a notice reading "first copy free: additional copies $1.00," or whatever other price is deemed appropriate (by saying "only one copy per person," the publisher would in effect be setting an infinite price). In such a case, a person who takes more than one copy of the paper without paying is obviously a thief under pre-existing criminal statutes in all states. □

1. Michael Koster, "The New Campus Censors," *Columbia Journalism Review*, October 1994; Retha Hill, "2 Students at U-Md. Disciplined," *Washington Post*, February 25, 1994; Kate Kulver, "Thefts Plague Campus Press," *Quill*, October 1994; Student Press Law Center, "1993–94, 1994–95 School Years Newspaper Theft Incidents," (release dated April 18, 1995).

2. I tried to reach an NAACP spokesperson to discuss the question of minority students who seize university papers perceived as racist or insensitive. Each official I contacted referred me to another official, until finally an NAACP official told me that the matter was too touchy an issue for him to discuss with the media (telephone conversation, May 3, 1995).

3. These figures are based on information in a document sent me by the Student Press Law Center: "1993–94, 1994–95 School Years, Newspaper Theft Incidents (September 1993 through April 1995)," April 28, 1995, hereafter "Newspaper Theft Incidents."

4. Interview with Hiestand, April 28, 1995.

5. Interview with Siesel, May 5, 1995. The association represents free U.S. and Canadian weeklies.

6. Allan Wolper, "Students Steal Newspapers But Are Not Prosecuted," *Editor and Publisher*, April 24, 1993.

7. M. L. Stein, "Stealing and Trashing Student Newspapers Is Current Campus Craze," *Editor and Publisher*, September 3, 1994; Kate Culver, "Campus Fires," *Quill*, October 1993; "Newspaper Theft Incidents," p. 6, item #27.

8. *Ibid.*, p. 5, item #22.

9. *Ibid.*, p. 8, item #38.

10. "Newspaper Theft Incidents," *op. cit.*, p. 9, item #1.

11. M. L. Stein, "Police Chief Fired for Alleged Seizure of Gay Papers," *Editor and Publisher*, May 23, 1992; M. L. Stein, "Gay Newspaper Sues Over Confiscation of Papers," *Editor and Publisher*, October 3, 1992; "Ex-Police Chief Found Liable in Removal of S. F. Newspaper," *Los Angeles Daily Journal*, September 19, 1994, p. A3.

12. M. L. Stein "Man Arrested for Pilfering Newsracks," *Editor and Publisher*, April 22, 1995.

13. Allan Wolper, "Students Steal Newspapers But Are Not Prosecuted," *Editor and Publisher*, April 24, 1995; Kate Culver, "Campus Fires," *Quill*, October 1993.

14. Christopher Shea, "2 Women at Penn State Charged with Theft of Right-Wing Newspaper," *The Chronicle of Higher Education*, July 28, 1993; Michael Koster, "The New Campus Censors," *Columbia Journalism Review*, October 1994.

15. "Newspaper Theft Incidents," p. 12, item #22.

16. "There for the Taking?" Student Press Law Center *Report*, Fall 1993; NY General Business Law, 1994 Supplement, Section 396-x.

17. "Can You 'Steal' a Free Paper?" *Washington Post*, January 22, 1994, A16. I sent a fax to Meg Greenfield, of the *Post's* staff, asking her to elaborate on some of the points in this editorial. One of my questions asked her if she thought taking copies of free publications was protected by the First Amendment. I have not yet received a response to this question or any of the other questions I asked. Longley to Greenfield, May 3, 1995.

18. Quoted in Kate Culver, "Campus Fires," *Quill*, October 1993.

19. Mike Hiestand made a similar argument about advertisers in his interview. Interview with Hiestand, April 28, 1995.

THE FREEMAN
IDEAS ON LIBERTY

Is the Unabomber an Ecobomber?

by Alan Caruba

The assault-by-mail terrorist known as the Unabomber is likely to kill again despite the decision of the *Washington Post* and the *New York Times* to publish his manifesto. The decision, prompted by the U.S. Department of Justice and the F.B.I., will only delay the inevitable.

Lost amidst the controversy surrounding the decision to publish under the threat of renewed killing, is the fact that the Unabomber's views and actions reflect the true agenda of those who, since the 1970s, have been the driving force behind the environmental movement.

The Unabomber's crusade is the logical end result of a movement which holds a deep distrust and contempt for humanity, technology, and what is generally understood to be progress in diverse areas that include agriculture, the science of genetics, medicine, computer technology, and just about anything that contributes to a thriving economy.

In a letter to *The New York Times*, he said, "Through our bombings we hope to promote social instability in industrial society, propagate anti-industrial ideas and give encouragement to those who hate the industrial system. . . . The people who are pushing all this growth and progress garbage deserve to be severely punished."

To any participant or observer of the environmental movement, it's fairly astonishing that anyone could have failed to notice that views comparable to the Unabomber's have been appearing in print for more than two decades, since the inception of the environmental movement.

In a 1970 book, *Ecotactics*, which featured an introduction by Ralph Nader, statements comparable to the Unabomber's can be found on every page. An unidentified writer for a group called ECOS rants against "an aggressive technology and economic system, which, in a rush to provide for and to profit from the human population, destroys other forms of life and contaminates our environment to a degree unprecedented in human history." The writer rejects "a world in which the individual is victimized by the impersonal machinery of his technology." While decrying violence, the writer concludes that "The only natural resource left on this planet that man seems unable to reduce to the disaster level is the capacity for discontent. Our organization, Environment!, is designed to harvest this resource and apply it to the complex problems of survival."

The ECOS writer was right at home with Nader's introductory view that Americans were living in a society of "oppression and

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suppression" by business and industrial entities. Thus, Nader's first priority was "to deprive the polluters of their unfounded legitimacy."

In a *New York Times* article on June 30, reporter Robert D. McFadden hinted at the contents of the Unabomber's 35,000-word manifesto. It "sketches a nightmarish vision of a deteriorating society and a future in which the human race is at the mercy of intelligent machines created by computer scientists. . . . Out of the chaos, he expressed the hope that a return to 'wild nature' might prevail."

In contrast, writing in his book, *No Turning Back: Dismantling the Fantasies of Environmental Thinking*, Wallace Kaufman says, "Our progress has been the result largely of Western science and technology. Unlike cultures that have only feared and revered nature, industrialized cultures have pursued dominion over nature and subdued most of its dangerous tendencies, achieving what no other culture has done. No other tradition has developed a sophisticated technology capable of feeding six billion people and monitoring the condition of the environment." While the Unabomber was selecting his victims, Kaufman wrote, "A movement that rejects this tradition is dangerously out of touch with reality . . ."

Fellow Travelers

Who shares the Unabomber's view of industrialized society? Paul Erlich, the population doomsayer; Lester Brown whose Worldwatch Institute has been predicting worldwide environmental disaster for decades; and even our Vice President, Albert Gore, Jr. In his book, *Earth In the Balance*, Gore says, "The edifice of civilization has become astonishing complex, but as it grows ever more elaborate, we feel increasingly distant from our roots in the earth."

Since the 1970s the U.S. environmental movement has imposed a huge matrix of laws that have gone beyond setting reasonable standards for the environment. As a result, whole sectors of the economy have been impeded. Environmental laws currently represent thirty percent of Washington's entire regulatory budget. But the burden of the economy is only half the story. Disaffected, though dedicated, environmentalists have raised voices of alarm and warning concerning the beliefs that drive the Unabomber. Called "Deep Ecology," the Unabomber's philosophy fuels groups like Earth First! and fanatical animal rights advocates. In his book, *Green Delusions: An Environmentalist Critique of Radical Environmentalism*, Martin Lewis noted that deep ecology is a philosophy best labeled "antihumanist anarchism."

In fact, there are several "schools" of deep ecology or environmentalism. They include primitivism, antihumanist anarchism, and eco-Marxism. Lewis notes that "primitivists advocate not merely the return to a small-scale social order proposed by other deep ecologists, but rather the active destruction of civilization."

"Primitivist" may be a good description of the Unabomber, but it really doesn't matter what label is attached to him. His actions represent the goals that ultimately emerge from the core values shared by those who seek to direct the environmental movement worldwide. □

THE FREEMAN
IDEAS ON LIBERTY

Maverick Mark Twain's Exhilarating American Individualism

by Jim Powell

Nobody expressed rugged American individualism better than Samuel Langhorne Clemens—Mark Twain.

This might seem surprising to those who think of him only as the author of children's classics like *The Adventures of Tom Sawyer*, *The Adventures of Huckleberry Finn*, *The Prince and the Pauper*, and *A Connecticut Yankee in King Arthur's Court.* But adults going back to the books are soon reminded how they passionately affirm the moral worth of individual human beings.

A mere author of children's books? Throughout much of Mark Twain's life, his opinions made news because he was the most famous living American. He was a friend of steel entrepreneur Andrew Carnegie. Helen Keller, amazingly cultured despite being blind and deaf, relished his company. Mark Twain introduced future English statesman Winston S. Churchill to an American audience. He published the hugely popular autobiography of General Ulysses S. Grant. English novelist Rudyard Kipling came calling at his upstate New York home. Mark Twain met illustrious people like oil entrepreneur John D. Rockefeller, Sr., biologist Charles Darwin, painter James McNeill Whistler, psychiatrist Dr. Sigmund Freud, Waltz King Johann Strauss, violinist Fritz Kreisler, pianist Artur Schnabel, sculptor Auguste Rodin, philosophers Ralph Waldo Emerson and Herbert Spencer, playwright George Bernard Shaw, poets Alfred Lord Tennyson and Henry Wadsworth Longfellow, novelists Henry James and Ivan Turgenev, inventors Nikola Tesla and Thomas Edison (who recorded the author's voice).

Although Mark Twain wasn't a systematic thinker, he was steadfast in his defense of liberty. He attacked slavery, supported black self-help. He spoke out for immigrant Chinese laborers who were exploited by police and judges. He acknowledged the miserable treatment of American Indians. He denounced anti-Semitism. He was for women's suffrage. Defying powerful politicians like Theodore Roosevelt, Mark Twain spearheaded the opposition to militarism. During his last decade, he served as vice president of the Anti-Imperialist League. "I am a moralist in disguise," he wrote, "it gets me into heaps of trouble when I go thrashing around in political questions."

He shared the capitalist dream. He spec-

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ulated in mining stocks. He started a publishing company. He functioned as a venture capitalist providing about $50,000 a year to inventors—he thought invention was perhaps the highest calling. He failed at all these and achieved financial success only as a writer and lecturer.

Mark Twain set a personal example for self-reliance. From the time he quit school at age 12, he was on his own, working as a printer's assistant, typesetter, steamboat pilot, miner, editor, and publisher. He spent four years paying off 100 percent of his business debts rather than take advantage of limited liability laws. As a writer, he succeeded entirely on his wits, without the security of academic tenure or a government grant. He financed his extensive overseas travels by freelance writing and lecturing. During his lifetime, people bought more than a million copies of his books.

Mark Twain liked what he called "reasoned selfishness." As he put it, "A man's *first* duty is to his own conscience and honor—the party of the country come second to that, and never first. . . . It is not *parties* that make or save countries or that build them to greatness—it is clean men, clean ordinary citizens . . . ."

Mark Twain displayed a devilish wit. Among his most memorable lines: "What is the difference between a taxidermist and a tax collector? The taxidermist takes only your skin . . . Public servant: Persons chosen by the people to distribute the graft . . . . There is no distinctly native American criminal class except Congress . . . . In the first place, God made idiots. This was for practice. Then He made School Boards . . . In statesmanship, get the formalities right, never mind about the moralities."

Mark Twain, Popular Hero

Mark Twain was instantly recognizable. One scholar noted that "The young man from Missouri, with drooping moustache and flaming red hair, was unusually garbed in a starched, brown linen duster reaching to his ankles, and he talked and gesticulated so much that people who did not know him thought he was always drunk."

Mark Twain was a popular hero because people didn't just read his works. They saw him on lecture platforms in Europe, Asia, Africa and Australia. "Mark Twain steals unobtrusively on to the platform," wrote one reporter in April 1896, "dressed in the regulation evening clothes, with the trouser-pockets cut high up, into which he occasionally dives both hands. He bows with a quiet dignity to the roaring cheers. . . . He speaks slowly, lazily, and wearily, as a man dropping off to sleep, rarely raising his voice above a conversational tone; but it has that characteristic nasal sound which penetrates to the back of the largest building. . . . To have read Mark Twain is a delight, but to have seen and heard him is a joy not readily to be forgotten."

Samuel Langhorne Clemens was born November 30, 1835 in Florida, Missouri. He was the fifth child of Jane Lampton, a plainspoken Kentucky woman from whom Sam reportedly acquired his compassion and sense of humor. His father John was a lanky, somber Tennessee lawyer-turned-grocer. He got wiped out speculating in land and other ventures. When Sam was four, the hapless family moved about 30 miles away to Hannibal, Missouri, a Mississippi River town. They had to sell their spoons and rent rooms above a drug store. Yet during the 14 years Sam lived in Hannibal, he gained experiences which inspired his greatest classics.

Clemens attended several schools until he was about 13, but his education really came from his mother. She taught him to learn on his own and respect the humanity of other people, including slaves.

Soon after John Clemens died in 1847, Sam went to work as a printer's assistant. During the next decade, he worked for printers in St. Louis, New York, Philadelphia, Keokuk (Iowa), and Cincinnati. Clemens, like Benjamin Franklin, educated himself by reading through printers' libraries. He especially loved history. The more he read, the more he reacted against intolerance and tyranny.

Back in Hannibal, he decided to master the mysteries of the Mississippi. He got a job assisting steamboat pilot Horace Bixby who, for $500 mostly deducted from wages, taught him how to navigate the roughly 1,200 miles of the Mississippi River between New Orleans and St. Louis. During the next 17 months, Clemens learned the shape of the river, the way it looked at night and in fog.

The Civil War disrupted commerce on the Mississippi, dashing his ambitions as a steamboat pilot. Eager to help the South, in 1861, he joined a company of Missouri volunteers known as the Marion Rangers. One night they shot an unarmed, innocent horseman, and the disgusted Clemens quit.

He headed for the Nevada Territory, hoping to strike it rich by finding silver. Since that didn't happen, he wrote amusing articles about silver mining camps for Nevada's major newspaper, the *Territorial Enterprise*, which was published in Virginia City. He landed a full-time job. Initially, his articles were unsigned. Then he decided that to become a literary success, he must begin signing his articles. Pseudonyms were in vogue, so he reached back to his days as a Mississippi River pilot and thought of "Mark Twain," a term meaning two fathoms, or 12 feet—navigable water for a steamboat. His first signed article appeared February 2, 1863.

It was in Virginia City that Mark Twain met the popular humorist Artemus Ward who was on a lecture tour. His commercial success inspired Mark Twain to think about how he might make a career with his wit. Ward urged him to break into the big New York market.

He wrote his brother and sister, October 1865: "I never had but two powerful ambitions in my life. One was to be a pilot, & the other a preacher of the gospel. I accomplished the one & failed in the other, because I could not supply myself with the necessary stock in trade—i.e., religion . . . I have had a 'call' to literature, of a low order—i.e., humorous. It is nothing to be proud of, but it is my strongest suit."

After silver mining stocks he had acquired became worthless, he resolved to make the best of humorous writing. The following year, his story, "The Celebrated Jumping Frog of Calaveras County," was published in *The New York Saturday Press*, and many other publications reprinted it. Suddenly, he had a national reputation as "the wild humorist of the Pacific Slope." The *Sacramento Union* asked him to report on news in Hawaii, and he was off again. He got the idea of giving public lectures about his experiences there. He rented a San Francisco hall starting October 2, 1866, and over the next three weeks earned $1,500, which was far more than he had earned from writing.

"The Fortune of My Life"

Aboard the *Quaker City*, he met fellow passenger Charles Langdon, 18-year-old son of an Elmira, New York coal industry financier. Langdon showed Clemens a little picture of his sister Olivia—friends called her Livy. Clemens was taken by her, and soon after the ship returned to New York, Langdon introduced the two. On New Year's Eve 1867, Clemens joined Livy and the family to see Charles Dickens read selections from his novels. That evening, Clemens remarked later, referring to Livy, he had discovered "the fortune of my life."

Then Mark Twain worked on *Innocents Abroad*, a book full of wry observations about the people he had met and the things he had seen. For example, writing about Morocco: "There is no regular system of taxation, but when the Emperor or the Bashaw want money, they levy on some rich man, and he has to furnish the cash or go to prison. Therefore, few men in Morocco dare to be rich."

Sam and Livy got married at Quarry Farm, her parents' Elmira, New York estate, February 2, 1870. She was the only woman he ever loved.

They were an unlikely pair, because she was a strict Victorian. She disapproved of alcohol, tobacco, and vulgar language, vices he was well-known for. He promised only that he wouldn't smoke more than one cigar at a time. But she loved his tremendous enthusiasm and his refreshingly candid manner. She called him "Youth."

She became his most trusted editor. She offered her judgment on what kinds of topics readers would be interested in. She read nearly every one of his drafts and suggested changes. She provided advice about his lecture material. "Mrs. Clemens," he remarked, "has kept a lot of things from getting into print that might have given me a reputation I wouldn't care to have, and that I wouldn't have known any better than to have published."

Roughing It, a witty account of Mark Twain's travels throughout Nevada and Northern California, buoyed his reputation. In it, among other things, he lavished praise on much-abused Chinese immigrants: they "are quiet, peaceable, tractable, free from drunkedness, and they are as industrious as the day is long . . . . So long as a Chinaman has strength to use his hands he needs no support from anybody . . . . All Chinamen can read, write and cipher with easy facility—pity but all our petted *voters* could."

In 1871, the family moved to Hartford, a New England commercial and cultural center about halfway between New York and Boston. They were in Hartford more than 17 years, the period when Mark Twain wrote his most famous books. He collaborated with a neighbor, Charles Dudley Warner, to produce his first fictional work, *The Gilded Age*. Among his contributions was this shrewd passage about how political power corrupts, which applies as much to the modern welfare state as to government in his own day: "If you are a member of Congress, (no offense,) and one of your constituents who doesn't know anything, and does not want to go into the bother of learning something, and has no money, and no employment, and can't earn a living, comes besieging you for help. . . . You throw him on his country. He is his country's child, let his country support him. There is something good and motherly about Washington, the grand old benevolent Asylum for the Helpless."

By 1874, Clemens had built an eclectic three-story, 19-room red brick Hartford house which reflected his success and individuality. Part of it looked like the pilot house of a Mississippi steamboat. Clemens spent most of his time there playing billiards and entertaining his daughters Susy, Clara, and Jean (son Langdon had died as an infant). "Father would start a story about the pictures on the wall," Clara recalled. "Passing from picture to picture, his power of invention led us into countries and among human figures that held us spellbound."

The family summered at Quarry Farm, and he focused on his books. Apparently, the success of *Roughing It* suggested that he might do well drawing on other personal experiences, and he pondered his childhood days in Hannibal. His practice was to begin writing after breakfast and continue until dinner—he seldom ate lunch. Evenings, back in the main house, his family gathered around him, and he read aloud what he had written.

In 1875, when he was 40, he started his second novel: *The Adventures of Tom Sawyer*, the poor orphan boy who gets in trouble and redeems himself by being resourceful, honest, and sometimes courageous. There's a murder, another death, and Tom and his friend Huckleberry Finn fear for their lives, but the book is best-remembered as a charming story of youthful good summer times.

Soon Mark Twain began writing his masterwork, *The Adventures of Huckleberry Finn*. He found it hard going, and the book wasn't published until 1885. Unlike Tom Sawyer, this had the immediacy of a first-person story. In his distinctive colloquial manner, a poor and nearly illiterate 14-year-old son of a town drunkard told how he ran away, and encountered the escaped black slave Jim. Together they floated down the Mississippi River on a raft and got into scrapes. Like many other Southerners, Huck had considered black slaves as subhuman, and he wrote Jim's owner a letter exposing the runaway. Then he thought about Jim's humanity. He finally decided he would rather go to hell than betray Jim. He tore up the letter.

Many people considered the book trashy,

and it was banned in Concord, Massachusetts. Today, many libraries ban it as racist—the word "nigger" occurs 189 times. But it became a classic for showing real people grappling with the vital issues of humanity and liberty. Huckleberry Finn went on to sell some 20 million copies.

Mark Twain tried public readings of his work, but initial results were a disappointment. "I supposed it would be only necessary to do like Dickens," he recalled, "get out on the platform and read from the book. I did that and made a botch of it. Written things are not for speech; their form is literary; they are stiff, inflexible and will not lend themselves to happy and effective delivery with the tongue—where their purpose is merely to entertain, not instruct; they have to be limbered up, broken up, colloquialized and turned into the common forms of unpremeditated talk—otherwise they will bore the house, not entertain it. After a week's experience with the book I laid it aside and never carried it to the platform again; but meantime I had memorized those pieces, and in delivering them from the platform they soon transformed themselves into flexible talk, with all their obstructing preciseness and formalities gone out of them for good." As a lecturer, he became an international sensation.

Financial Failure

Clemens should have enjoyed financial peace of mind, but he invested his earnings as well as his wife's inheritance on inventions and other business ventures which never panned out. His investment in a new kind of typesetter turned into a $190,000 loss. Incredibly, he failed as the publisher of his own immensely popular books. In 1894, his publishing firm went bankrupt with $94,000 of debts owed to 96 creditors. Clemens was 59, and few people bounced back at that age.

He assumed personal responsibility for the mess instead of ducking behind limited liability laws. He got invaluable help from a fan, John D. Rockefeller partner Henry Rogers, who managed the author's financial affairs. Clemens resolved to repay his creditors by generating more lecture income. He, his wife, Livy, and daughter Clara boarded a train and began a grueling cross-country tour. Lecture halls were packed. Then the family traveled to Australia, Tasmania, New Zealand, India, South Africa, and England, and everywhere he played to cheering crowds. "We lectured and robbed and raided for thirteen months," he recalled. By January 1898, he was debt-free.

Mark Twain hailed individual enterprise and spoke out against injustice wherever he found it. He persuaded Rogers to help provide money so that Helen Keller could get an education commensurate with her extraordinary ability. At Carnegie Hall, Mark Twain presided at a large gathering to support Booker T. Washington and self-help among blacks. While Mark Twain was living in Vienna (1897-1900), he defied the virulent anti-Semitic press and defended French Captain Alfred Dreyfus whom French military courts had convicted of treason because he was Jewish.

Meanwhile, Clemens suffered family tragedies. While he was lecturing in England, on August 18, 1894, his daughter Susy died of meningitis. His wife Livy, partner for 34 years, succumbed to a heart condition June 5, 1904. "During those years after my wife's death," he recalled, "I was washing about on a forlorn sea of banquets and speechmaking in high and holy causes, and these things furnished me intellectual cheer and entertainment; but they got at my heart for an evening only, then left it dry and dusty."

Many critics have dismissed Mark Twain's writings from the last decade of his life as the work of a man embittered by too many tragedies. In this period, he significantly increased his output of political commentary. He attacked fashionable collectivist doctrines of "progressive" thinkers who called for more laws, bureaucrats and military adventures.

Like Lord Acton, Mark Twain demanded that the government class be held to the same moral standard as private individuals. "Our Congresses consist of Christians," he wrote in his little-known work *Christian Science* (1907). "In their private life they are true to every obligation of honor; yet in every session they violate them all, and do it without shame; because honor to party is above honor to themselves. In private life those men would bitterly resent—and justly—any insinuation that it would not be safe to leave unwatched money within their reach; yet you could not wound their feelings by reminding them that every time they vote ten dollars to the pension appropriation nine of it is stolen money and they the marauders."

Mark Twain made his anti-imperialist views clear at Manhattan's Waldorf-Astoria Hotel when he introduced Winston S. Churchill, the future English statesman who was about to regale Americans with his Boer War exploits. "I think that England sinned in getting into a war in South Africa which she could have avoided without loss of credit or dignity," Mark Twain declared, "just as I think we have sinned in crowding ourselves into a war in the Philippines on the same terms." Mark Twain's satirical "War Prayer" became an anthem for those who wanted to keep America out of foreign wars.

After the death of his daughter Jean in December 1909, the result of an epileptic seizure, Clemens tried to revive his spirits in Bermuda. But angina attacks, which had occurred during the previous year, intensified and became more frequent. Doctors administered morphine to relieve the pain. He boarded a ship for his final trip home. Clemens died at Stormfield, his Redding, Connecticut, house, on Thursday morning, April 21, 1910. Thousands of mourners took a last look at him, decked out in his white suit, at Brick Presbyterian Church, New York City. He was buried beside his wife in Elmira, New York.

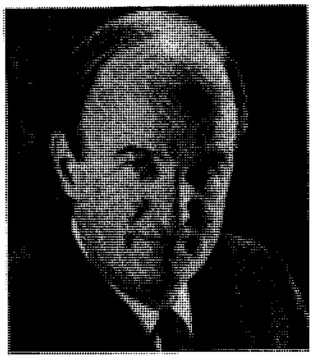
By then, he was quite out of tune with his times. "Progressives" and Marxists certainly didn't like his brand of individualism. The public lost interest. Mark Twain's daughter Clara and his authorized biographer Albert Bigelow Paine blocked access to the author's papers. Beside Mark Twain's intimates, about the only defense came from individualist literary critic H.L. Mencken: "I believe that he was the true father of our national literature, the first genuinely American artist of the blood royal."

The situation gradually began to change. In 1962 respected University of Chicago English professor Walter Blair wrote *Mark Twain and Huck Finn*, which treated the author's Mississippi River epic as major-league literature. Before Blair's book, *The Adventures of Huckleberry Finn* rarely appeared in a college curriculum—American literature got little respect. Now Huck Finn is taught almost everywhere.

Also in 1962, Clara Clemens Samossaud died. Her Mark Twain papers—letters, speeches, original manuscripts, and unpublished works—became the property of the University of California (Berkeley). It encouraged writers to work with the material, and since then dozens of new books about Mark Twain have appeared. Moreover, Berkeley Mark Twain editors launched an ambitious scholarly project to publish everything he wrote, including papers held by other institutions and private individuals. Mark Twain Project head Robert Hirst estimates the papers could eventually fill 75 robust volumes.

Mark Twain has been raked over by the politically correct crowd, but he endures as the most beloved champion of American individualism. Unlike so many of his contemporaries, he didn't believe America was a European outpost. He cherished America as a distinct civilization. He defended liberty and justice indivisible. He promoted peace. He portrayed rugged, resourceful free spirits who overcome daunting obstacles to fulfill their destiny. His personal charm and wicked wit still make people smile. □

Overworked and Underpaid?



"Most blue-collar workers and midlevel white-color managers are overworked and overwhelmed."

—*Robert Reich, Secretary of Labor*
September 11, 1995

According to Labor Secretary Robert Reich, eight million Americans are holding two or more jobs, the highest figure since data were first collected 25 years ago. Work time is on the rise, while leisure time is on the decline.[1] Median wages have fallen from $479 a week to $475 a week (factoring in inflation). In fact, according to the Bureau of Labor Statistics, average real wages have been declining since the mid-1970s. "There is something terribly wrong, terribly un-American, about the fact that the economy's prosperity is bypassing so many working people," Reich asserted.

Is the American dream falling on hard times? Free-market economists dispute Reich's claims. Ohio University professor Richard Vedder points out that Reich's real-wage data do not include fringe benefits, such as medical insurance, paid vacations, and pension plans. When benefits are added, total real compensation per hour has been rising, albeit modestly since the mid-1970s. Moreover, by using another measure of human economic welfare, consumer spending rose a dramatic 40 percent per person in real terms. As Professor Vedder says, "How many Americans in 1975 had VCRs, microwaves, CD players, and home computers?"

In short, measuring the quantity, quality, and variety of goods and services is often a better measure of economic progress than average real wages.

The Dramatic Slowdown in Productivity

Still, there is much to be concerned about. Statistics from the U.S. Commerce Department clearly show that worker productivity has slowed considerably since the mid-1970s. And productivity is the key to rising or falling wages.

Many years ago, F. A. Harper, an economist and staff member of FEE, wrote a grand little book entitled *Why Wages Rise*. He demonstrates that wages aren't high because of unionization or government-imposed minimum wages. Rather, "Higher wages come from increased output per hour of work."[2] Ludwig von Mises adds, "if you increase capital, you increase the marginal productivity of labor, and the effect will be that real wages will rise."[3] Training, new production methods, and updated machinery and technology make workers more efficient and valuable.

How does a nation increase its capital invested per worker? A clue may be found in another interesting statistic: Government debt as a percentage of GDP started rising in the mid-1970s, at the same time real wages stopped growing significantly. Coincidence? I don't think so. Deficit spending crowds out saving and private capital investment and reduces the funds available for training, new tools, and new technology.

Deficit spending isn't the only factor that has slowed the rate of capital formation in the United States. Other determinants are

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(a) heavy taxation and regulation of business, (b) Social Security and other employment taxes, and (c) the tax burden on saving and investment, specifically capital gains, interest, and dividends. All of these factors have kept the U.S. savings rate at a low level, creating a serious capital shortage and slowing productivity gains.

The Hong Kong Model

Hong Kong provides an interesting case study of how the U.S. might increase productivity and thereby reignite the rise in average real wages for Americans. Real earnings in this small Asian colony have been rising steadily and rapidly over the past half-century. Immigration has been high and union membership low in Hong Kong over the years. Yet worker income keeps rising. Why? There are several reasons: A high rate of personal and business savings. Heavy emphasis on education and training. No perennial government deficits. No trade barriers. And most importantly, a flat minimum tax on personal income (15 percent) and corporate income (16.5 percent), a minimal Social Security program, and no tax on capital gains or dividends. In short, there are virtually no limits on the ability of the residents of Hong Kong to save and thus increase the capital per worker. Consequently, wages keep rising.

Here in the U.S., many pundits (including Secretary Reich) will continue to blame our lackluster performance in real wages on big corporations, foreigners, women in the workforce, and lack of union power. But the root cause is the anti-growth policies of government.

Recently there has been a strong movement to overhaul the budget and tax system in the U.S. One proposal favors a flat tax system similar to Hong Kong's. Such a policy change would cause a sharp rise in saving, investment, economic growth, and the standard of living of the American wage-earner. □

1. Juliet B. Schor, *The Overworked American: The Unexpected Decline of Leisure* (New York: Basic Books, 1991), pp. 1–5.

2. F. A. Harper, *Why Wages Rise* (Irvington, N.Y.: Foundation for Economic Education, 1957), p. 19.

3. Ludwig von Mises, *Economic Policy: Thoughts for Today and Tomorrow* (Chicago: Regnery Gateway, 1979), p. 88.

BOOKS

Forgotten Lessons: Selected Essays of John T. Flynn

edited by Gregory P. Pavlik

Foundation for Economic Education • 1995 • 208 pages + index • $14.95 paperback

Reviewed by Paul Gottfried

Greg Pavlik has done a true service by anthologizing and commenting on the essays of John T. Flynn (1882–1964). It is remarkable that a journalist and legal scholar with Flynn's views became a regular contributor to *Collier's* and *Harper's* and a featured columnist of *The New Republic*. Despite his unfashionable stands as a critic of the New Deal and of American military involvement, Flynn remained a celebrated journalist into the post-World War II era. Major commercial presses brought out his books, and as a child, I recall hearing his feisty commentaries on the radio. Until a few years ago, when I began writing my history of American conservatism, I had not heard of Flynn since the 1960s. And then as a card-carrying adherent of *National Review*, which turned down his submissions, I had thought of Flynn as either a Communist or a Nazi. What else could this self-described isolationist have been?

As someone also consigned by the respectable conservative movement to the outer edges of perdition, I believe that the condemnations hurled at Flynn should be seen as a badge of honor. He did not compromise his classical liberal convictions; nor did he rise to the bait and accept William Buckley's price for American participation in the Cold War, "a totalitarian state on our shores for the duration."

As a historian and political theorist, I must disagree with some isolated points in his brief. I do not believe that all acts of military mobilization by the major powers in this century, and certainly not by the United States, have been deliberate maneuvers to increase the power of the welfare state or even attempts to stave off economic depression. In some cases, American and European governments have reacted to real geopolitical threats, while arousing and yielding to popular hysteria, as our own country did in the forties and fifties. In other situations, as when the Wilson administration pushed us into the Great War, cultural bias seems to have played as much of a role as material interests: the Northeastern elites were deeply pro-British and therefore anti-German.

The point that should be made is that the welfare state has benefited from all crusades for democracy. Such fits of frenzy allow public administrators and thought police to run riot, to erase any meaningful distinction between the public and private, and to widen the scope of the welfare-warfare state which Flynn described primarily in its economic dimension at mid-century.

Among his prescient observations, the most impressive are those dealing with the role of the military and technicians in the modern welfare state. Again it is important to recognize that Flynn was writing at a point in time when his perceptions were not yet fully confirmed, but he did intuit the political future from trends that were present fifty years ago. Flynn has been proven right in his view of the military in the modern welfare state, as a microcosm of social experimentation. Revenues raised for conscripted armies have been used throughout the century to support and render dependent on government much of the young male population; the military has also been a laboratory for creating a population subservient to public administration, which has made itself into a new voice of authority.

Flynn rightly notes that military expansion in Imperial Germany was favored not by the Prussian aristocracy, but by the advocates of a powerful modernized German state, including socialists. While the Junkers feared the loss of their social and professional positions in a more dynamic welfare-warfare state, the rising classes, such as workers and various dependents of the new regime, embraced a larger military budget and *Weltpolitik*. In the United States today, which has a much bigger public sector, the military establishment survives even in the absence of any danger that would require its present size. And like Scandinavia far more than Imperial Germany, it is used to carry out programs of social and cultural change put forth by feminists and other governmentally designated victims.

Until recently, journalists and academia persisted in presenting the welfare state as an achievement in scientific planning. In the 1920s Ludwig von Mises had already given the lie to this pretension and showed how thoroughly flawed were the scientific predictions made by socialist planners. But the claim to scientific accuracy among administrative technicians, as

Flynn suggests, typically went beyond economic analysis to the reconstruction of society itself. In what might be described as an understatement about an emerging political reality, Flynn predicted that Americans may soon be restricted in their electoral choices to candidates who are certified public administrators. In point of fact, we do not have even that much choice. Unelected administrators and judicial social engineers arrange our social and political life without having to worry about electoral hurdles. Rotating parties organize the elections while making only minimal efforts to take charge of the government.

There are two strong impressions which the anthology made on me, that did not come from Flynn's own words. One is the account given by his son in the preface about his father celebrating the end of the First World War. Then an editor of the *New Haven Register* (which I grew up reading), the senior Flynn flew a plane over New Haven in November 1918 and marveled at the happy relief of his countrymen below. At that time he hoped that a victorious America would turn its energies inward and presumably restore the freedoms that President Wilson had torn from his fellow-citizens in "making the world safe for democracy."

The second impression to be noted comes from the understandably gloomy views expressed by Greg Pavlik in his introduction to Flynn's essays. Mr. Pavlik, who wrote the most comprehensive and most illuminating review of my work on American conservatism, evokes an American regime that thrives on war and taxes. He depicts Flynn as a voice in the wilderness crying out against what may be irreversible evils. The young John Flynn and the young Greg Pavlik both speak for the foundational beliefs of the American constitutional order: dual federalism, accountable administration, and the sanctity of property. Those are principles which would not have divided even the two polar figures in the American founding, Hamilton and Jefferson. It tells volumes about our own age that the editor of Flynn's essays has such deep and justified doubts about the prospects for liberty in contemporary America. Perhaps, as Flynn feared, we have moved too far into that totalitarian future produced by public administrators to entertain any reasonable hope that the present mockery of the old order can or will reverse itself. □

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Disaster in Red: The Failure and Collapse of Socialism

edited by Richard M. Ebeling

The Foundation for Economic Education • 1995 • 379 pages • $24.95 paperback

Reviewed by Walter Block

What? Yet another book on the evils of socialism! Give me a break. There are already far too many of them; and they are unnecessary especially since the breakup of the Berlin Wall, and the move toward private enterprise in Eastern Europe, China, and, seemingly, everywhere else as well.

If this is your attitude, you are sadly mistaken. True, the forces of collectivism have been reeling of late, but there is still a need for this book, and for any other that tells the socialist story of broken promises, abject failure, economic disarray, and massive killings.

Purely on a practical level, this is a very welcome compilation. While economic collectivism has been renounced in many countries, there are several remaining which still suffer under its painful yoke: North Korea and Cuba come all too readily to mind. If the only function of *Disaster in Red* is to help relieve the misery of the peoples in these lands, it will have been well worth it. Further, while the nations of Eastern Europe have undergone drastic changes, these have not all been in the direction of the free market, limited government system. They are still wallowing almost directionless, and could do with a crash course based on the readings of this book.

Centralized economic planning is no monopoly of present and formerly communist nations. There is also our home-grown variety right here in the United States of America, where leftist messages emanate from the pulpits of many mainstream religions, from the classrooms of many highly respected universities, from the editorial and even news pages of many mainstream publications, and from politicians. We, too, need to be told again and again, in carefully crafted prose, just why it is that free markets are morally and pragmatically preferable to central commands from economic dictators.

But there are more than pragmatic political reasons for bringing out a book. There is also the little matter of the search for the truth, and the pleasure of intense study.

All this and more are afforded us by *Disaster* *in Red.* It is a compilation of 35 essays which have previously appeared in the flagship publication of the Foundation for Economic Education, *The Freeman.* It is a pleasure to have them accessible within the covers of a single volume.

The author list includes several leaders who have long been in the forefront of the intellectual and moral fight against economic oppression (Ludwig von Mises, Henry Hazlitt, Hans Sennholz, Clarence Carson, Sven Rydenfelt), several who are just making national reputations for themselves (Tom DiLorenzo, Gary Anderson, Morgan Reynolds, Yuri Maltsev, E.C. Pasour, James Bovard) and several very promising newcomers (Peter Boettke, David Prychitko, Steven Mosher): a very nice balance.

Section I is devoted to the basic economic fallacies of socialism. Mises starts off by reminding us of the benefits of capitalism (mass production, consumer sovereignty, how in a few short decades our living standards improved from agrarian mercantilistic pre-industrialism to the benefits of a modern economy). Along the way we learn of how the market disrupts caste systems, of the importance of prices, economic calculation, and incentives. Sennholz bats in the clean-up position, offering a blueprint for transforming an economy from command to peaceful cooperation.

In Section II the relationship between socialism and the arts, religion, labor unions, and pollution is explored. Consider the last of the four chapters in this section, the one by Thomas DiLorenzo. We hear so much in the news media about how "capitalist greed" is the cause of environmental degradation, it will come with some surprise (not, of course, to readers of *The Freeman*) to learn that things are worse, far worse, in the countries behind the former Iron Curtain.

The longest section in the book (III) offers a careful consideration of the tragic Russian experience with socialism. This is quite proper, as the Communists held the longest sway in this country, and, with the possible exception of China, did the most damage to the human race. Hans Sennholz provides great insight into the meaning of "economic growth" in the Soviet Union. This serves as an intellectual antidote to economists such as Paul Samuelson, who for years, before the facts became so clear that even they could no longer ignore them, contended that the U.S.S.R. was growing faster than the United States, and would soon catch up. Yuri Maltsev provides an insider's perspective on socialism as it was practiced in Russia, Peter Boettke gives evidence showing that even the communists knew their system didn't work, and Gary Anderson interprets the Soviet system along mercantilistic lines.

Finally, Section IV is given over to the Eastern European, Chinese, and Third World experiences with the philosophy of the "Evil Empire." From China to Cambodia, from Tanzania to Hungary, from Poland to Vietnam to Yugoslavia, the point is the same. A system which ignores private property rights, human rights and economic incentives, which denigrates prices, markets and profits, which prohibits individual initiative, cannot work anywhere on the globe.

Last but not least, Richard Ebeling must be singled out for the initiative in bringing us this collection, and for his stirring introduction—showing how truly inhumane was this experiment in utopianism. This alone is worth the price of admission.

Throughout the twentieth century, Mises and Hayek held a long-running intellectual battle with Oskar Lange and F. M. Taylor and others over the viability of central planning. At one point in the hostilities it was widely believed that the socialist side had "won." Whereupon the men of the left promised to build a bust of Mises, and exhibit it prominently in the main hall of the socialist planning bureau, as a testimony to the help that Mises had conferred on socialism, by trying (albeit failing) to show them the error of their ways.

It would be difficult at the time of this writing (summer 1995) to find virtually anyone in the free world who would now maintain such a position. To a great degree, this was due, one, to the internal contradictions of Communism itself, and, two, to the publications of courageous economists, many of whose writings can be found in between the covers of this book.

Perhaps it would be a good idea to translate *Disaster in Red* into the languages of those who still suffer under the yoke of Communism, and then to drop thousands of copies all throughout their countrysides. A good reason for *not* doing this is that the human race is so given to enthusiasms of this sort that perhaps we need a real live example of Communism in action for all to see—so that we are never tempted down this path again. But this would be cruel and unusual punishment for those who still suffer. Say I, translate and distribute! □

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Henry Hazlitt: A Giant of Liberty

by Llewellyn H. Rockwell, Jr., Jeffrey A. Tucker, and Murray N. Rothbard

Ludwig von Mises Institute • 1994 • 158 pages • $14.95 paperback

Reviewed by William H. Peterson

Last November 28th the occasion of Henry Hazlitt's 100th birthday was celebrated at a testimonial conference and dinner in New York City. Among those presenting tributes to Hazlitt were Lawrence Kudlow, Joseph Sobran, Llewellyn Rockwell, Bettina Bien Greaves, and yours truly.

Why all the ongoing applause?

For good reason: Hazlitt possessed rare courage and insight. And, as Llewellyn Rockwell points out in this volume, through Hazlitt many an American conservative learned free-market economics at a time when statism was rampant in the land.

In 1946, for example, Hazlitt's *Economics in One Lesson* was published. Still available, it's gone through many editions here and overseas, selling around a million copies. In 1959 Hazlitt came out with *The Failure of the "New Economics."* In this book, hailed by the *Wall Street Journal* as a landmark work, Hazlitt delivered a devastating line-by-line refutation of the twentieth-century bible of liberal economics, John Maynard Keynes' *The General Theory of Employment, Interest and Money* (1936).

There are many other enduring Hazlitt contributions, as the bulk of this book, a lifetime bibliography of more than 6,000 entries, makes clear. The bibliography, compiled by Jeffrey Tucker, includes citations of a novel, works on literary criticism, treatises on economics and moral philosophy, several edited volumes, some 16 other books and many chapters in books, plus articles, commentaries, and reviews. The books were annotated by Murray Rothbard. Hazlitt himself estimated he had put out ten million words and his collected works would run to 150 volumes.

What sparked this outpouring? Hazlitt said he was initially inspired by the writing of British economist Philip Wicksteed and later by the work of philosopher Herbert Spencer. But his greatest inspiration sprang from his close friendship with Ludwig von Mises, a friendship starting with his review of the English translation of Mises' *Socialism* in the *New York Times* in 1938. Philosophically Hazlitt and Mises were as one on liberty and its implications for laissez-faire public policy.

Hazlitt's 1944 review in the *New York Times* of *The Road to Serfdom* by F. A. Hayek, a student of Mises, apparently led the *Reader's Digest* to publish a condensed version that helped catapult the book to the bestseller list and later Hayek himself to Nobel Laureate fame.

Hazlitt wrote for *The Nation*, the *Wall Street Journal*, the *New York Times*, *American Mercury*, *National Review*, *The Freeman*, *Newsweek*, among others. Throughout he maintained his editorial integrity and principled defense of a free society. He also managed to write pungently and clearly, winning an accolade from H. L. Mencken that Hazlitt was "one of the few economists in human history who could really write."

Hazlitt's classic *"One Lesson"* pinpoints the free-lunch fallacy of governments which spend and spend to create jobs and public support while forgetting that this spending unavoidably denies commensurate spending by taxpayers which would also create jobs and private support—but on a far sounder basis. That basis is seen in his book attacking the Marshall Plan in 1947, *Will Dollars Save the World?* Hazlitt saw the plan as a big rathole, an international government-to-government welfare scheme. The subsequent history of foreign aid by the U.S. World Bank, International Monetary Fund and others shows how right he was. "Aid" to Africa, for example, has helped stultify a whole continent and its forlorn people for 40 years.

Similarly his books *The Foundations of Morality* and *Man vs. the Welfare State* arrived decades before Charles Murray's *Losing Ground*. In them Hazlitt demonstrated that welfare defies human nature, that it is based on squishy ethics, that it promotes disincentives, that for its recipients it is a future-foreclosing trap, that it deters biological fathers from supporting their own families—that, in sum, it winds up promoting the very thing it seeks to discourage.

So once again Henry Hazlitt proved right thinking provides right answers. "A Giant of Liberty" is an apt eulogy of Henry Hazlitt. As Hamlet said of his father, we shall not look upon his like again. □

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The Bell Curve: Intelligence and Class Structure in American Life

by Richard J. Herrnstein and Charles Murray

The Free Press • 1994 • 845 pages • $30.00

Reviewed by Raymond J. Keating

It is difficult to think of a recent book that has stirred as much controversy as *The Bell Curve* by Richard Herrnstein and Charles Murray. Indeed, the mere idea that one can measure intelligence sends many academics into fits. The notion that intellectual capacity may vary from individual to individual leaves them feeling faint, and the authors' examination of IQ measurements among ethnic and race groups has led to near hysteria.

In fact, *The Bell Curve* is not the vicious, racist book many have described it to be. Instead it is for the most part a methodical look at the statistical relationships between measures of intelligence and various aspects of life. The authors issue an important qualifier to their analysis, which is repeated often throughout the book, but nonetheless ignored by many critics: "measures of intelligence have reliable statistical relationships with important social phenomena, but they are a limited tool for deciding what to make of any given individual. Repeat it we must, for one of the problems of writing about intelligence is how to remind readers often enough how little an IQ score tells about whether the human being next to you is someone whom you will admire or cherish. This thing we know as IQ is important but not a synonym for human excellence."

With this caveat in mind, Herrnstein and Murray go on to explore a host of human endeavors and outcomes, and their link to intelligence. They look at educational attainment, occupations, economic success, poverty, unemployment, injuries, welfare dependency, families and parenting, crime, citizenship, and more. Their conclusion regarding most all of these areas is not exactly controversial: on average, smarter individuals perform better and go farther in life.

As noted, *The Bell Curve* ventures into much more controversial territory when discussing group differences in terms of intelligence measures. They conclude after lengthy analysis that "As far as anyone has been able to determine, IQ scores on a properly administered test mean about the same thing for all ethnic groups. A substantial difference in cognitive ability distributions separates whites from blacks, and a smaller one separates East Asians from whites." The debate over this and related statements by Herrnstein and Murray will rage for years to come. Herrnstein and Murray make a key qualification most of their critics fail to comprehend, namely that regardless of IQ a "person should not be judged as a member of a group but as an individual."

Just as disturbing is the authors' vision of where our society is headed. They see an "increasingly isolated cognitive elite," a "merging of the cognitive elite with the affluent," and a "deteriorating quality of life for people at the bottom end of the cognitive ability distribution." Indeed, they go so far as to declare: "People in the bottom quartile of intelligence are becoming not just increasingly expendable in economic terms; they will sometime in the not-too-distant future become a net drag." They then describe the coming of what they term the "custodial state"—essentially an expanded welfare state with enhanced police powers. This glum assessment sees a larger but more isolated underclass, inner-city child rearing by the state, greater federal powers over social budgets and controls, and even re-emerged and virulent forms of racism.

The problem with this scenario is the same one that plagued past doom-and-gloom prophecies. The authors seem to be saying that advancements for one set of individuals—in this case those with higher measures of intelligence as the marketplace places greater value on intelligence—necessarily lead to a dismal life for others—those less intelligent. Their argument verges on the left's apocalyptic vision of capitalism allowing the rich to get richer at the expense of the poor.

In contrast, capitalism always has improved the living conditions of individuals of all abilities. Herrnstein and Murray offer few convincing arguments to the contrary. Free markets present opportunities for all types of individuals—opportunities that most of us were never able to previously envision. Herrnstein and Murray provide no new insights to lead the reader to believe that individuals with less intelligence will be unable to make a good life for themselves in the future.

However, the authors differ from the left's apocalyptic views in their criticism of the welfare state. They appropriately attack government's increasing role in the daily lives of individuals. They suggest that the responsibility for a "wide range of social functions" be taken away from centralized government and restored "to the neighborhood," that the criminal justice system be made "simpler," and that the government "stop subsidizing births to anyone, rich or poor."

Herrnstein and Murray tread a thin line when it comes to their custodial-state scenario. They recognize the woes of the welfare state, but seem to be saying that the marketplace will accentuate such woes in the future by allowing the cream of society to rise even further to the top than it has in the past. The possibility that capitalism will enhance opportunity for *all* segments of society seems to be given little chance by the authors.

A more optimistic view of the future, to which I subscribe, sees a growing recognition of the evils of the welfare state and big, centralized government, along with an enhanced appreciation for the widespread benefits of individuals interacting in a free marketplace. I think that Mr. Murray and the late Mr. Herrnstein hope that this more optimistic view prevails in the end, but their doubts, as described in *The Bell Curve* run deep. □

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Race, Evolution, and Behavior

by J. Philippe Rushton

Transaction Publishers: New Brunswick, NJ • 1995 • 334 pages • $30.00

Reviewed by Patrick Groff

The common reactions to Richard Herrnstein and Charles *Murray's The Bell Curve* doubtless are familiar to most readers of *The Freeman.* No informed person should feel fully versed on the issues that *The Bell Curve* raises, however, until first reading J. Philippe Rushton's *Race, Evolution, and Behavior.* There are several reasons why Professor Rushton, who teaches at the University of Western Ontario, is an even better source of scientific data on the topic of race and intelligence.

First, Rushton's studies precede those of Herrnstein and Murray. He also has published more extensively on the subject than they have. As Rushton notes, he also began his studies of race-related differences in humans at the time that research of this nature still was welcomed.

Rushton's Ph.D. studies were a deliberate amalgam of evolutional biology, behavioral genetics, psychometrics, neuroscience, and social learning theory. He brings a broader field of reference to the question of race and intelligence than do Herrnstein/Murray.

Rushton also explains better the equation of race and intelligence by stressing the concept of "aggregation" of data. Simply put, this means the more sources of information brought to bear on this issue, the better. Rushton thus examines comparative brain size, physiological maturation rates, personality, family stability, law abidingness, sociopolitical attitudes and organizations, reproductive anatomy and behavior, and health and longevity of three racial groups: Orientals, whites, and blacks.

Rushton proposes no public policy implications for the differences in intelligence between the races that he documents. His statement that "there are no necessary policies that flow from race research," thus contrasts sharply with *The Bell Curve,* which argues otherwise.

As with *The Bell Curve,* however, Rushton's book raises the question as to whether or not it is necessary or vital to publicize the information that black people on the average score a standard deviation (15 points) below the average score of whites (100) on the normal distribution curve of intelligence, and 21 points below the average score of Orientals (106). Rushton implies that his answer would be, "On what grounds is it proper to suppress this evidence? If the science of human characteristics is aimed at specifying the precise differences among humans (there would be no need for any such scientific investigation, of course, if humans all were the same in this regard), under what guise should we expurgate the evidence of racial differences in intelligence?" As an experienced scholar, Rushton does not shy away from this battle, however, since for him it "is over nothing less than how to conceptualize human nature."

Rushton, along with the authors of *The Bell Curve,* found few social scientists today willing to accept the legitimacy of the scientific evidence on the relationship of race and intelligence, rejecting it out of hand as reactionary, or worse yet, as racist. In this regard, Rushton is accused, he reveals, of working "to justify existing social inequities." He harbors a racist motive, it is said, for selecting race and intelligence as a topic of study.

Finally, the evidence that Rushton cites is not viewed by his detractors as enhancing the main goal most commonly given of modern social science and education, i.e., the promotion of such things as cultural and ethnic pluralism, feminism, relational ethics, affirmative action as an end to meritocracy, pacifism, and democratic socialism. Rushton would seem to sense this, but adds that "an ideology that tacitly appeals to biological equality as a condition for human emancipation corrupts the idea of freedom." Liberty and individual differences are not mutually exclusive principles.

Decent men therefore must not tremble at the prospect of inconvenient findings emerging from scientific research—not even from studies of racial differences. This is perhaps the best reason one can find for defending the publication of controversial books such as his. Free societies have no option but to preserve science as a truly unfettered source of information. The unrestricted flow of facts is the lifeblood of their existence. □

Dr. Groff is Professor of Education Emeritus at San Diego State University.

Gold and Liberty

by Richard M. Salsman

Great Barrington, Mass.: American Institute for Economic Research • 1995 • 145 pages • $8.00 paperback

Reviewed by Robert Batemarco

About five years ago, a young banker sat next to me on the commuter train I take home from work. Noticing that I was reading about central bank policies, he engaged me in conversation on that topic. He enthused about the Fed and the "great job" it was then doing fighting inflation. "You know," I said to him, "fighting inflation is the last thing the Fed, or any central bank, for that matter, is about." Just as I was getting started, the train arrived at my station. While he seemed open to my line of reasoning, I'll never know if my words made any impact.

The discussion I was barely able to initiate on that train is ably executed from start to finish by Richard Salsman in *Gold and Liberty*. He identifies gold as the only money consistent with the free market. Central banking, on the other hand, supported by the belief that free markets are incapable of adequately serving our monetary needs, is exposed by Salsman as "nothing but central planning applied to money and banking." He uses history to illustrate that central banks were established to put more resources in the hands of spendthrift governments. This, and not preventing inflation and business cycles, is the one activity at which they have ever had any modicum of success. Salsman lays low the old canard that the classical gold standard worked only because of the tender ministrations of the Bank of England, showing rather how its sterilization policies actually broke the rules necessary for the gold standard's survival.

Gold money is more to Salsman than the key to combatting inflation, however. He sees it as indispensable to any truly free society. He quotes Henry Hazlitt to the effect that, "the gold standard is not an isolated gadget, but an integral part of the system of free enterprise and limited government, of good faith and law, of promise-keeping and the sanctity of contract." This is a far cry from the "unpredictability, politicization, inflating, and cheating," that Salsman correctly characterizes as the hallmarks of central banking.

Salsman sees free banking as another element of the integrated system of which gold is a part. In his eagerness to defend that arrangement, he sometimes overstates his case. To deny, as he does early in the book, the existence of any credit expansion or panics under a free banking regime is to ignore the nature of fractional reserves as well as the relevant history. While fractional reserves may well do less harm under free banking than central, they cannot be as stable as a system based on 100 percent reserves. A comparison of these alternatives would have been enlightening.

Despite this and some objectivist swipes at religion, *Gold and Liberty* makes a solid case that the road to liberty is paved with gold. It shows central banking, on the other hand, to be not only a gross infringement on our liberty in its own right, but to open the door to many other forms of mischief. I certainly hope my young banker friend gets to read it. □

In addition to editing the book review section of The Freeman, *Robert Batemarco is a marketing research manager in New York City and teaches economics at Marymount College in Tarrytown, New York.*

The Case Against the Fed

by Murray N. Rothbard

Ludwig von Mises Institute • 1994 • 158 pages • $9.95

Reviewed by Douglas E. French

After 80-plus years of inflation and devastating booms and busts, how do we get rid of the cause of these economic cancers? "The only way to do *that* is to abolish legalized counterfeiting: that is, to abolish the Federal Reserve System, and return to the gold standard," answers Murray Rothbard in his book *The Case Against the Fed.*

For students who did not have the opportunity to take United States Economic History from the late Dr. Rothbard, this slim volume will give you an idea of what his classes were like.

Dr. Rothbard never bored his students with sterile graphs or convoluted equations. Neither does this book. This story of the Federal Reserve is about good guys, bad guys, and self-serving politicians helping their rich and famous friends. Also interesting is Rothbard's discussion of nineteenth-century British case law that paved the way for fractional reserve banking. Rothbard points out that, with bailment law undeveloped in the nineteenth century, bankers were able to win three important court cases culminating with the *Foley v. Hill and Others* case in 1848. In this case, the House of Lords decided that bankers contract for an amount of money, but not necessarily to keep that particular money on hand.

Rothbard lays to rest the myth that the Panic of 1907 led to the creation of the Fed. Bankers began scheming for a central bank after William McKinley defeated William Jennings Bryan in the 1896 presidential election. Long gone were the days of the hard-money Jacksonian Democratic party, and the populist Democrat Bryan pushed for monetizing silver to increase the supply of money. Wall Street's bankers supported McKinley, not wanting inflation that they couldn't control.

The Panic of 1907 was used to whip up support for a central bank. But, it was the meetings of the Indianapolis Monetary Convention that started the political wheels turning, culminating in the passage of the Federal Reserve Act in December of 1913.

With the system in place, all that was needed was the "right" man to control the money machine. In 1914, that man was Benjamin Strong, then president of J. P. Morgan-owned Bankers Trust and best friend of Morgan partners Harry P. Davison, Dwight Morrow, and Thomas W. Lamont.

Strong ruled the Fed until his death in 1928. During World War I, he engineered a doubling of the supply of money, financing the U.S. war effort.

The continuous Fed propaganda is that a zealous public clamors for more inflation, and only the Federal Reserve's cool heads are standing in the way of a hyper-inflation armageddon. Of course, just the opposite is true. As Rothbard points out, "The culprit solely responsible for inflation, the Federal Reserve, is continually engaged in raising a hue-and-cry about 'inflation,' for which virtually *everyone else* in society seems to be responsible. What we are seeing is the old ploy by the robber who starts shouting 'Stop, thief!' and runs down the street pointing ahead at others."

Rothbard saves the fun part of dismantling the Fed for last. Liberty lovers are always being told that, "your ideas sound good, but how are you going to get there from here?" Rothbard has given us simple directions for the Fed's liquidation.

With the Fed abolished, banks would be on their own; no more lender of last resort, or taxpayer bailouts. The inflation dragon would be slain. The boom-and-bust roller coaster ride leveled.

The Case Against the Fed is part history, part polemic, and part policy paper, succeeding with all three. Murray Rothbard has written another classic. □

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PERSPECTIVE

Whose Economics, Which Economic Liberalism?

Robert Lucas, a professor of economics at the University of Chicago, was awarded the 1995 Nobel Prize in Economic Science in October. The Swedish Royal Academy of Science declared that Lucas was "the economist who has had the greatest influence on macroeconomic research since 1970." To economists of my generation, Lucas' approach to economic science has been treated as the methodological gospel. But as pundits quickly pointed out, Lucas' theories had a tremendous public-policy influence by bursting the Keynesian hubris of the profession that was dominant in the 1950s and 1960s.

Lucas' theoretical innovation was to insist that the behavioral assumptions of so-called macroeconomic theory had to be consistent with those employed in microeconomic theory. Economic actors cannot be assumed to be persistently fooled by policy-makers. Rational actors will come to know the model of the economy that policy-makers are employing in designing policy.

At first blush, the policy implication of Lucas' "rational expectations hypothesis" was that traditional Keynesian policies of fine-tuning were flawed because they failed to take into account how economic actors would anticipate government policy. If unemployment, for example, rises by a couple of percentage points, then traditional Keynesian theory suggests that the Federal Reserve should ease monetary policy to combat this rise. But if union leaders watch Fed policy, they will notice that loosening monetary policy will lead to inflation and thus will adjust future wage demands upwards. In doing so, they will offset completely the intended effect of the fine-tuning policy. Unemployment will not be reduced, but inflation will persist. Only unanticipated policies will have an effect on the economy; anticipated policies will be fully incorporated in the decision-making of economic actors. Stable and predictable rules in policy will outperform the discretionary fine-tuning of Keynesian economic policy in terms of combating inflation and unemployment, and promoting economic growth.

Subsequent developments in economic theory have questioned this first-blush policy implication, but the technique of "rational expectations" became part of the staple tool-kit of modern economists. On a theoretical level, Lucas led a revolution intended to eliminate the unnecessary split between microeconomic and macroeconomic theory, and the loose theorizing that resulted from that split. On a policy level, Lucas dealt the old Keynesian system its final blow. Mises and Hayek had challenged the theory at its core (and were largely ignored). Milton Friedman had shown its internal theoretical and empirical weaknesses, James Buchanan had demonstrated the shortcomings of its political economy, but Lucas destroyed the logic of the entire enterprise. In this sense, Lucas harked back to the pre-Keynesian theories of monetary economics and appeared to be offering a "neo-Austrian" theory. In fact, Lucas acknowledged this influence in the early 1970s. With the failure of the Keynesian system, it was time to reassess the writings of scholars such as Mises and Hayek, especially Hayek's work on the business cycle.

Lucas' translation of Hayek's project into modern technical economics, however, was challenged quite quickly by such contemporary Austrian economists as Gerald O'Driscoll, Roger Garrison, and William Butos. The model that Lucas had built, which certainly possessed a certain laissez-faire conclusion to it, was not consistent with many of the core claims of Austrian economics from Menger to Mises. Austrians no doubt rejected the split between microeconomics and macroeconomics, and they postulated that economic actors learn and adjust their behavior accordingly through time. But Lucas treated choice as a mechanical procedure; the choice environment was not one of uncertainty and ignorance, but rather one of risk and rational search. Moreover, the theoretical and policy implications of the logic of this situation were unsettling to economists of Austrian sensibilities—e.g., money was assumed to be neutral and simply a veil, not the essential link in transactions.

No doubt the logic of Lucas' argument was impeccable, and no doubt the implication of his economic logic was largely a non-interventionist position, so why aren't contemporary Austrian economists rejoicing in the honor bestowed upon Lucas by the Nobel committee?

Austrian economics is not just free-market economics—it is something much more than that. Not all arguments that favor the free market over government intervention are equal. As economic scientists all we are entitled to ask is "How does theoretical innovation improve our understanding of human action and social cooperation?" On the other hand, as intellectuals and enlightened citizens it is incumbent on us to ask "Whose economics, which economic liberalism?"

If we allow modeling techniques to crowd out questions about human behavior which cannot fit into the model, yet are essential for understanding how the market functions to coordinate our decisions, then the simplified model will distort our view of the market. If this "weak" view of the market economy is then employed as a background to a defense of economic liberalism, then the case for economic liberalism will also be weak and vulnerable to challenge.

Robert Lucas is a brilliant man. But his theory of human behavior fails to account for the diversity of individual perception, his theory of market equilibrium mischaracterizes the economic order, and the policy implications that flow from his theories render the laissez-faire position vulnerable on several fronts (something that has already been exploited by New Keynesian economics of the type championed by Joseph Stiglitz and Gregory Mankiw).

Modern economic research, as influenced by Lucas, has produced ever more refined techniques and models, but the cost of this increased specialization has been a loss of relevance for the broader human conversation. Economic science has become increasingly narrow and inaccessible to the layman. But as Ludwig von Mises argued:

> It is a fateful error on the part of our most valuable contemporaries to believe that economics can be left to specialists in the same way in which various fields of technology can be safely left to those who have chosen to make any one of them their vocation. The issues of society's economic organization are every citizen's business. To master them to the best of one's ability is the duty of everyone.

Thus, we can agree that Lucas has greatly influenced modern economics, yet—despite substantial agreement in the policy arena—still express concern that economics has been pushed to become increasingly precise about less and less, thus losing its relevance for the everyday life of business and politics.

—PETER J. BOETTKE
Guest Editor

THE FREEMAN
IDEAS ON LIBERTY

The Arts in a Free Market Economy

by Tyler Cowen

Capitalism has proven to be the most favorable system for the arts, letters, and music. Most renowned Western creators, from Michelangelo to Mozart to Monet, succeeded in the marketplace. Shakespeare wrote for profit and marketed his plays to a wide public audience. Marcel Proust did not write bestsellers but nonetheless lived off the capitalist wealth of his family to produce his innovative *Remembrance of Things Past.* The essence of capitalism—bringing producer and consumer together—is a prescription for producing and distributing great art.

Markets base artistic success on inspiring, entertaining, and educating other human beings, rather than on force or on political privilege. In a market economy, support for creative endeavors can be obtained only by convincing other individuals—whether customers or patrons—that the project is worthwhile. Free markets therefore provide the material analog of the concepts of free speech and persuasion.

The market economy encourages artistic production through diverse means. Growing wealth, for instance, enables more individuals to pursue artistic vocations. Today the world supports a greater number of full-time artistic creators than ever before. The market economy also has freed mankind from tiresome physical labor and has given our creative flights of fancy increasing room to grow and flourish. Higher standards of living give individuals more time to produce and consume art. A wealthy and comfortable society is also a beautiful society.

Money fertilizes the artistic spirit. Paul Cezanne lived from family allowances and inheritances. Poet Wallace Stevens worked as an insurance claimsman and William Carlos Williams worked as a doctor. T.S. Eliot worked in a bank while he wrote poetry. Paul Gauguin first accumulated his savings while working as a stockbroker and only later pursued a career in art.

Other artists have engaged in the pursuit of money through their art itself. Mozart once wrote to his father: "Believe me, my sole purpose is to make as much money as possible; for after good health it is the best thing to have." Mozart was a keen bargainer who reaped the maximum profit from each concert or composition. Charlie Chaplin once remarked: "I went into the business for money and the art grew out of it." These great creators did not "sell out," but rather turned their personal visions into material profit by reaching large numbers of eager customers.

Artistic Diversity

Wealthy economies will support a diverse set of artistic visions. Financial security

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gives artists the scope to reject societal values. Bohemian and avant-garde artists, in spite of their frequent protests against capitalism, owe their existence to that system. Artists who do not care much about money are a luxury that can be afforded only in wealthy societies.

The falling prices of artistic materials, brought on by technical progress, allowed the Impressionist and Post-Impressionist painters to subsist on the margins of society, outside the mainstream cultural establishment. Later, the Impressionists achieved riches and fame by setting up independent networks of commercial distribution for their artworks.

We tend to take artistic materials for granted, but the affordability of these materials required entrepreneurial innovation through markets. The artistic Renaissance of the Italian city-states sprang out of the growth of medieval commerce, which made painting, marble sculpture, and bronze casting affordable on a large scale. The literary revolution came to England in the eighteenth century when the Industrial Revolution lowered the cost of paper and increased consumers' book-buying incomes. Blues, rock and roll, and jazz required the medium of electronic recording to spread and support themselves. Digital technology may well create new forms of art for our future.

The technologies of capitalism not only spur the future but also preserve the past through video cassettes, recordings, and picture book reproductions. The modern viewer has better access to Shakespeare than the Elizabethans did, and the modern listener has better access to any classical composer than did the peers of that composer. More individuals watched Wagner's Ring Cycle during one television showing than have seen it during all the live performances that have ever been staged.

The increasing division of labor in a market economy also increases artistic diversity, as recognized by Adam Ferguson and Adam Smith. Music, literature, and the arts have all given birth to a growing number of diverse genres and sub-genres. The greater the size of the market, the greater the number of artistic forms that creators can earn a living from. Whereas authors in the eighteenth century could support themselves only by writing bestsellers, today's authors can earn good money in a variety of genres, including science fiction, mysteries, biographies, and travel books, to name but a few examples of many.

Artists have enjoyed increasing creative freedom over time. Unlike in previous eras, today's artists are not dependent on a single patron or customer. When artists do rely on a single patron, the artist must produce to meet the tastes of that patron or lose support. A multiplicity of sources of financial support allows artists to pick and choose projects to suit their tastes. Michelangelo, who faced strong market demand for his services in Florence, was able to walk away from his work on the Sistine Chapel when a conflict arose. He returned only when Pope Julius allowed him to finish the project to suit his desires.

Cultural outsiders—such as African-Americans, Jews, and women—have their best chance of artistic success in a market economy. Blues music, kept off the radio at first, moved into the jukeboxes, a decentralized means of product delivery attuned to consumer tastes. Jewish immigrants—drawing on their retail capital and expertise—set up Hollywood studio empires to distribute their cinematic product. Women writers received little support from patrons and governments but connected with a wide readership once a market for novels arose. Capitalist corporations, who seek to market new ideas for profit, are more effective supporters of true multiculturalism than the "political correctness" advocates are.

The modern split between high culture, those creations receiving the most critical recognition, and "low" culture, the most popular creations, reflects the diversity and sophistication of our culture, not its corruption. Modern artists can target niche audiences and take more chances. The best works need no longer fit the most popular style. The massive amount of cultural "trash" around today—while it distresses

The 1878 loan exhibition of miscellaneous **objets d'art** *at The National Academy of Art in New York reflected the tremendous growth in the interest in decorative art during that era.*

many observers —is actually a symptom of the diverse artistic riches that we enjoy.

Enter, the NEA

Despite the historical successes of markets in supporting culture, the American government initiated the National Endowment for the Arts in 1965. Yet even well before the creation of this agency, America led the world in modern art, popular music, and cinema, while also holding strong positions in literature, poetry, and contemporary classical composition. America's private museums and symphony orchestras have been the envy of the world. Supporters of government arts funding seek a contradictory goal. They want to enjoy the benefits of a wealthy political elite without suffering the costs. We end up with the National Endowment for the Arts—an institution with an impossible mandate. It is supposed to deliver the benefits of aristocratic arts spending while remaining accountable to a political system based on the rule of law. In practice government funding has supported a cult of mediocrity. The NEA funds either bland, establishment efforts or more controversial exhibits (e.g., Robert Mapplethorpe, Andres Serrano) that offend its taxpaying supporters and violate its democratic mandate.

Advocates of government funding portray themselves as progressives but they actually support a historically reactionary position. Music and the arts have been moving away from government funding since the Middle Ages. The Renaissance, the Enlightenment, the nineteenth-century Romantic movement, and twentieth century modernism all brought art further into the market nexus. Most of the important work in film, music, literature, painting, and sculpture—whether from the present or from the past—is now sold as a commodity. In the current debates over government funding, we should not forget that the history of art is a history of the struggle to establish markets. □

THE FREEMAN
IDEAS ON LIBERTY

Ludwig van Beethoven's Joyous Affirmation of Human Freedom

by Jim Powell

Ludwig van Beethoven inspired the world with his titanic liberating spirit. "His emotions at their highest level were almost godlike," declared critic H.L. Mencken, "he gave music a sort of Alpine grandeur."

A bold maverick, Beethoven broke free of conventional forms, so music could plumb the depths of despair, express heroic struggles and reach astonishing peaks of joy. Beethoven scholar Robert Haven Schauffler: "Whenever the spirit moved him he could squeeze blood out of bricks. And he made rubies of the blood, and platinum out of the residue of the bricks, and organized these products into miracles of design. . . ."

Beethoven took orchestral music out of aristocratic salons and into packed concert halls. After 1815, he composed mostly for publishers rather than patrons. He was proud to have pioneered a commercial market where composers earned a livelihood from the rights to their work. "What I am," he wrote, "I am through myself."

Beethoven was an outspoken republican amidst a continent of kings. He was outraged after Napoleon, who long claimed to uphold republican principles of the French Revolution, had himself crowned emperor. Beethoven admired England for its House of Commons, and he liked to follow Parliamentary debates reported in the German language newspapers. "The sum of his message was freedom," observed critic Paul Bekker, "artistic freedom, political freedom, personal freedom of will, of art, of faith, freedom of the individual in all aspects of life."

To be sure, Beethoven was tormented by demons. He endured a rude upbringing and chronic health problems, especially deafness, and his personal life was a mess. He neglected his appearance so badly that he was once mistaken as a tramp and arrested. His apartments—he moved dozens of times—were strewn with old food and dirty clothing. His handwriting was virtually illegible. He couldn't keep track of money. Longing for domestic happiness, he courted a succession of women but was rejected by every one. He never married.

He was impossible for most people to deal with. He was a suspicious person who often accused friends of cheating him, and by the end of his life there were few left. He had a volatile temper. When a waiter brought him the wrong dish and wasn't apologetic enough, Beethoven threw it at his head. He was so obnoxious to an orchestra during rehearsal that the musicians wouldn't continue unless he left the room. Lost in his thoughts, he sometimes seemed like a wild man. Once he waved his arms as he walked

Mr. Powell is editor of Laissez-Faire Books and Senior Fellow at the Cato Institute. He has written for The New York Times, The Wall Street Journal, Barron's, American Heritage, *and more than three dozen other publications.*

across a field, scaring a pair of oxen, and they took off down a steep hill, pulling a panicked peasant behind.

Yet these personal failings are dwarfed by his music. He expressed a love of liberty in ways millions could understand. He gave the world the most glorious affirmations of human life.

Contemporaries commented on the extraordinary intensity of the man. "Everything about his appearance," observed Dr. W. Christian Muller in 1820, "is powerful, much of it coarse, like the raw-boned structure of his face, with a high, broad forehead, a short, angular nose, with hair standing up and divided into thick locks. But he is blessed with a delicate mouth and with beautiful, eloquent eyes which reflect at every moment his quickly changing ideas and feelings."

Early Genius

Ludwig van Beethoven was born December 16, 1770, in Bonn. He had Dutch-Flemish, ancestors which is why it's "van" rather than the German spelling "von." He was the eldest surviving child of Maria Magdalena, a maid. Four of his six siblings died in infancy. His father, Johann Beethoven, was a tenor in the choir of Maximilian Friedrich, Elector of Cologne.

Early on, Beethoven displayed musical talent. Hoping to strike it rich, his father pushed him hard. He took piano lessons from the time he was four years old. He devoted most of his waking hours to the piano. He often practiced till midnight, improving his techniques and trying new variations. At eight, he gave an impressive public performance. Six years later, he was playing the harpsichord, viola, and organ in the Elector's orchestra. The Elector, an enlightened prince who promoted intellectual freedom, paid expenses to have him visit Vienna which was Europe's musical capital.

There, probably in April 1787, 16-year-old Beethoven met the 31-year-old reigning musical genius Wolfgang Amadeus Mozart. After hearing the young man's facility for improvisation, Mozart declared: "Keep your eyes on him; someday he will give the world something to talk about." Beethoven seems to have taken a few lessons from Mozart, but their visits were cut short when both got bad news about their families. Mozart's father, Leopold, died May 28, 1787. Beethoven's mother suffered from tuberculosis, and he returned home to see her die, July 17, 1787. "She was such a good loving mother, my best friend!" he wrote.

Although Beethoven's formal education ended at age 11, he attended some classes at the University of Bonn. A highlight were lectures on literature, ethics, and law by the anti-clerical republican Eulogius Schneider. Beethoven loved to hang out at the *Zehrgarten*, a tavern and bookshop where radical intellectuals gathered. Like so many German artists and thinkers of that period, Beethoven believed passionately in individual liberty.

Johann Beethoven spent much time in taverns, and by 1789 Ludwig became the head of household, responsible for supporting his two younger brothers. He began giving piano lessons for a wealthy family. An aristocratic admirer, Count Ferdinand von Waldstein, sometimes sent money.

The following year, the influential composer and performer Franz Joseph Haydn, then 58, stopped in Bonn on his way back to Vienna. Beethoven played him a cantata he had composed, and Haydn offered enough encouragement that Elector Maximilian Friedrich provided funds so Beethoven could study with Haydn in Vienna. He arrived on November 10, 1792, and never looked back. Music was mainly chamber music offered in private performances for aristocrats—leading families had staff musicians. While patrons provided some money, fine clothing, and other amenities, they expected fashionable tunes. Patrons paid for performance rather than composition, but Beethoven was determined to make it as a composer.

He became restless with Haydn's musical formulas and insisted on charting his own course. He took violin lessons from Ignaz Schuppanzigh. He went to Antonio Salieri, director of the Vienna Opera, for lessons on composing for the voice. He learned counterpoint from Johann Georg Albrechtsberger, Vienna's most famous teacher of composition and author of an internationally respected book on the subject.

Count Waldstein helped introduce Beethoven to Vienna's aristocratic music patrons, and by the mid-1790s he ranked as the most popular pianist with a powerful style. He excelled at improvisation. Ferdinand Ries, who studied with both Haydn and Beethoven, recalled: "No artist that I ever heard came at all near the height which Beethoven attained in this branch of playing. The wealth of ideas which forced themselves on him, the caprices to which he surrendered himself, the variety of treatment, the difficulties, were inexhaustible." Beethoven gave successful performances in Prague and Berlin as well as Vienna.

The French Revolution—before the Terror—had inspired musicians to turn away from light entertainment and pursue more serious themes. Beethoven began to imbue his compositions with high moral purpose. Among his most notable early efforts: the First Symphony (1800), C minor Piano Concerto no. 3 (1800) and C sharp ("Moonlight") piano sonata (1801).

What was it like for him to compose? "From the focus of enthusiasm," he told one lady friend, "I must discharge melody in all directions; I pursue it, capture it again passionately; I see it flying away and disappearing in the mass of varied agitations; now I seize upon it again with renewed passion; I cannot tear myself from it; I am impelled with hurried modulations to multiply it, and, at length I conquer it: behold, a symphony!"

He was extraordinarily resourceful. "It would be hard to think of a composer, even of the fourth rate," observed H.L. Mencken, "who worked with thematic material of less intrinsic merit. He borrowed tunes wherever he found them; he made them up out of snatches of country jigs; when he lacked one altogether he contented himself with a simple phrase, a few banal notes. All such things he viewed simply as raw materials; his interest was concentrated upon their use. To that use of them he brought the appalling powers of his unrivaled genius."

After about 1800, Beethoven was clearly departing from Haydn and Mozart, and some influential critics objected. A critic for the *Allgemeine Musikalische Zeitung* wrote: "Herr von Beethoven goes his own gait; but what a bizarre and singular gait it is! . . . a heaping up of difficulties on difficulties till one loses all patience and enjoyment."

Meanwhile, Beethoven had exulted in the republican ideals of the French Revolution and was jolted both by the violent excesses and the severity of the reaction against it. The Austro-Hungarian Emperor jailed republican activists. "The soldiers are heavily armed," Beethoven warned a friend. "You must not speak too loud here or the Police will give you lodgings for the night."

Beethoven's first great work, the Third "Eroica" Symphony (1803), seems to have been inspired by struggles against tyranny. He used new combinations of instruments and harmonies which hadn't been heard before. Whether or not Beethoven originally dedicated this symphony to Napoleon, as legend has it, he was disgusted when Napoleon brazenly betrayed republican principles and became an emperor.

In 1805, Beethoven experienced tyranny firsthand as Napoleon unleashed the full fury of his Grand Army across the European continent. On November 13th, 15,000 French soldiers entered Vienna. They occupied private homes, seized food and any other valuables they could get away with. Napoleon demanded that the Viennese pay tribute of 2 million francs and cover the cost of maintaining several thousand French soldiers in the city. Beethoven suffered inflation, food shortages, and military rule like everyone else.

Beethoven was further distracted by poor health. Since 1799, he had suffered from chronic stomach trouble and diarrhea. Then came ominous signs of hearing trouble. "My ears hum and buzz all the time, day and night," he wrote. "I can truly say my life is miserable, for two years I have avoided almost all social gatherings because I can't possibly say to people 'I am deaf . . . in the theater, if I am a little way off I don't hear the high notes of the instruments or singers. . . ." By 1812, he could hear people only when they shouted at him. Four years later, he would endure silence.

The loss of hearing made clear that Beethoven's future would have to be as a composer, not a performer. Between 1803 and 1812, he created one masterpiece after another. Besides the "Eroica," Beethoven composed the Fifth Symphony (1808), which music critic Irving Kolodin noted is the most frequently performed of all orchestral works. During this period, Beethoven also produced his Fifth Piano Concerto (1809). Historians Will and Ariel Durant commented: "Of all his works, this is the most lovable, the most enduringly beautiful, the one of which we never tire; however often we have heard it, we are moved beyond words by its sparkling vivacity, its gay inventiveness, its inexhaustible fountains of feeling and delight." Beethoven created so much more at this time, including his G major Piano Concerto no. 4 (1806), Violin Concerto (1806), F minor "Appassionata" Piano Sonata (1806), F major Symphony no. 6 (1808), A major Symphony no. 7 (1812), and F major Symphony no. 8 (1812).

Beethoven often worked and reworked his ideas until he was satisfied. His most arduous creation was the opera *Fidelio*. In 1803, he was commissioned to write an opera which would be performed at Vienna's Theater an der Wien. Rather than do the fashionable light entertainment about the sexual escapades of aristocrats, he chose a serious subject—the liberty of ordinary people. He turned to a libretto by Josef Sonnleithner, based on *Leonore, or l'Amour conjugal*, a story by J.N. Bouilly. It was based on actual events during the French Revolution's Reign of Terror. To protect the living, the story was discreetly set in Spain.

It involves Florestan, imprisoned for telling the truth about corrupt tyrant Pizarro. He decides that Florestan must be murdered, but Florestan's wife, Leonore, becomes a prison assistant, stops the murder attempt and helps expose Pizarro.

Beethoven lacked dramatic experience, and although there was much inspiring music, the work was a mishmash. The first performance, on November 20, 1805, wasn't well received. Several months later, Beethoven met with his principal patron Prince Karl Lichnowsky who persuaded the composer to make a number of cuts. Beethoven, in turn, rewrote the overture, producing Leonore Overture No. 2, then the more ambitious Leonore Overture No. 3 which introduced the next performance on March 29, 1806. It was still a long way from satisfactory.

In 1814, three Viennese artists suggested that they perform *Fidelio* as a benefit for him. This stimulated him to again try resolving problems with the work. He had more experience and perspective on it. He enlisted a collaborator, Georg Friedrich Treitschke, a Viennese playwright who significantly strengthened the story and dialogue. Beethoven did a tremendous amount of rewriting—a single aria of Florestan's went through 18 revisions. The new *Fidelio* opened on July 18, 1814, and this time it was a hit.

French composer Hector Berlioz declared: "That music sets your insides on fire. I feel as if I'd swallowed fifteen glasses of brandy." Music critic Kolodin attributed some of the appeal to Beethoven's "enkindling response to human distress, his abhorrence of injustice, his compelling belief that rank is an accident of birth and superiority a condition of the person who demonstrates it."

Beethoven's most famous work, his D minor Ninth Symphony, marked a return to his heroic style after exploring more intimate themes. He drew on ideas going back more than 30 years. Musical lines in the chorale, for instance, originally appeared in the Joseph cantata of 1790. He had wanted to write music for Friedrich Schiller's poem "An die Freude" ("Ode to Joy") ever since he read it soon after publication in 1785. In 1812, he turned from writing the Seventh and Eighth Symphonies to note some ideas for the chorale movement of a D-minor symphony.

In 1822, Beethoven was commissioned by the Philharmonic Society of London to write a symphony. He began work in D minor. At about the same time, he started sketching a D minor "sinfonie allemande" with a chorale finale, probably with Schiller's "Ode to Joy." The projects merged somewhere along the line. During the first half of 1823, Beethoven struggled with the first movement, based on a melody he had sketched about six years before. Then he tackled the second and third movements simultaneously. By about August, he finished the second movement. After many revisions, the slow third movement was done in mid-October.

Meanwhile, perhaps in July, he had sketched a melody identified as "Finale instromentale." Scholars don't know when he set it aside—he later adapted the melody for the finale of his A minor Quartet, Op. 132—but he resolved that the fourth movement would reach a chorale climax with Schiller's "Ode to Joy." He edited the poem, cutting lines which made it sound a bit like a drinking song. The result was a simpler, more powerful affirmation of life. Integrating the chorale into the symphony proved to be Beethoven's toughest challenge. When finally he figured out how, he exclaimed to his assistant Anton Schindler, "Let us sing the song of the Immortal Schiller." All the sketching was done by year-end, and the score was written out in February 1824.

The first performance was set for May 7, 1824, at the Karnthnerhor Theater, a double-billing with his new Missa Solemnis. Around 12:30 p.m., Beethoven lifted his baton. Violinist Joseph Bohm recalled that the composer "stood in front of the conductor's stand and threw himself back and forth like a madman. At one moment he stretched to his full height, at the next he crouched down to the floor, he flailed about with his hands and feet as though he wanted to play all the instruments and sing all the chorus parts." The performance was interrupted by applause many times. Afterward, Beethoven was preoccupied with his score, and mezzo soprano Caroline Unger tugged on his sleeve, indicating that he should turn around to acknowledge the cheers.

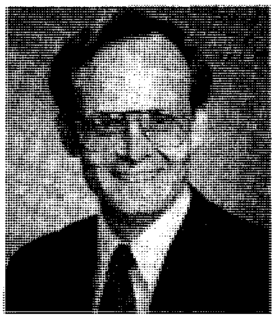
"The Ninth Symphony," noted Irving Kolodin, "possesses a cachet, an aura, an identity not commanded by any other work in the orchestral literature. It stands taller, strides longer, reaches higher toward the Infinite than any work even remotely like it."

As historian Paul Johnson observed, "There was a new faith, and Beethoven was its prophet. It was no accident that, about this time, new concert halls were being given temple-type facades, thus exalting the moral and cultural status of the symphony and chamber music."

In December 1826, Beethoven began suffering from a severe cough. Soon pains shot out from his liver and intestines. His feet became tremendously swollen. On March 26, 1827, he went into a coma. There was a violent thunderstorm, and for a moment Beethoven opened his eyes, raised his right hand and clenched his fist defiantly toward the heavens, then collapsed forever.

Three days later, an estimated 20,000 people lined the streets as eight musicians carried his coffin to Trinity Church of the Minorities, and afterward four horses took it to the cemetery at Wahring. Even the mighty royal house of Hapsburg honored this man who had created such inspiring affirmations of human life. The grave was marked by a pyramid inscribed with a single explosive word: "Beethoven."

More than a century and a half later, after restless Germans rebelled against Communist tyranny and pulled down the Berlin Wall, conductor Leonard Bernstein gathered musicians from East and West Germany for a performance of Beethoven's Ninth Symphony. He changed the word *Freude* ("joy") to *Freiheit* ("freedom") throughout the chorale, because Beethoven's work resonated with the spirit of freedom, and it was past time to make this explicit. Declared Bernstein: "If not now, when?" From Berlin, on Christmas Day 1989, the climactic "Ode to Freedom" was heard round the world. A joyous celebration of freedom goes on wherever people can hear Beethoven. □



The Quackery of Equality

"Free people are not equal, and equal people are not free."

I wish I could remember who first said that. It ought to rank as one of the great truths of all time, and one that is fraught with profound meaning.

Equality before the law—that is, being judged innocent or guilty based on whether or not you committed the crime, not on what color, sex, or creed you represent—is a noble ideal and not at issue here. The "equalness" to which the statement above refers pertains to economic income or material wealth.

Put another way, then, the statement might read, "Free people will earn different incomes. Where people have the same income, they cannot be free."

Economic equality in a free society is a mirage that redistributionists envision and too often, are willing to shed both blood and treasure to accomplish. But *free* people are *different* people, so it should not come as a surprise that they earn different incomes. Our talents and abilities are not identical. We don't all work as hard. And even if we all were magically made equal in wealth tonight, we'd be unequal in the morning because some of us would spend it and some of us would save it.

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To produce even a rough measure of economic equality, governments must issue the following orders and back them up with firing squads and prisons: "Don't excel or work harder than the next guy, don't come up with any new ideas, don't take any risks, and don't do anything differently from what you did yesterday." In other words, don't be human.

The fact that free people are not equal in economic terms is not to be lamented. It is, rather, a cause for rejoicing. Economic inequality, when it derives from the voluntary interaction of creative individuals and not from political power, testifies to the fact that people are *being themselves*, each putting his uniqueness to work in ways that are fulfilling to himself and of value to others. As the French would say in a different context, *Vive la difference!*

People obsessed with economic equality—egalitarianism, to employ the more clinical term—do strange things. They become envious of others. They covet. They divide society into two piles: villains and victims. They spend far more time dragging someone else down than they do pulling themselves up. They're not fun to be around.

And if they make it to a legislature, they can do real harm. Then they not only call the cops, they *are* the cops.

Examples of injurious laws motivated by egalitarian sentiments are, of course, legion. They form the blueprint of the modern welfare state's redistributive apparatus. A particularly classic case was the 1990 hike in excise taxes on boats, aircraft, and jewelry. The sponsors of the bill in Congress presumed that only rich people buy boats, aircraft, and jewelry. Taxing those objects would teach the rich a lesson, help narrow the gap between the proverbial "haves" and "have-nots," and raise a projected $31 million in new revenues for the federal Treasury in 1991.

What really occurred was much different. A subsequent study by economists for the Joint Economic Committee of Congress showed that the rich did not line up by the flock to be sheared: total revenue from the new taxes in 1991 was only $16.6 million. Especially hard-hit was the boating industry, where a total of 7,600 jobs were wiped out. In the aircraft industry, 1,470 people were pink-slipped. And in jewelry manufacturing, 330 joined the jobless ranks just so congressmen could salve their egalitarian consciences.

Those lost jobs, the study revealed, prompted a $24.2 million outlay for unemployment benefits. That's right—$16.6 million came in, $24.2 million went out, for a net loss to the deficit-ridden Treasury of $7.6 million. To advance the cause of economic equality by a punitive measure, Congress succeeded in nothing more than making almost all of us a little bit poorer.

To the rabid egalitarian, however, intentions count for everything and consequences mean little. It's more important to pontificate and assail than it is to produce results that are constructive or that even live up to the stated objective. Getting Congress to undo the damage it does with quackery like this is always a daunting challenge.

Last July, economic inequality made the headlines again with the publication of a study by New York University economist Edward Wolff. The latest in a long line of screeds that purport to show that free markets are making the rich richer and the poor poorer, Wolff's work was celebrated in the mainstream media. "The most telling finding," the author wrote, "is that the share of marketable net worth held by the top 1 percent, which had fallen by 10 percentage points between 1945 and 1976, rose to 39 percent in 1989, compared with 34 percent in 1983." Those at the bottom end of the income scale, meanwhile, saw their wealth erode over the period—if the Wolff study is to be believed.

Upon close and dispassionate inspection, however, it turns out that the study didn't tell the whole story, if indeed it told any of it. Not only did Wolff employ a very narrow measure that inherently exaggerates wealth disparity, he also ignored the mobility of individuals up and down the income scale. An editorial in the August 28 *Investor's Business Daily* laid it out straight:

> . . . Different people make up "the wealthy" from year to year. The latest data from income-tax returns . . . show that most of 1979's top-earning 20 percent had fallen to a lower income bracket by 1988.
>
> Of those who made up the bottom 20 percent in 1979, just 14.2 percent were still there in 1988. Some 20.7 percent had moved up one bracket, while 35 percent had moved up two, 25.3 percent had moved up three, and 14.7 percent had joined the top-earning 20 percent.

If economic inequality is an ailment, punishing effort and success is no cure in any event. Coercive measures that aim to redistribute wealth prompt the smart or politically well-connected "haves" to seek refuge in havens here or abroad, while the hapless "have-nots" bear the full brunt of economic decline. A more productive expenditure of time would be to work to erase the mass of intrusive government that assures that the "have-nots" are also the "can-nots."

This economic equality thing is not compassion. When it's just an idea, it's bunk. When it's public policy, it's quackery writ large. □

THE FREEMAN
IDEAS ON LIBERTY

Experiencing Socialist Britain

by Alastair Segerdal

On September 2, 1945, World War II ended. Yet, on the economic front, Britain had little cause for celebration. Six years of war had left the country's productive capacity in a state of near collapse. In a general election earlier that year, the majority of Britain's so-called working class shattered the election hopes of Winston Churchill and his Conservative Party and produced a landslide victory for Britain's Labour Party under its leader, Clement Atlee. When the final results came in, voters gave the Labour Party a majority of 145 seats over all other parties. Churchill, still flourishing his famous cigar, drove to Buckingham Palace and offered the resignation of his government to the King.

Why did the British people embrace socialism in such vast numbers? Why, for almost the next 30 years did they continue to vacillate between socialist and conservative administrations, albeit lukewarm conservatives who proved themselves incapable of breaking the power of the trade unions and the bureaucracy of Britain's cradle-to-grave welfare state? As one who worked in three widely differing occupations during this time period, two of which—coal mining and dentistry—became the targets of socialist doctrine by virtue of being nationalized, I should like to offer some insight into these questions.

The new socialist government faced many critical tasks, and central to addressing these tasks was the doctrine of public ownership. Hence, the Labour Government's program was nationalization on a massive scale: hospitals, medical, and dental professions, the Bank of England, gas and electricity, iron and steel, road haulage, railroads, civil aviation, Cable & Wireless and, at the top of the list, Britain's coal mining industry. Coal production was the key to economic and industrial recovery. Therefore, as an alternative to conscription in the armed forces, young men had the choice of serving their country for two years by enlisting as coal miners. I decided to do just that. We were known as "Bevin Boys," named after the Minister of Labor and National Service, Ernest Bevin.

In the Mines

My personal tale of those shabby yet stimulating years begins in early 1946, in my hometown in Leicestershire, a county situated in Britain's semi-rural, semi-industrial Midlands. Despite its otherwise agricultural background and only one colliery in the town itself, the late Victorians gave it the somewhat misleading name of Coalville. There were, of course, other small collieries nearby, and one of these, Whitwick Colliery, was where I worked for two years. At that time, the views of the coal miner, though influenced by his own unique grievances, were those of most labor trade union leaders and, to a lesser extent, those of Labour voters in general.

Towards the end of the war, there was a vigorous, though subdued, word-of-mouth campaign directed at the millions of men and women in the armed forces (many of whom would be voting for the first time at war's end) urging them to "Vote Labour and keep out the Tories!" Furthermore, there was the convincing influence of the older population who had filled the minds of their offspring with pre-war memories

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of deprivation, hardship, and hunger under "the bosses" and "private enterprise." Working-class resentment of the upper class, overlooked during the war, reappeared with the collapse of Hitler's Third Reich in May 1945. To this day, many workers tend to resent financial success.

In the 1930s, times were certainly very bad for many (though not all) working people. For coal miners in particular, things were really grim. Miners constantly reminded me, the doctor's son, of their pitiful pre-war existence, though oddly enough, our Leicestershire coal industry was the one industrial region that suffered least of all, mainly due to its agricultural setting and the cultivation of small land allotments by the miners. Even so, my fellow workers were quick to point out the deplorable conditions of their "comrades" in the north of England, Scotland, and that dominant symbol of stagnation and distress, the coalfields of South Wales.

At my colliery, there was always some miner with enough perception of history to remind me of their lost hero—the "socialist" Duke of Windsor who, before he abdicated and married "that woman from Baltimore," visited the South Wales coal fields and uttered those memorable words: "Something must be done." This statement from the uncrowned Edward VIII bolstered the hopes of every coal miner in Britain. For a future king to talk like this in the 1930s was unheard of, not to mention a royal guarantee that things would improve.

There is no question that Britain's coal industry *had* been neglected over the years, and miners had endured far greater hardship than any other segment of society. Although a good number of incoming Labour Party parliamentarians held capitalism responsible for this sort of pre-war economic instability, it never dawned on any of their more philosophical brethren that maybe, just maybe, something on the other side of the Atlantic called the Smoot-Hawley tariffs might have had a hand in decimating world trade.

Against this backdrop of lost promise, the miners always cherished an enduring vision—nationalization of their industry. The Coal Mines Act finally fulfilled the miners' dream on January 1, 1948. The official transfer from private to public ownership was at 11 a.m. that day, and down below at Whitwick Colliery, the anticipation was like a countdown to a moon landing. Seconds before the hour arrived, the coal-carrying machinery and electric power stopped, and started again on the dot of eleven o'clock as miners cheered and placed colored bunting on the coal tubs on their journey on to the surface. Prime Minister Atlee said, "The day would be remembered as one of the great days in the industrial history of our country." At one colliery in South Wales, whole families were up before dawn as miners and their pit lamps formed a cavalcade of light over the Welsh valley. A brass band played the Last Post as the night shift arrived at the surface, and when the blue flag of the new National Coal Board was raised, the whole valley cheered as someone shouted into the microphone: "Private enterprise has had it!"

Similar celebrations took place all over Britain on that winter's day, and reveal, as no economic treatise could reveal, the commitment, not only of miners but of millions of other unionized workers to the socialist agenda. They also give a clue as to why Britain's coal industry was lifted out of the doldrums and into high production during the first few years of public ownership: it wasn't socialism that was working, but the miners' dedication to both their own success and that of the Labour Government. In striving to reach daily production targets, they would say to me, "Come on lad, we're doing this for Labour!"

Worker Shortages

In 1947, and for years afterwards, most of British industry was undermanned. With employment vacancies everywhere, one could leave one job and walk right into another, prompting *The Economist* to write that socialism and the welfare state had removed both "the stick and the carrot." The three most powerful and devoted Labour Party leaders of that time were Prime

Minister Clement Atlee, Ernest Bevin, and Sir Stafford Cripps. Ernest Bevin, who became the astute and perceptive Foreign Secretary, was markedly anti-Communist, and worked exceptionally hard, as did the church-going Minister of Economic Affairs and Chancellor of the Exchequer, Sir Stafford Cripps. Cripps, with his unbecoming stern features, unjustly nicknamed "Britain's Economic Dictator," was an extremely compassionate man with high moral values. In fact, looking once more at why so many Britons embraced socialism, it is important to realize that the post-war leaders of the movement nursed a sincere though misguided desire to improve the lot of working men and women in Britain. Unlike various politicians in other lands, they never sought self-aggrandizement or enrichment at the expense of the population. With its background of Nonconformist Methodism, corruption and greed were not hallmarks of the Labour Party.

The first post-war Labour government held office from 1945 to 1951, but by the end of this period people were starting to question socialist policies. I recall one little episode which poignantly symbolized the offensive and dreary nature of this doctrine. A very successful local haulage company had always proudly displayed the owner's name on the front of its building. The day after nationalization of all road haulage companies in 1947, a cheap-looking sign with the words "British Road Services" was crudely nailed over the company's elegant lettering, a melancholy message to capitalism that, in the socialist maxim of the period, "We are the masters now." Even so, with the exception of the extreme left, many in the Labour Party were concerned about Communist influence in the trade unions. Arthur Homer, for instance, as General Secretary of the National Union of Mineworkers was a prominent Communist Party member. Although there were only a handful of Communists in the Labour Party itself, Labour Members of Parliament always sang "The Red Flag" on official occasions! Due to funding of the Party by the unions (an arrangement legalized by the Trade Union Act of 1913), a unique institutional feature existed which, perhaps even more than Labour's inherent socialistic creed, was to inhibit Britain's economic growth for the next 30 years after 1945.

Health Care

Prior to the introduction of Britain's National Health Service on July 5, 1948, no one went without health care. Patients paid only a few pence per week for this benefit and, as the eldest son of a busy medical practitioner, I was able to observe decent care firsthand. For example, my father made house calls every day (as did other doctors) and during my late teens I would often accompany him on such visits. He would also be called out in the middle of the night, no matter what the weather, handling emergencies and delivering babies. Would faceless bureaucrats of a government-run scheme be likewise capable of delivering benefits superior to my father's service? They would not. Medical practitioners were dedicated, and often underpaid, but the system worked.

The medical profession had always supported the concept of health care for all, but the majority of its members did not like the restrictions outlined in the government-run scheme (such as a ban on the sale and purchase of practices).[1] They liked even less the scheme's overlord, the Minister of Health, Aneurin Bevan. In 1939, this former Welsh coal miner was expelled from the Labour Party for eight months for seeking a Popular Front with the Communist Party, and expelled from the Parliamentary Labour Party in 1955 for breaches of party discipline. Though self-educated, intelligent, and a very persuasive speaker, Bevan was so far to the left that many Labour MPs wanted him expelled from the Labour Party itself. Such was the nature of the man the British Medical Association had to reckon with, and they arranged several meetings in order to hear what he had to say. My father attended one of these meetings, and told me how members of his profession sat in silent contempt as Bevan waved his hands over the panorama of fine furnishings and silver tableware, boasting, "I'm going to do away with all of this."

The fiery Welshman may not have done away with fine furnishings, but he did pound into reality what was probably the most revolutionary social program ever undertaken in a modern democracy. With enormous public support for the health scheme, resistance from the medical and dental professions dwindled. Finally, the British Medical Association reluctantly recommended that its members deliver themselves into socialist bondage, and by the time the day of inception arrived, most doctors had signed up into the service. On that warm July Monday morning, Britain's top-selling *Daily Mirror* proclaimed: "The Day is here!" From this moment on, all adults had to pay their weekly National Insurance contribution which entitled them to free medical and dental treatment, hospitalization and surgery, artificial limbs, wheelchairs, hearing aids, and other medical appliances, eye-testing and spectacles, even free wigs! Doctors continued to work as they had always worked, but now they were doing so by permission of the government.

However, dentists in the National Health Service did not continue to work as before. There was an insatiable demand for both "free teeth" and "free glasses," and the rush for dental treatment was exceptionally great. By the time I graduated from dental school in 1955, and for many years afterwards, there was no let up in the demand for dental treatment. "The British are well known for their bad teeth," Hitler once said, a regrettable truism made worse by an ongoing shortage of dentists, a fact not unnoticed by young Australian dental surgeons who flocked to the mother country by the hundreds. I, like the rest of the dental profession, continued to be booked weeks in advance, and late night appointments were not uncommon. As servants of the state, we were also kept busy with form-filling, but unlike the medical practitioners who received a fixed salary for the maximum-allowed 4,000 patients, whether seen for treatment or not, dentists were paid per item of treatment completed. In fact, the government set no limit on the number of patients a dentist could take on.

As a result, dental incomes started to rise beyond the socialist acceptance level and by 1949, incomes over and above a certain sum per year were cut in half, and further fee-cutting continued well into the 1950s. When new dental innovations such as the revolutionary high-speed air-drill arrived, more dental restorations done in less time became grounds for cutting fees once again. Increased production lowers prices in a free market, but with the state ordering price cuts for all dentists, this was no free market.

When a patient arrived for examination, the dentist was required to fill out a chart detailing all treatment required, and this was then submitted to an official body, the Dental Estimates Board, for their approval. In other words, government-appointed officials would decide if a gold inlay was necessary or not. Unlike today, very few people chose to pay privately for dental or medical services. Administrated by regional Executive Councils, dentists were required to follow rules such as posting notices in their office telling patients how to complain about their dentist! Another factor which dentists had to endure was that of random inspections by a Regional Dental Officer. In signing for treatment, patients automatically agreed to possible inspection on completion of that treatment. The officers were dental surgeons themselves, of course, but if they decided a dentist's work was unsatisfactory, it had to be done again at the dentist's expense. However, the dentist could request a visit from the dental officer if he or she didn't agree with some aspect of the Dental Estimates Board's decision. Quality control is desirable in any type of work, but in the dental health service it was often used to question the clinical diagnosis of the dentist. In many cases, it forbade an operative procedure in favor of some cheaper, less expensive treatment which was not necessarily clinically sound. I remember one instance where a young girl was refused a porcelain crown, and though clinically required for this particular case, she was told she must make do with an acrylic crown. The dentist in question had his medical defense lawyer defend the case to a successful conclusion. This and similar cases were then presented to Parliament by the Medical Protection Society, resulting in favorable changes to the relevant regulations.

British hospitals and doctors' offices were dreary places, but up to the early fifties, most of British life was dreary anyway. Throughout that time, we envied the affluence on the other side of the Atlantic as socialism continued to inhibit an expansive private sector. Rationing of candy, clothing, and fuel continued for a varying number of years, and food didn't come off the ration until 1954, nine years after war's end. When complaints were made about the standard grade of rationed cheese, the Minister of Food, Dr. Edith Summerskill, retorted: "Cheese is cheese. What do *you* want with variety." I remember going on a day trip to Belgium in 1953, and was amazed at the unrationed availability of consumer goods. As for health care, it certainly improved, but I did not see socialism as the source of this betterment. Great strides were made in diagnostic and laboratory facilities, but this was the result of medical progress, not Labour Party embellishments. The dramatic fall in cases of diphtheria, pneumonia, and tuberculosis my father had to treat was due to the advance of science, not the advance of socialism.

Although the Conservative Party was elected to office in 1951, they only had a 17-vote majority, not enough to dismantle the vast implementations of socialism, many of which had become an integral part of British life. In 1953, they did succeed in denationalizing iron, steel, and road transport, and in 1955 the Conservatives won again by a slightly larger margin. From here on, alternating with Labour governments under Harold Wilson, the Conservative Party tried to dismantle socialist programs, but tended to assume that their legislation might be dismantled by the next Labour government. However, by the late sixties, damage to Britain's economy was less to do with the Labour Party, and everything to do with the trade unions who were now initiating strikes on the slightest pretext. Because of the geographic nature of the British Isles, a rail strike, a coal strike, a fuel strike, a dock strike, any one of these could, and did, bring the country to a halt. The Conservative administration of Edward Heath from 1970 to 1974, had to call an election in order to offer the Labour Party the chance of winning and thus handling the devastating "three-day week" which the unions had brought about. One essential service after another was shut down as employees in one industry were intimidated by the unions to strike in support of strikers in another industry. If workers didn't oblige, noisy unemployed youths were recruited as "pickets" and rushed to wherever they were needed.

Unemployed youth? Socialist doctrine had established a new category in Britain's class system, namely thousands of overwelfared and under-educated youngsters from which was spawned a subculture of untalented youth, personified at their worst by beer-swilling soccer hooligans. And by the early seventies, we had another fad to contend with, the so-called "New Left," a strange amalgam of hippies, nihilistic intellect, political crackpots, and their cult-like guru, Herbert Marcuse. Endless protest marches for vague, undefined causes created traffic chaos week after week in London.

By 1979, the British electorate had had enough. Margaret Thatcher was elected on a platform that promised privatization and the reversal of most Labour's policies. The lessons of socialism must have run deep in the minds of the electorate, for they have continued to elect Conservative administrations to this day. What of the Labour Party? Under their new leader, Tony Blair, they have decided to drop the party's constitutional commitment to nationalization, thus affirming their claim that they have finally broken away from their traditional socialist past, a past now lost on the winds of history. □

1. Ed.: See the interesting discussion by David Green, *Reinventing Civil Society: The Rediscovery of Welfare Without Politics* (London: IEA, 1993), pp. 88–120, on the crowding out of private-sector medical institutions and medical aid because of government policies in Britain.

THE FREEMAN
IDEAS ON LIBERTY

Economics of Russian Crime

by Yuri Maltsev

Introduction

The issue of crime is of the utmost importance for Russia and other formerly Soviet republics undergoing transition from a centrally administered economy to a market economy. Today the mafia is a prominent feature of a Russia in transition.[1] The shocking 1994 murders of Duma deputies Andrei Aizderdsis and Valentin Martemyanov attracted public attention to the inability of the State to cope with the crime. Gangland slayings, daylight robberies, hostage-taking, rape, and bribery of officials have all become part of life in the new Russia.

Calling Russia a crime "superpower," President Yeltsin has declared that he will make law and order his top priority. Leaders of opposition from "democrat" Grigory Yavlinsky to ultranationalist Vladimir Zhirinovsky are calling for harsher measures and more resources for law enforcement. While many pundits point to the rise in crime as evidence of the social cost wrought by the transition to the market, it is more appropriate to focus our attention on the institutional incentives that resulted in this rise of criminal activity.

Dr. Yuri N. Maltsev, Associate Professor of Economics at Carthage College, Wisc., and a Peace Fellow of the United States Institute of Peace, held, over a 15-year period, various teaching and research positions in Moscow, Russia. Before coming to the U.S. in 1989, he was a member of a senior team of Soviet economists that worked on President Gorbachev's reforms package and a Chief Consultant of the USSR Bank for Foreign Trade.

With the collapse of the USSR in 1991 there was little, if any, change in the organization of the criminal justice system in Russia.[2] The Russian criminal code is so oppressive and pervasive that "one must virtually retire to hermitage in order to avoid committing a crime."[3] Russia's prisons, probably the worst in the world, are still filled with over 100,000 entrepreneurs, most of whom were convicted for commercial and business practices absolutely legal in civilized countries. Private production and exchange—the most natural of human activities—are still criminalized through a confiscatory tax system and monstrous regulatory mechanism.

If businesses expect future profits to be taxed away, they usually choose not to become profitable in the legal economy. In Russia today too few people understand that property rights cannot exist without stability and legality in taxation. Onerous tax laws and pervasive regulation contribute to over 600,000 convictions per year.[4]

In a speech last year, Jeffrey Sachs, a Harvard economist and a former adviser to Yeltsin's government, dismissed the "excess focus" on the supposed corruption in Russia, arguing that "many of those who are called mafia are simply traders."[5] Economic crime in Russia is the result of the absence of legal remedy and arbitrary bureaucratic power.

Economic crime has been a way of life and survival for a large segment of the Soviet population. With the collapse of the oppressive machinery of the State (and the failure of a liberal regime of property and contract law to emerge) economic crime remains a rational response to the incentives.

A recent survey of people in Tatarstan who regularly travel abroad to purchase goods—a group of people generically called "shuttles"—found that half of them have to pay off local officials and more than 40 percent are controlled by criminal gangs. Most of those engaged in this activity are highly educated (82 percent have at least a secondary degree) and many are women (80 percent). Four out of five of those involved said they engaged in such purchases to feed their families. By criminalizing these activities the Russian government is opening the door for the organized crime.

The suppression of economic freedom and individual initiative has led to widespread apathy and a complete lack of individual responsibility, as well as emergence of black market entrepreneurship. Decisions concerning economy were of pure political character. Assumed orientation of these decisions and corresponding propaganda on "the Communist civilization of tomorrow," "world victory of socialism," "complete satisfaction of societal needs," "scientific and technological revolution," and other abstract goals undermined entrepreneurship and initiative, made people helpless in dealing with the Leviathan state.

The widespread frustration with the failure of perestroika and so-called "shock therapy" reforms of Yeltsin's government have led to the situation when every new announcement of impending reform causes perverse public responses, every new law passed, ostensibly to increase freedom, only increases opportunities for fines and bribes. All economic and fiscal legislation in this period has been absolutely inconsistent with legality. Every law that has promised stability in taxation and established rules of economic conduct has been overtly revoked to the preservation of the willful government expropriations. As popular Russian journalist Victor Kopin assesses the present stage of the "Capitalist Revolution" in Russia: "The White Guards' attack on socialism failed. We have gotten the quasi-democratic society with quasi-market, quasi-legality, quasi-morality. The predominant conclusion out of it is that freedom leads to the devastation of spirituality, crime, pauperization of masses, and emergence of a class of fat cats."[6] But this reality of Russian life is not new. Rather, it is a continuation of the "bureaucratization" of life, and the corruption endemic of such a system, that characterized Soviet rule.

Corruption

Corruption is usually defined "as behavior of public officials which deviates from accepted norms in order to serve private ends." It was assumed by the socialist ideology that the Communist Party officials being altruistic servants of the "public good" were acting selflessly with the right answers provided by the "scientific approach" of Marxism-Leninism. They could and would in the long run solve all social and economic problems inherited by the socialist society from capitalism. The reality was different: party and government functionaries have come to believe that state property belongs to them. The belief that factories and plants belonged to their managers was enforced after the collapse of the USSR and by the proclaimed goal of privatization and establishment of the market economy.

Unlike most East European countries where Communism was viewed as an alien ideology imposed by force by the occupying power and local Communist officials as collaborators with this power, in Russia former Communists are occupying over 60 percent of senior positions in local governments and close to 90 percent in the central government. The number of these bureaucrats in 1994 in Russia alone was around 10 million. Given that such people "plan" and manage state property and economic life in general in their own interest, it is not surprising that bureaucrats became the most powerful economic elite in Russia.

There are different types of bureaucratic corruption:

1. Extortion, or the "black market bureaucracy," which refers primarily to pre-

miums paid to get the bureaucracy to do, or to do promptly, what it is supposed to do anyway is ubiquitous in Russia.

2. Nepotism—being another typical pattern of bureaucratic behavior in Russia—is the appointment of relatives, friends, or academic colleagues whom you trust in order to assure control over subordinate personnel. Nepotism is usually widespread in the public sector everywhere due to the absence of the profit motive. In Russia there are "family dynasties" of plant managers, government officials, and other types of administrators.

3. Nepotism and bureaucratic extortion start the hard core of corruption which consists of "deliberate theft, bribery, and tax evasion to divert public resources to private benefit, or to avoid paying taxes legally owed in the first place. It also includes the use of influence to skew the allocation of resources to programs, cities, or projects in violation of regime goals as represented in official plans."[7]

A new class of Russian entrepreneur is on its way to becoming a private bureaucracy. The source of bureaucratization of private enterprise in Russia is the same as everywhere else—the destruction of the profit motive by government regulation and taxation.

This elite of government apparatchiks and new "entrepreneurs" want to maintain their economic and political power. Nobel laureate James Buchanan has observed that "rent seeking"—that is, competition for government largess and protected profits—emerges as a significant social phenomenon as institutions move away from ordered markets toward the near chaos of direct political allocation.[8] According to a report, presented by expert Vladimir Ovchinsky, in 1993 law enforcement agencies investigated 15,500 cases of corruption and abuse of public office. Among corrupt personnel, about 43 percent were federal and regional officials; 25 percent law enforcement officers, including members of the Federal Counterintelligence Service; 4 percent officials from presidential and federal oversight bodies; and 2 percent members of federal and regional legislatures. (In contrast to the practice in Western democracies, Russian deputies are immune to prosecution for criminal offenses.)[9] "Corruption," exclaimed Boris Yeltsin last year, "is devouring the state from top to bottom."[10]

Corruption is widespread in the law enforcement agencies. Interior Minister Viktor Erin told the State Duma that 500 law enforcement officers had been arrested in the first nine months of 1994 on corruption charges.[11] Major-General Igor Shilov, Deputy Chief of Criminal Investigation Directorate of the Ministry for Interior of Russia was arrested together with his son—a cadet of the Russian Police Academy, and seven other senior officials of the Ministry. They are accused of corruption, hoarding of arms, and links with the mafia.[12]

Inhibiting Foreign Investment

Widespread corruption resulting from an overregulated economy is often cited as a major obstacle for Western investors in Russia.[13] Foreign investors complain that bribes are being sought and taken on all levels of Russian bureaucracy. Without bribes, nothing can be done in banking, construction, transportation, and other vital businesses. In 1992 there were 7,820 cases of crimes with foreign visitors as victims.[14] The crime situation is one of the most discouraging aspects of Russian reality perceived by foreign investors. As Annelise Anderson points out: "A full-fledged mafia can . . . have serious consequences for the economic growth of the legitimate economy. The mafia may create monopolies in local enterprises, control entry, and maximize revenue by extracting monopoly profits as protection payments. New investment may be discouraged and old investment driven out. Risk-averse investors are likely to seek localities less arbitrary and dangerous."[15]

Russia today has over 240,000 arbitrary trade laws and regulations that are special-interest transfers through the corruption of central and local governments. It has 111 different federal and local taxes with the tax codes that no one can understand except those bureaucrats who drafted them. The Russian tax police can violate every right "guaranteed" by the new Russian Constitution to collect more revenue. So, it is no surprise that *Euromoney* has rated Russia 138th in favorability for foreign investment.[16] Widespread economic cheating involves such things as over-reporting and double counting.

Economic decisions of the Russian government are frequently based on deliberately falsified reports of state enterprises, which are inclined to report economic indices in a way which is beneficial to them. Very often cheating is done by the Goskomstat itself as it was recently proved by the Russian economist V. Yuryev, who used as an example the Goskomstat report on economic padding and stealing.[17] Moreover, it has been argued that the falsification of production figures has intensified since perestroika and the subsequent collapse of socialism—largely because of the poor discipline and tax-evasion motives at the enterprise level.

Russian government economic statistics paint a bleak picture of the further decay of the Russian economy in 1994: a 16 percent decline of the GDP, a budget deficit of 9.8 percent of GDP, inflation of 209 percent, an interest rate of 242 percent, and meager average wages of $88 per month.[18] The evolving crisis in the Russian economy can be explained by the fact that, despite the surfeit of laws and decrees, the Yeltsin government has made little or no progress in establishing economic legality, and no effective market mechanism has replaced the one based on the political allocation of resources.

The recently adopted "radical economic reforms" of Chernomyrdin's cabinet seek to create favorable conditions for the bureaucratic and technocratic elite to become the new owners of the state property. "Spontaneous privatization" takes the most ugly, uncivilized forms. Moscow *Kuryer* reported that the top officials of the former Council of Ministers of the USSR "privatized" their state-owned dachas (out-of-town residences) for less than 10 percent of their nominal and 3 percent of their market value.[19] V. Davituliani, President Yeltsin's former representative in the Tambov oblast in Russia's European heartland, painted a gloomy picture of "reforms" in Tambov. The local government, he wrote, "consists 99.9 percent of former party and factory nomenklatura, who continue to take bribes and build houses for themselves just as they did before."[20]

Obviously, Yeltsin's economic reforms started from the wrong end. The new "free market" sales tax amounts to 28 percent. The absurdity of the "new economic thinking" in Moscow led to the new Export Tax which levies heavy duties on anything (not much!) being exported from Russia. This tax served as a cold shower for the Western businesses who are closing their offices in Russia. It is also explicitly serving the corrupt foreign trade officials in Moscow. Bureaucratic networks are so deeply rooted that the *anciên régime* is still largely in place, protecting a status quo that has been bolstered in large part by geopolitical interests of the Western bureaucratic establishment. The current Economic Minister of Russia Yevgeni Yasin admitted that "the influence of politics on economy have reached now its greatest possible dimension."[21]

Yeltsin's government has chosen the least daring, least radical of the reform options available. Bureaucratic networks are so deeply rooted that the old order is still largely in place. The new political leaders of Russia may alter policy priorities but the widespread organized crime and bureaucratic corruption will inevitably retard the effectiveness and duration of their policies. The economic consequence of this status quo is to further the fundamental problem of a fully bureaucratized society.

What Should Be Done

A comprehensive program to combat crime in Russia should include legal reform, the privatization of industrial and agricultural property, provisions of free trade in shares at newly created stock exchanges;

denationalization of land; creation of labor markets through the elimination of existing restrictions on the freedom of labor to contract; immediate demunicipalization of housing; drastic cuts in military and other government spending; monetary reform aimed at achieving the convertibility of the currency in international money markets; and liberalization of foreign trade.

"One of the most basic insights of political economy is the need for rules to govern economic activity,"[22] states Peter J. Boettke. A stable market economy cannot function without a legal structure that is consistent with its underlying institutions of private property and freedom of contract. F.A. Hayek wrote 50 years ago that "It is the Rule of Law, in the sense of the rule of formal law, the absence of legal privileges of particular people designated by authority, which safeguards that equality before the law which is the opposite of arbitrary government."[23] Any reform of the Russian economy must be undertaken in concert with the institutionalization of the traditional understanding of the rule of law where the legal code is primarily directed toward defending person and property against invasion, either by the state or private parties.

The rule of law is central to any political and economic reform in Russia and the other republics. Governmental decisions must be rooted in the consensus of the governed, acting through structures designed to prevent individual oppression or political tyranny, and procedures are subject to appraisal by an independent judiciary rendering judgments based on law. It stands in contrast to decisions based on arbitrary fiat of power, political rent-seeking or personal gain. But most meaningfully the rule of law encompass fundamental conditions for creating a modern constitutional state:

- protection of the property rights and provision for civil legal remedy and contract enforcement;
- separation of powers and checks and balances;
- representative democracy and constitutional limits on governmental action against the individual and minorities;
- federalism; and
- review by an independent judiciary for constitutional enforcement.

Thus, government maintains a framework of security and order within which liberty can be secured. Individual rights of person and property are treated as normatively prior to government, as standards that take precedence. Governments are instituted among people so as to secure and protect those rights. Yeltsin's government is far from having embarked on meaningful legal reforms in this direction. Legal protection of private property, including the ability to assign, sell, and alienate, is still prohibited unless the law allows exceptions. Perestroika did not change this. The August Revolution of 1991 declared the necessity of the rule of law but failed to deliver any meaningful measures in this direction.

The Need for Radical Reform

The transition to a legal state requires a radical overhauling of the present system. These reforms require a full consensus of the population: "Constitutional change becomes meaningless, however, unless it is accomplished by constitutionalist procedure, which, in the practical sense, means generalized assent on the part of most if not all citizens."[24] Reform also requires some means for individuals to redress grievances against government officials; some means for protecting the rights of minorities against the will of the majority; some means for separating the powers of government offices; and some means of checks and balances to prevent one unit of the government from encroaching on the functions of another. Perhaps most importantly, the rule of law requires some means for the peaceful overthrow of unacceptable rulers. Without these measures, all legal reforms, and economic reforms for that matter, are not likely to succeed in the long run.

Due to the urgent need to create a stable, orderly society based on an effective market, it is important to enact reforms as soon as possible. Gradualism should be eschewed in favor of a radical and immediate overhaul.

The Soviet situation teaches that "without effectively signaling and establishing a binding and credible commitment to liberalization, the behavior of the government simply destabilizes the situation."[25] One of the least desirable unintended consequences of this destabilization is a rapid and abrupt rise in economic crime in Russia. To prevent its further spread in Russia and beyond, the required legal and economic reforms should be implemented as quickly as possible. □

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1. See Annelise Anderson, "The Red Mafia: A Legacy of Communism," in *Economic Transition in Eastern Europe and Russia: Realities of Reform*, ed. by Edward P. Lazear (Stanford, Calif.: Hoover Institution Press), 1995, p. 340.

2. "Criminal justice" is usually defined as a combination of "all the means used to enforce those standards of conduct which are deemed necessary to protect individuals and to maintain general community well-being." In the Soviet Union the major goal of the criminal justice system was protection of the socialist state and public property. Individuals and their property were considered as residual claimants for the protection. Penalties for crimes against the state and its property were more severe than that against individuals and their property.

3. David M. Gordon, "Capitalism, Class, and Crime in America," in *The Economics of Crime*, ed. by Ralph Andreano and John J. Siegfried (New York: John Wiley and Sons, 1980), p. 94.

4. *Moscow News*, No. 34, August 26–September 1, 1994, p. 14. It is virtually impossible to make any quantitative comparisons of the dynamics of criminal activity; reliable statistics of crime are not existent. Propaganda officers would doctor criminal statistics without any relevance to reality. "We do not fake it—we make it," a senior statistician of the MVD (Ministry of Interior) in Moscow told me. Statistics were and still are a weapon in ideological war with the West, as well as in political battles for power inside the country.

5. *Newsweek*, November 14, 1994, p. 40.

6. Victor Kopin, "Totalitarnaya Demokratiya," *Stolitsa*, No. 37, 1992, p. 1.

7. Robert T. Daland, *Exploring Brazilian Bureaucracy Performance and Pathology* (Washington, D.C.: University Press of America, 1981), p. 235.

8. "Rent Seeking and Profit Seeking," in *Toward a Theory of the Rent-Seeking Society*, ed., James Buchanan, Robert D. Tollison, and Gordon Tullock (College Station, Texas: Texas A&M University Press, 1980), pp. 3–15.

9. RFE/RI, *Daily Report*, No. 218, 17 November 1994.

10. Claire Sterling, "Redfellas," *New Republic*, April 11, 1994, p. 19.

11. RFE/RI, *Daily Report*, No. 218, 17 November 1994.

12. "Razvitie skandala v MVD Rossii," *Nezavisimaya Gazeta*, May 11, 1994, p. 1.

13. See, for example, "Pray for the Russians, But Don't Invest There," *Milwaukee Sentinel*, October 31, 1994, p. B1.

14. *Militsiya*, No. 4, 1993, p. 20.

15. Annelise Anderson, *op. cit.*, p. 343.

16. *Nezavusunata Gazeta*, April 9, 1994, p. 4.

17. V. Yuriev, "Yesli verit Goskomstatu . . . ," *Ekonomika i zhizn*, No. 28, July 1990, p. 12.

18. "Estonia: In a bear's paw," *The Economist*, November 19, 1994.

19. *Kuryer* (Moscow), June 1991.

20. *Crossroads. A Monitor of Post-Soviet Reform*, Vol. III, 1994, p. 3.

21. *Birzhevye Vedomosti*, No. 1, January 1, 1992, p. 1.

22. Peter J. Boettke, "Credibility, Commitment, and Soviet Economic Reform," in *Economic Transition in Eastern Europe and Russia*, p. 268.

23. F. A. Hayek, *The Road to Serfdom*, Fiftieth Anniversary Edition (Chicago: The University of Chicago Press, 1994), p. 87.

24. James M. Buchanan, "Constitutional Imperatives for the 1990s: The Legal Order for a Free and Productive Economy," in *Thinking About America in the 1990s*, ed. by Annelise Anderson and Dennis L. Bark (Stanford, Calif.: Hoover Institution Press, 1988), p. 257.

25. Boettke, *op. cit.*, p. 269.

THE FREEMAN
IDEAS ON LIBERTY

In Praise of Train Wrecks

by Doug Bandow

While most Americans were going about their lives, denizens of the nation's capital were scrambling to avert a "train wreck"—a deadlock over the budget that would force a government shutdown. In fact, members of the administration and Congress alike couldn't seem to think of anything worse than closing the federal bureaucracy.

One of the reigning principles in Washington for the past half century has been that government must play a pervasive role in managing our complex society. Of course, there have been disagreements on marginal questions—should spending on a particular program rise two or ten percent?—which have regularly generated histrionics on Capitol Hill. But disputes about the basic role of the state have been rare. Despite mass public dissatisfaction in recent years, presidents and legislators of both parties have kept alive hundreds of federal zombies, agencies and programs that have long outlived their purposes, assuming they ever did fulfill a legitimate need. Even some supposed conservative critics of Washington long accepted the status quo with barely a whimper of protest, choosing instead to help raise taxes to fund an endless soup-line for Washington's well-heeled interests. In recent years proposals for old-style pork barrel programs have been advanced in the name of "investments," like an expensive public employment program under the guise of "national service."

The federal government currently consumes $1.6 trillion worth of national wealth, which is far too much. Yet every major proposed balanced budget plan will significantly increase that number. After decades worth of similar initiatives, it should be obvious that budget "reform"—small, incremental changes and slight cuts in growth rates of federal outlays—is no answer.

Rather, policymakers need to end programs, lots of them. And the only way to do that is to decide that some functions do not belong with the government. The best way to enforce serious cuts, in the face of continued resistance by important members of both parties, would be to welcome a "train wreck." Defenders of the status quo would then face a choice: either accept the end of at least a few programs, or shut down the government, killing every federal agency.

Of course, members of the Washington establishment quail at the thought of defunding Uncle Sam. Whatever would helpless citizens do? Typical is the American Federation of Government Employees (AFGE), which warns against "attempts to slash important government programs" that "threaten to diminish the scope of services the American public demands and expects." AFGE President John Sturdivant cites the potential horrors: "The protection of the elderly and the environment, the disabled and downtrodden, the safety of our food, products, transportation and workers and countless other responsibilities of the federal government would be severely disrupted under proposals to eliminate jobs and programs." His words echo along the Potomac.

There's no doubt all of these goals are

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important. But why the near-universal assumption that such goals can only be accomplished by the federal government? Consider protection of the elderly. Uncle Sam does little to guarantee seniors' physical safety—that is a responsibility of local police. Washington does provide Social Security and Medicare, but these programs are hurtling towards insolvency, threatening to drag the entire federal budget down with them. Moreover, they discourage individual saving for retirement and purchase of long-term health care insurance, creating mass dependency by the aged. Genuine "protection of the elderly" requires rethinking, not reaffirming, government's role.

This failure to confront basic principles is also captured by the comments of columnist Mike Causey, who covers the federal government. He criticized one writer who asked who would notice a shutdown: "He is known to eat food (Agriculture Department) and drink water (Environmental Protection Agency), among other things. He also drives (Department of Transportation) and sometimes takes prescription drugs (Food and Drug Administration). If there were a government shutdown, he would be among the first to know—and to demand that those useless bureaucrats resume taking care of him."

But all of these examples prove the opposite point. In none of these areas is the government "taking care" of people. Americans ate food before the Department of Agriculture; this agency simultaneously wastes taxpayer funds and drives up prices. Farmers paid to grow rice in the California desert, not average citizens, would be upset if the Department disappeared. Clean water has also been available for years without the EPA. Federal regulatory dictates in this area have been unduly cumbersome and expensive, exhibiting the usual flaws of national management of local problems. Private companies, localities, and states all constructed roads before the creation of the Department of Transportation in 1966. Why should taxpayers send money to Washington for Congress to parcel out, based on political clout, to fund local projects? And the FDA does not help provide drugs. Rather, it works overtime to prevent people, even those who are dying, from acquiring needed pharmaceuticals. In fact, thousands of people have suffered and died from delays caused by unnecessary federal rules when the very same safe substances were available in other industrialized nations.

None of this is to suggest that cutting spending won't cause genuine hardship among employees dedicated to fulfilling their missions, however inappropriate. "I don't feel as confident right now," admitted a Labor Department employee who helps manage the Department's Davis-Bacon program. "I've been in the government 24 years and never lost a day of pay, but this year seems to be different."

And it should be. Again, it is time to ask basic questions about the role of government. The Davis-Bacon Act is Uncle Sam at his worst, mandating union-scale wages in construction projects receiving federal money. That not only costs taxpayers more; it also prevents lesser-skilled and often minority labor from competing for government-funded projects. In fact, as a new study from the Center for the Study of American Business relates, the law was originally passed earlier this century for the explicit purpose of barring blacks from competing with whites for work. Congress should eliminate the program and, yes, employees running the program should have to find work that doesn't harm the public.

Instead of fearing a budget train wreck, people should welcome it. It is time to ask the sort of question rarely considered in Washington: do we wish to remain a free society? Uncle Sam is too expansive and expensive. Yet over the years would-be revolutionaries in the nation's capital have found out how hard it is to kill even the smallest program, like federal tea-tasting. So shut down Washington. Then people will realize that they don't need the Department of Agriculture for food, the EPA for water, the DOT for roads, and the FDA for pharmaceuticals. Then people will better understand the value of freedom. □

THE FREEMAN
IDEAS ON LIBERTY

No Thanks, Uncle Sam

by Elizabeth Larson

Today's businesswoman needs affirmative action like a fish needs a bicycle.

With two important developments in the affirmative-action battle this past summer—the Supreme Court's decision in *Adarand v. Pena* and the vote by the University of California Board of Regents to discontinue affirmative-action policies for student admissions—an optimist might assume this last universal barrier to women's advancement in the workplace is finally about to topple. Yet victories over policies that are not just misguided but morally wrong must be won at the intellectual level as well as the practical.

Until now, the framework for discussing women in the workplace has been set by feminists—activists who will not be silent until 51 percent of every job classification is filled by women. These same radicals are willing to wave aside the achievements of the individual for the collectivist utopia of group success. Hence the urgency of the struggle over affirmative action at the intellectual level. Though they profess to—and perhaps believe it as well—these activists do not voice the beliefs and interests of most American women. It is time to reclaim the debate, reminding ourselves of the costs women have borne because of affirmative action as well as its danger to liberty.

The American working woman pays a high price for the position or promotion she receives from affirmative action: the unspoken assumption that she was not the "best man" for the job. At a recent teach-in on affirmative action at the University of California-Los Angeles, one of the participants *defending* affirmative action provided the best example of how the policy foments these very questions about competence.

Ellen DuBois, a full professor of history at UCLA and the author of such books on women's history as *Feminism and Suffrage: The Emergence of an Independent Women's Movement in the U.S., 1848–1869*, and the co-author of *Unequal Sisters: A Multicultural Reader in U.S. Women's History*, began her comments by describing herself to the audience as "an affirmative-action baby—and proud of it." She explained how her first job after graduate school was at the State University of New York, thanks to the school's new affirmative-action policy, and continued with: "When I was first listening to the claims of the Civil Rights Initiative people, my parents were with me, and I said to them, 'You know, *I* was an affirmative-action appointment.' And they said, 'Oh! But you *deserved* your job.' And I thought that that sort of captured everything—the assumption that I, the one they know, deserve *my* job, but all the rest of these people who have affirmative-action positions don't deserve their jobs. It's just an accident that their dear daughter did."

Miss Larson, a writer in Los Angeles, has written about women in the workplace for Investor's Business Daily, Reason, Insight, *and other publications. A shorter version of this article was presented at a teach-in on affirmative action at the University of California-Los Angeles on May 4, 1995.*

Suspicions about the merits of those who receive affirmative-action jobs are often undeserved, and thus all the more insidious. When the suspicions are held by one's colleagues, rather than the general public, it is particularly divisive. Resentment against an individual case of hiring by quota ferments into resentment against all members of the privileged group. Intended to reverse discrimination, affirmative action eventually breeds it. The supporters of such a perverse system must answer the question of how successful—and more importantly, how *moral*—a system is that harms the very individuals it purports to help.

Unfortunately, concrete concerns and real-life reservations about affirmative action are commonly dismissed as anecdotal—and, indeed, it is difficult to quantify such arguments with numbers. So let us turn to the actual statistics used to "prove" the need for affirmative-action programs.

The Wage Gap

It turns out that supporters of affirmative action would have us level the playing field in all areas except the reporting of statistics. The infamous wage gap is so common a refrain that it approaches cliché. On closer inspection, however, the gap shown by all the "data" is neither as wide nor as unbridgeable as it is portrayed. Once you stop lumping all women of all ages in all fields together and using that resulting dollar figure as representative of the average American working woman, the gap narrows.

Comparing the wages of women and men of the same age, with similar experience, training, and years of uninterrupted time in their field yields a much more optimistic picture of how women fare today. Women under age 20 earn 92 percent as much as their male counterparts, women 21 to 24 earn 85 percent, and women 25 to 34 earn 78 percent. The younger the group, the slimmer the difference, suggesting that the wage gap will eventually disappear.

According to a report from the U.S. Civil Rights Commission, the gaps that do still exist are likely due to the fewer continuous years women have been in the workforce. Women who have never interrupted their careers for any reason now earn at least 98 percent as much as their male counterparts.

In addition to painting a picture using tendentious numbers, many feminists labor under assumptions about the workplace and the meaning of success that are both unreasonable and unrealistic. They seem to believe that making an attempt at her job in and of itself guarantees a woman success. Yet the free market that has given women opportunities to work outside of the home that are unparalleled in history is the same free market that does not hand out "A's" for effort. Just because a woman wants to be the first female CEO of her company does not mean she is entitled to the position, or that if she fails to make it that far up the corporate ladder it is someone else's fault. Luck, drive, brains, connections, education, and, yes, looks, can all play a part in the promotions any worker—male, or female—receives.

A look at the role of physical attractiveness in determining wages exemplifies just how unrealistic feminists are when it comes to success in the workplace. Using American and Canadian subjects, economists Daniel Hamermesh and Jeff Biddle found that, even after adjusting for education and other factors, very attractive men and women earn about 5 percent more per hour than their merely average-looking colleagues. Plain women earn 5 percent less than the average-looking workers, and plain men 10 percent less.[1] It seems that when the beauty myth becomes economic reality, men have even more to complain about than women.

Free-Market Success Stories

If feminists truly cared about women succeeding rather than constructing a social utopia, they would herald individual women who have genuine, free-market success stories to tell. These women are not running to government for affirmative-action privilege because they are too busy running companies.

Jane Hirsh is one such woman. Today one of the country's wealthiest businesswomen, Hirsh founded Copley Pharmaceutical Inc. more than two decades ago because she wanted to be able to bring her children to work. After 21 years spent building her company into a generic-drug powerhouse, Hirsh sold a 51 percent stake in Copley to the German company Hoechst for $546 million in cash two years ago, retaining 37 percent of the shares for her family. Starting her own company "was the only way I could have a crib in my office," Hirsh recalled.[2]

Edith Gorter of Gorter Express Company has her own hard-work success story to tell. She was one of seven female entrepreneurs that author and businesswoman Joline Godfrey chose to highlight in her book on businesswomen, *Our Wildest Dreams*. Gorter took over the trucking company when her brother-in-law who had been running it died. (Her husband, who had no head for business, had wanted to sell the family company, founded by his father in 1910 with a horse and wagon.) When Edith Gorter took the company's reins in 1972, Gorter Express had just one client, two trucks, and little else. Today, the company has hundreds of clients and about $2 million in rolling stock. Her daughter Lori seems the likely candidate to take over the company from her mother.[3]

Little Caesar's pizza chain, Mrs. Field's Cookies, and Ruth's Chris Steakhouses are a few of the better-known companies founded or run by women, but there are literally thousands of great free-market success stories like these. In fact, more than 6.5 million American businesses are owned by women. As a recent Associated Press story reported: "From 1991 to 1994, woman-owned businesses in the transportation, communications, wholesale trade, real estate and financial services grew nearly 20 percent, while construction firms grew 19 percent and manufacturing firms 13 percent, according to the National Foundation for Women Business Owners."[4] Since women start their own companies with half as much capital as men do, these entrepreneurs do not have the luxury of free time to complain about perceived workplace inequalities.

Some might argue that while entrepreneurial women have the opportunity to pick their field, most female workers are still forced to do "women's work." Although about two-thirds of working women still enter traditionally female fields such as nursing, teaching, and social work, a study from the Population Reference Bureau found "striking gains" for women in such traditionally male fields as medicine and law during the 1980s.[5] The number of women lawyers more than tripled, and the number of female doctors doubled. Since the "decade of greed" was supposedly even worse for women than for men, this is good news.

Group versus Individual Rights

It is important to note that the debate about affirmative action is not a debate about the existence of individuals who discriminate on the basis of sex, nor should it be. Like the poor, the misogynist will always be with us. What differentiates the sexist society from a free society in which there is sexism is whether that prejudice is sanctioned by legislation and government policies or whether it is forced to the margins of society by general condemnation.

The affirmative-action debate is ultimately an argument about group versus individual rights. Affirmative action's opponents understand that it is wrong, and not merely impractical, to restrain the individual for the sake of the group. They know from history that to ignore or denigrate the achievements of the individual is to head society down the road to chaos. The factional fighting that ensues is not of the beneficent type described by the Founders, wherein special interests jostle amongst themselves creating a balance from which everyone's rights emerge intact. It is a splintering of communities born of contempt and resentment. Liberty has no friends in a world where success is seen as an entitlement, for the politically strong do what they

Ruth Fertel, founder and chairman, Ruth's Chris Steak Houses.

can to obtain this "right" while the politically weak suffer what they must.

Feminists ought to be particularly attuned to the dangers of relying on a central force or figure for support and protection. Women struggled far too long to free themselves from paternalism to hold the hand of Uncle Sam now. An eagerness to rely on the government is an affront to what feminism *should* stand for. It betrays a lack of confidence in women's abilities to achieve financial and personal independence, and it undermines the real gains women have made in the workplace in recent decades.

As with any group that considers itself the vanguard of a brave new world, feminists want immediate change—and affirmative-action programs with the force of bureaucratic edict promise it to them. Yet utopias are malleable things. Just as the dream of a color-blind society has become the reality of a color-coded one since the passage of the 1964 Civil Rights Act, the goal of equal opportunity has become the mirage of equal outcome. A system in which less than 5 percent of construction jobs are held by women—even though women *own* almost as many construction companies as men—is a system which, to many feminists, has failed the fairer sex.

But try telling that to someone like Edith Gorter—who hasn't just made it in a "man's world"; she's made it in a man's field, trucking. Where are the feminists to praise strong, independent women when you need them? Running after yet another gift from the government sugar daddy. □

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1. "Beauty and the Labor Market," NBER working paper no. 4518.
2. Suzanne Alexander, "Jane Hirsh Saw The Future, and It Was Generic," *The Wall Street Journal*, September 12, 19093, p. B1.
3. Joline Godfrey, *Our Wildest Dreams: Women Entrepreneurs Making Money, Having Fun, Doing Good* (New York: HarperBusiness, 1992), pp. 187ff.
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THE FREEMAN
IDEAS ON LIBERTY

Liberty and Immigration

by Thomas E. Woods, Jr.

The extraordinarily high rate of immigration, legal and illegal, into the United States is an indication that our country is doing something right. The United States, while far from boasting a pure free market, clearly offers enough economic liberty to attract the migration of peoples from all over the world. Currently, half the world's immigrants come to the United States.

Libertarians have generally welcomed immigration, and on very simple grounds. According to the "non-aggression axiom," it is wrong to aggress against the person or property of anyone who has not himself committed such aggression. To restrict the free movement of peoples across borders is thus to engage in unjustified aggression, and is therefore anathema.

Upon further reflection, however, it is puzzling why so many libertarians have so enthusiastically and uncritically accepted the "open borders" position. It leads, in fact, to an infringement on the property rights of millions of homeowners, and a tremendous increase in state power.

In a 1993 address before the Mont Pelerin Society, the late Murray N. Rothbard suggested an alternative libertarian approach to immigration. Imagine the pure private-property, or "anarcho-capitalist" model, in which all property, from streets to parks, is privately owned. There is no such thing as a "public space" under such an arrangement, and therefore no "immigration problem." Individual property owners or contractual communities would be able to set their own immigration policy, and determine for themselves who would or would not be allowed to enter their private property.[1]

The situation becomes muddied when we insert public property into the equation. Cultural cohesion is a value cherished by many, but it is gravely compromised by distant levels of government which force localities to allow "universal access" to local public property. It is hopelessly misleading to describe this state-enforced policy as "free immigration"; rather, as the libertarian philosopher Hans-Hermann Hoppe points out, it is a flagrant case of "forced integration."[2]

Libertarians and Public Property

The issue boils down to how libertarians should think about public property. Some libertarians hold that as long as a road or any other property is public, no restrictions can be placed on its use. If a nudist colony decided to march, *au naturel*, down the middle of a well-traveled area of Manhattan, such a libertarian would have no objection. (That chastened New Yorkers would be unlikely to notice is another matter.)

Clearly, no private road proprietor would dream of subjecting his patrons to such an

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environment. But until all roads are private—a situation unlikely to obtain anytime soon—on what grounds should the most basic civilizational norms not be observed on public property? There is no reason why the mass of the public, already looted and oppressed by the state, should also be forced to endure offensive behavior or dreadful squalor every time they set foot on state-owned property.[3]

The same analysis can be applied to immigration policy. Must people be forced to surrender to the state-imposed multiculturalism that is current immigration policy, or can they at least attempt to approximate the demographic patterns that would obtain under private-property conditions?

It is hardly unwarranted to assume that the vast majority of Americans, if control over immigration were devolved to the most local level possible, would freely choose to sort themselves according to very different demographic patterns from those which the state, through its invasive immigration policy, foists on them today. To allow our present immigration policy to continue, therefore, is to hand the state an enormous victory over the private property owners who must live with the forced integration of which the present system consists.

Many advocates of "open borders" contend that the real culprit is the welfare state, and not immigration per se. But this will not do. We all would like to see an immediate end to the welfare state, but with "welfare reform" another Beltway hoax and the rest of the New Deal/Great Society entitlement programs alive and well, this is no answer at all to those who are concerned about the unprecedentedly high infusion of immigrants, legal and illegal, into the United States.

A Unique Crisis

The current crisis is indeed unique in American history. As Peter Brimelow points out, previous waves of immigration were followed by long pauses during which the country was able to absorb and acculturate its new citizens. Not so today. The

Immigration and Naturalization Service estimates the arrival of 12 to 13 million legal and illegal immigrants into the United States over the course of the 1990s, the overwhelming majority of whom will hail from radically different cultural environments from what they will find here. And there is no end in sight.

We must also ask ourselves seriously whether we will be more or less free after even two more generations of immigration of the size and composition of recent decades. That immigrants and the American bureaucracy that serves them will become yet another pressure group, clamoring for privileges and benefits in Washington, can scarcely be doubted. The overwhelming majority of current immigrants is eligible for affirmative action and the myriad other benefits that accrue, at others' expense, to the protected classes.

Yet there is a more subtle reason to be wary of the kind of radical heterogeneity that a continuation of current policy promises. In order to destroy the cultural and ethnic cohesion that acts as a bulwark against its expansion, the state has a history of engaging in deliberate demographic scrambling. When this forced integration inevitably produces animosity, the state is all too eager to impose order on a chaos of its own creation.

Massive migration of ethnic Russians into Estonia, for example, was deliberately en-

NOTES FROM FEE

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Love and Envy

Love and envy probably are the most bewitching of all emotions. Love blinds all men alike, both the wise and the foolish. Envy sharpens our eyes although it is a timid and shameful passion to which we dare not confess. Being unequal in ability, industry, and the rewards of our labors, we let the vice of envy creep into our hearts and make us miserable. If envy were a fever, many people would be ill.

Man is a social being who seeks protection and comfort in society. He takes care of his own with the help of others, working together in what economists call "division of labor." It springs from individual inequality in inborn ability and acquired capability which permit individuals to perform different tasks. Individual inequality does not contradict the "self-evident truth" that "all men are created equal, that they are endowed by their Creator with certain unalienable Rights." It is self-evident that innate inequality calls for equal individual esteem, regard, and respect, assuring social peace among unequal men. Social harmony and cooperation depend on the equal treatment of all members of society before the law.

Many reformers frown upon this political and legal equality as being inadequate; they would extend the scope of equality to economic life through political distribution of income and wealth. They would forcibly reduce economic inequality through taxation and outright confiscation, seizing income from productive members, giving some to unproductive or less productive individuals, and keeping some for the regulators, tax collectors, and confiscators. They would use force continually and relentlessly because people continue to differ in capacity, skill, strength, industry, training, and experience. They love force which breeds more force. They easily enslave servile natures; freemen seek to escape.

A policy designed to bring about economic equality opens the door for demagogues. It invites politicians to stir up the resentment of the poor against the rich so that they may elect those demagogues to positions of power and largess. Demagogues are agitators who ask why anybody should be permitted to earn millions while honest people linger in want and despair. Always ranting against the greed, lust, and corruption of the rich, they promise much but perform only evil. In the end, they incite the envious mob to plunder the rich.

The quest for economic equality breeds a new race of politicians: hunters after popularity, they are men of ambition who seek the profits of office rather than honor and service, orators who wax eloquent of principle, having none themselves. They do not pursue what is right but rather what brings vulgar applause. While in the possession of political power, they lead a nation straight into despotism. Even if we were to surrender all our freedoms to them, there would be no equality of position and income. The taskmasters would take the place of the rich, and political power would triumph over economic productivity.

In an economic order not guided by resentment and envy, the people are preoccupied with their own problems. Every individual faces the challenge of earning enough income to satisfy his needs and wants. He may contribute to the process of production and thus earn an income or be supported by others who do participate. Infants, the aged, and the handicapped obviously must depend on their supporters, while all others face the challenge of earning an income and providing for themselves and the persons who rely on them. He who refuses to contribute to production does not earn his keep, but is free to remain idle. In a command system, he has no such choice; the government forces him to participate in any way the officials see fit. The police, judges, and jailers exact everyone's contribution to the joint effort.

An envy-free society is clear of political power and coercion. It imposes restraints only on criminal acts that inflict harm on persons and their property. There are no economic commands, rather merely indirect pressures on individuals to cooperate in the process of production. The market order allocates income in accordance with the services rendered and contributions made to social well-being. It rewards individual effort according to the value of the service rendered, which creates an incentive for everyone to apply his abilities to the utmost. Free societies enjoy great productivity, high individual incomes, and commensurate standards of living.

Welfare states pursue a relentless policy of income equalization. Driven by the envy of voters, they seek equality through confiscatory taxation of incomes and estates. But a policy of confiscation is always short-lived; it may succeed once only when it is not expected. As a continuing policy it is rather ineffective as the owners prefer to consume their capital instead of saving it for the tax collectors and expropriators or, if such capital is liquid, send it abroad to invest in foreign enterprises. Countries that lose capital suffer economic stagnation and decline; countries that attract capital enjoy rising labor productivity and wage rates. After all, saving and investing determine the productivity of labor and provide the means for the improvement of future conditions.

Confiscatory taxation is not the only method of capital consumption; deficit spending and banking regulation have the same desolating effects. Legislators and regulators like to channel the people's savings to government, which promptly consumes them. All the funds of Social Security and large funds of private trusts and investment companies consist of government IOUs, which are certificates of capital consumption. While individual savers and investors are providing goods and services for the future, government is committed almost exclusively to the enjoyments and pleasures of the moment. While individual saving and investing make for peaceful cooperation and social division of labor, political spending invariably generates bitter conflict not only between the beneficiaries and victims but also the generations. Deficit spending tends to consume both — capital accumulated by past generations and the seed corn for future generations. It is difficult to imagine a policy more destructive than deficit spending.

Love makes all hearts gentle except those touched by envy. Most of the economic and social misery which welfare states bring upon the world is inflicted by demagogues stirring up the resentment of voters. Unable to attain the income of the rich, they rail at it. All kinds of problems are solvable except those which spring from envy.

Hans F. Sennholz

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couraged for the purpose of destroying Estonian culture and nationalism. In Yugoslavia, Tito enforced a policy of forced mixture and resettlement of Serbs, Croats, and Slovenes, exploiting the resulting animosities to justify further expansion of state power. A population thus divided against itself at the local level can pose no threat whatsoever to the central state. And this, of course, is the point.

Barring the establishment of a pure private-property system, the only sound libertarian approach to immigration is thus a radical devolution of power from the central state to the local level, and to allow individuals and communities to decide the issue for themselves.

A facile advocacy of "open borders" gives the central state exactly what it wants: the chance to supersede the preferences of property owners, and to provide the pretext for further encroachments on local and individual liberty. Such a system, in short, will make America less free. That's a good enough reason for libertarians to rethink it. □

1. Murray N. Rothbard, "Nations by Consent: Decomposing the Nation-State," *Journal of Libertarian Studies* 11 (Fall 1994), pp. 1–10.
2. Hans-Hermann Hoppe, "Free Immigration or Forced Integration?" in Thomas Fleming, ed., *Immigration and the American Identity* (Rockford, Ill.: The Rockford Institute, 1995), pp. 212–20.
3. See Murray N. Rothbard, "What To Do Until Privatization Comes," in *Making Economic Sense* (Auburn, Ala.: The Ludwig von Mises Institute, forthcoming), pp. 144–47.
4. Peter Brimelow, *Alien Nation: Common Sense About America's Immigration Disaster* (New York: Random House, 1995), p. 5.

Coming to America: The Benefits of Open Immigration

by Thomas E. Lehman

For centuries, the American culture has been a beacon of hope to the oppressed peoples of collectivist economies and authoritarian or totalitarian governments throughout the world. Why then do the American people—descendants of immigrants, beneficiaries of open and unregulated immigration, whose culture, economy, government, and way of life are so deeply tied to open borders—exude such a passion against free immigration? Why do they wish so desperately to deny late twentieth-century immigrants the benefits to which their own eighteenth- and nineteenth-century ancestors were privileged? What do Americans have against open borders?

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American immigration policy is a labyrinth of regulations and barriers to free travel and migration. One wishing to enter this country must possess all the legal and "proper" documentation in order to be permitted entry. The poverty-stricken and homeless foreigners who expect to benefit most from immigrating into the American economy rarely possess resources adequate for legal entry. Hence, they are denied. Such immigration policy is based upon a xenophobic confusion regarding economics, the mobility of labor, the American welfare state, and cultural diversity.

Immigration and Labor

Many Americans argue that free immigration would destroy "working class" Americans' ability to earn a living. They claim that allowing free and open borders to any and all immigrants would put decent, hard-working Americans out of work. Perhaps what these Americans really fear, however, is that someone will emerge from the "immigrant class" who would be willing to work for less than they while producing equal or greater output.

The present immigration policy of the United States amounts to nothing less than a tariff or barrier to entry on the commodity of labor, and harms American consumers in the same manner as tariffs and trade barriers on other capital or consumer goods.

A policy of open immigration would indeed force unskilled American laborers to compete for their jobs at lower wages. However, far from being an evil, this is a desirable outcome, one which should form the basis for a new immigration policy. By inviting competition into the American labor markets, artificially inflated labor costs could be eliminated and a greater level of labor efficiency could be achieved.

As the cost of labor (itself a cost of production) decreased, entrepreneurs and producers could produce more efficiently, enabling them to offer products and services at lower prices as they compete for consumers' dollars. Lower prices in turn increase the purchasing power of the American consumer, and thus enhance living standards for everyone. This is happening even now as some small business owners use "illegal" immigrant labor to lower their operating costs and thus lower consumer prices: ". . . small-business executives do agree that some of their competitors who knowingly or unknowingly hire illegal immigrants use the cheap labor to undercut prices of business owners who play by the rules."[1]

This is good for both consumers and the economy at large. As immigration makes the American labor market more competitive, costs of production are reduced and prices decline. In the long run, even the domestic laborer who is forced to lower his wage demands is not any worse off, since what he loses in terms of lower nominal wages he may well regain in terms of lower prices on the goods and services he purchases as a consumer. Meanwhile, everyone else benefits, and no one is privileged at the coerced expense of anyone else.[2]

Immigration and Welfare

Another argument used in favor of immigration controls concerns the American welfare system and its potential abuse by immigrants who migrate into America merely to feed at the public trough of social services. The claim is made that the welfare system, not potential economic freedom, is the lure which draws immigrants into the American economy. Immigrants—unproductive, slothful, and indigent—constitute a dead-weight loss on the American economy, and further increase the tax burden on productive Americans. Therefore, we must police our borders and keep out the undesirables.

This argument is statistically and theoretically flawed. Contrary to prevailing public opinion, current immigrants do not "abuse" the public welfare system, even in the areas where immigration (legal or illegal) is most concentrated. In fact, immigrants have little effect on the current system of taxation and wealth redistribution. As Julian Simon relates:

> Study after study shows that small proportions of illegals use government services: free medical, 5 percent; unemployment insurance 4; food stamps, 1; welfare payments, 1; child schooling, 4. Illegals are afraid of being caught if they apply for welfare. Practically none receive social security, the costliest service of all, but 77 percent pay social security taxes, and 73 percent have federal taxes withheld. . . . During the first five years in the United States, the average immigrant family receives $1404 (in 1975 dollars) in welfare compared to $2279 received by a native family.[3]

Some may disagree with these statistics. Others would no doubt argue that if immigration controls were eliminated and borders completely unpoliced, a massive number of immigrants would enter the United States and overload the welfare system, causing taxes and the national debt to skyrocket. Certainly this is a possibility. But, even if we grant this argument the benefit of the doubt and concede that unrestricted immigrants would indeed flood the welfare system, the answer to the problem lies not in closing off the borders or "beefing up" border security. The answer lies in eliminating the American welfare state, and prohibiting anyone, native or immigrant, from living at the coerced expense of another.

Immigration and Culture

A final argument against immigration comes surprisingly from those generally supportive of liberty and the philosophy of the limited state. These critics are concerned for the preservation of what they see as a distinct American culture and its traditional heritage of European-style limited government and market economies.[4] Their fear is that this traditional culture is being sabotaged by an influx of immigrants who are unfamiliar with and perhaps even hostile toward its institutional framework. They contend that immigrants of the late-twentieth-century variety do not possess the same ethnic characteristics of earlier immigrants, and therefore do not have an appreciation for the "American way of life." Such an argument suggests that recent immigrants who hail from Third World nations controlled by regimes of despotism have no understanding of the traditional institutions that have made America great. Allowing these immigrants of vastly different culture and ethnic heritage into the United States will result in a grave polarization of our society into racial enclaves that will run roughshod over our most sacred political and economic institutions.

To political conservatives, and even some libertarians, this argument may appear compelling at first blush. However, it is flawed. First, preserving "tradition" merely for the sake of tradition is pointless. The idea of tradition is meaningless unless we define the essence of that tradition in terms of the ideas that comprise it. Tradition alone is not what has made America great. Rather, it has been the reciprocal relationship between a limited state and economic and social liberty that has made the American way of life so coveted—in other words, the philosophy of liberty underlying the American tradition.

Expanding the power of government in order to preserve tradition is a sure path to the destruction of liberty. Americans ought to be particularly aware of this fact since the American tradition is bound together so tightly with the philosophy of freedom and limited government.

Yet, it is not the first time Americans have been down this road. U.S. public education began as a concerted effort to preserve the Protestant "traditions" of the American culture against the perceived threat of Catholicism. By subjecting the education establishment to the decisions of legislators and bureaucrats in local, state, and eventually national governments, Protestants hoped to stem the tide of Catholicism flowing into America on a nineteenth-century wave of immigration. As Samuel L. Blumenfeld relates,

> There was another reason why the Protestant religionists decided to join the secularists [socialists] in promoting the public school movement. They shared a common concern with, if not fear of, the massive Catholic immigration to the United States during that period. . . . [It was] argued that Protestants had to put aside sectarian differences and unite to defend Protestant republican America against the "Romish designs."[5]

By making schools public rather than private, Protestants sought to use the power of the state to exclude the teachings and influence of Catholicism on their children, thereby preserving the Protestant "tradition" in America by way of majority vote. In retrospect, the bankruptcy of the American public education system ought to serve as a somber reminder that expanding state power to preserve "tradition" is a sure path to statism.

There is another flaw lurking in the argument that open immigration leads to the decline of a nation's cultural and institutional framework. Contrary to the anti-immigration position, the American traditions of limited government and free market economies are not based upon ethnic or racial origins. They are based upon ideas. Western cultures cannot suppose themselves to have a monopoly on the philosophy of liberty, nor can Americans argue that the political values of the limited state cannot be inculcated in non-American immigrants. The ideas of freedom that have created the American tradition can apply to any ethnic or racial make-up.

But what happens if, over time, America absorbs so many immigrants that, through their influence, the ideas of limited government and the free market economy become diluted? What happens when our political system falls victim to immigrant forces that seek to expand government power? These are good questions. The fact remains, however, that these fears are now being realized, and the foes of liberty in America are largely home-grown. Twentieth-century Americans have turned their backs on the philosophy of the limited state.[6] They have generally refused to acknowledge the advantages of a laissez-faire market economy. It is not the foreign element, but rather the domestic element that we should fear. Before we begin to castigate potential immigrants for the damage they may do to our freedoms, we need to acknowledge the damage we have already done on our own.

The answer is to return once again to a government "of laws and not of men." In other words, the state must be radically limited in power and scope, with only minimal duties which are explicitly defined. This will put state power beyond the reach of those individuals or voting blocs that would seek to exploit it for personal gain. We then would have no reason to fear immigrants, regardless of their ideological or political persuasion. Their ability to "sabotage" our freedoms would be removed not because we expand state power to keep them out, but because we diminish state power in all areas and allow them in.

Immigration and Freedom

Immigration policy should not be viewed differently than trade policy: free, unregulated, unpoliced, open borders, devoid of taxes, tariffs, or any other barrier to entry. This is the policy of freedom to which America owes her heritage. Unilateral free trade, free immigration, and free emigration, where individuals possess unobstructed and unregulated mobility and trade, is a cornerstone of a free society. In fact, the free movement of peoples is no less important than the freedoms of speech, expression, and association. Liberty is indivisible; the laws of economics apply equally to all peoples.

Americans must begin to accept the fact that free trade and open borders are to their utmost benefit. By embracing the philosophy of free immigration and free labor mobility, we benefit from the productivity, ingenuity, and entrepreneurship not only of those within are borders, but also of those from without. Expanding the division of labor into the international marketplace makes available a vastly enlarged array of resources, thus enhancing the living standards of everyone. □

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1. John S. DeMott, "Immigration Policy's Double Impact," *Nation's Business*, December 1994, p. 28.
2. See the compelling example offered by Jacob G. Hornberger in "The Case for Unilateral Free Trade and Open Immigration," *Freedom Daily*, November 1994, p. 6.
3. Julian L. Simon, *Population Matters: People, Resources, Environment, & Immigration* (New Brunswick, N.J.: Transaction Publishers, 1990), p. 265.
4. Perhaps the most developed argument from this position can be found in Peter Brimelow, *Alien Nation: Common Sense About America's Immigration Disaster* (New York: Random House, 1995).
5. Samuel L. Blumenfeld, *N.E.A.: Trojan Horse in American Education* (Phoenix, Ariz.: The Paradigm Company, 1984), p. 27.
6. For those who would argue that the decline in American liberty during the twentieth century is related somehow to immigration and open borders, the reality is otherwise. Twentieth-century America has never practiced open immigration to the extent I am suggesting. Further, twentieth-century Americans have become more nationalistic than their eighteenth- and nineteenth-century ancestors, thus reflecting, at times, an extreme degree of suspicion or even hatred toward foreign peoples.

THE FREEMAN
IDEAS ON LIBERTY

Thinking Carefully About Macroeconomics

by Steven Horwitz

Most people who believe in a free society have some knowledge of economics. After all, the case for economic freedom is usually the most difficult one to argue, and if one is going to defend the idea of freedom, one must be prepared to discuss economic issues. However, this strategy can sometimes face two differing problems.

The first is that economics is not a homogeneous entity—there are different schools of thought with different approaches to the subject matter and different policy conclusions that emerge from these approaches. Knowing some economics isn't enough. One must be careful about what it is one knows and what economics others might know. This point by itself suggests those who wish to make the case for the market need to be as aware as they can be about developments in economic theory and policy.

Even beyond the issue of policy, a second complication comes into play. There are a number of different theoretical arguments for the free market. It would be easy to simply dismiss these differences as irrelevant, since all seem to wind up with the same conclusion. However, some of those arguments may be better than others, and some may be more convincing to particular audiences. Here, too, it pays for defenders of the market to be as informed as possible about these differences and the various arguments each group presents.

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What I would like to do in this essay is to lay out the Austrian school's approach to some fundamental issues in macroeconomics, and, in so doing, address both of the issues noted above: how does this approach differ from more interventionist schools of thought, and how does it differ from other market-oriented approaches?

Macroeconomics and Microeconomics

One of the issues that spans both of these questions is the relationship between macroeconomics and microeconomics. Prior to John Maynard Keynes in the 1930s, there was not really a distinct system of analysis known as "macroeconomics" which was concerned with establishing direct causal relationships among aggregates such as inflation, unemployment, and gross domestic product (GDP). Keynes was interested in determining the "level of output as a whole," and he argued that economists before him had ignored this crucial question. A great deal of Keynesian economics from the 1930s to the 1960s was solely concerned with these macroeconomic aggregates, never asking what the relationship between them and the choices made by individual persons and firms in the economy might be.

An important accomplishment of economics in the 1960s was to begin to ask precisely this kind of question. Milton Friedman's work, in particular, sought to explain inflation and unemployment more in terms of the choices made by individuals who were smart enough not to be fooled consistently by government policy. Later developments of those themes have extended the assumption of individual rationality to the point where individuals in many recent models cannot *ever* be fooled by systematic government policies. The work of the so-called New Classical economists, such as recent Nobel Prize winner Robert Lucas, was important in reminding economists that people do not behave the same way no matter what policies governments adopt. If governments inflate, for example, individuals will have an incentive to recognize that inflation and take steps to neutralize its effects on themselves and their families or firms.

As important as these contributions are, they remained the victim of one central flaw. They were couched in terms of more and more abstract models that assumed that observed macroeconomic outcomes had to be the result of perfect utility- and profit-maximizing behavior by individuals and firms. The central assumption was that the economy was in equilibrium and that observed macroeconomic outcomes had to be compatible with microeconomic equilibrium. The problem with this strategy is that first, the conditions necessary for equilibrium to hold never exist in the real world, and second, it suggests that major macroeconomic difficulties (such as 25 percent unemployment during the Great Depression) are just the result of optimal decisions by individuals. Although it concluded from this analysis that government policies will be unable to improve on market outcomes, this strategy does shift the analyst's focus away from the role that government intervention might play in *causing* those outcomes.

Of course the Keynesians did not sit still for these developments. They recognized and accepted many of the counterarguments made by Friedman and the New Classicals. However, the general strategy of the so-called New Keynesians was to point out that various informational limitations and rigidities inherent in real-world markets prevent markets from achieving the equilibria that the New Classical models were built upon. As a result, argued the New Keynesians, government intervention might improve upon the free market by virtue of government's supposedly superior information and ability to take advantage of those rigidities and push the economy closer to that equilibrium. So New Keynesians share many of the same underlying assumptions as the New Classicals, they simply believe that in some (if not many) cases markets alone are unable to reach the equilibrium that the New Classicals believe they can.

An Alternative Perspective on Macroeconomics

It might surprise people who know a little bit about Austrian economics to read an essay about why macroeconomics matters. Austrians are presumed to reject the whole concept of macroeconomics as being inconsistent with the individualism that has long defined their approach. To the extent that macroeconomics is understood as only being about the direct relationships among economic aggregates, then it would be wise to reject such an approach. However, all economists are still interested in explaining phenomena such as unemployment, inflation, and economic growth and their effects, so we do need some way of analyzing those issues. As noted earlier, a sound approach to macroeconomics would insist that such explanations (and the effects of changes in aggregates) have to be understood in terms of the microeconomic choices made by individuals and firms.

One alternative way to explore these issues is to reject the equilibrium orientation of the major mainstream schools of thought and see what difference that might make in the analysis. Specifically, where these schools see market prices as equilibrium signals to perfectly rational actors (they simply differ on how well prices perform this function), we might, by contrast, see market prices as *disequilibrium* signals that guide imperfectly informed individuals about what to do and how well they do it. For example, if you assume markets are always in equilibrium, then any given price is fully reflective of all of the knowledge and preferences of market actors. If so, then whatever results is optimal. This is how an equilibrium-oriented macroeconomics can shrug its shoulders at 25 percent unemployment. It's an equilibrium outcome, hence it is optimal.

If, however, we argue that equilibrium never actually exists, then the existing prices of goods and services in the market are not perfect reflections of people's preferences and correct knowledge, but rather indicate the imperfect information conveyed by individuals making choices in a complex economy. Prices then have multiple roles in the market. First, prices help to inform market actors about what choices they *might* make next. Suppose I make t-shirts. In deciding how to make my product I would want to know the prices of my various options for raw materials and labor in order to decide how much labor, what kind of shirt material, and what kind of dye or screening process I might use. Prices help to inform these decisions. Second, after having made my choices about inputs, I sell (or can't sell) my t-shirts at some price in the market. After the fact, the difference between the price I receive for my output and the combined prices of my inputs (including time), tells me whether what I have *already done* was the right thing to do.

These roles of prices are perhaps obvious. But when one assumes equilibrium, only the first role is emphasized and even then prices are assumed to be the right prices from the start. If one starts by assuming markets are always in disequilibrium, a third role for prices emerges. Our first two roles assumed that we already knew that we wanted to make t-shirts and that therefore we had some perception that a market for such t-shirts existed. But what makes such realizations occur? As Israel Kirzner's work has long emphasized, this recognition of previously unseen opportunities is known as entrepreneurship and it is essential to the discovery process of the market. This third role of prices is to alert us to such opportunities that would otherwise be missed. I might currently produce t-shirts, but in looking at various input prices and by imagining what price I might get if I began to produce shorts with cartoon characters or sports logos on them, I might be led to see an opportunity I would not have without prices. The disequilibrium prices of the market are central to alerting people to entrepreneurial opportunities.

Inflation

How does all of this relate to macroeconomics? What an alternative approach to macro might look for are the ways in which government policies, which are designed to affect broad aggregates like the price level or rate of unemployment, affect these individual disequilibrium prices and undermine their ability to lead to market coordination. Take inflation, for example. Mainstream discussions of inflation generally emphasize the problems created by variations in the *aggregate price level.* Inflation is bad because it is hard to, for example, write contracts if the parties cannot be sure of what the overall level of prices will be in the future. Alternately, inflation is bad because it means that sellers have to remark their prices more frequently, and these ongoing changes in prices require the use of resources that would otherwise go toward production directly. Although both of these are indeed problems caused by inflation, they seem relatively minor when compared with what a view that takes the market process seriously suggests.

Rather than worry about the overall level of prices, economists could instead look at the way in which inflation affects the individual prices in an economy. As excess supplies of money work their way through the market, they cause differential effects on prices. Some go up by a lot, some only by a little. These price effects divorce prices from the underlying preferences of producers and consumers and in so doing *undermine all three informational roles of prices discussed above.* When the informational role of prices is damaged, economic coordination is more difficult and economic growth suffers as a result.[1] The real effects of a macroeconomic disturbance like inflation are the ways in which it undermines the *microeconomic coordination process* by disrupting price signals. If the analyst begins by assuming this coordination has already occurred, as do equilibrium models, then these effects of macroeconomic disturbances will be overlooked.

These price effects cause further effects throughout the economy. Of special interest is the way changes in the prices of consumer goods lead to distortions in input markets and the capital structure as they respond to the constantly changing signals coming from consumer goods. The changes in capital equipment or job training that result as firms react to the temporary effects of inflation are generally not completely reversible and thus involve economic waste. Once again, this perspective illuminates an aspect of macroeconomics not captured by mainstream approaches, including those, like Friedman's, which are sympathetic to economic freedom.

In addition, this approach differs from the New Keynesians because of this stress on the role of prices in stimulating entrepreneurial discoveries. The New Keynesian argument that governments can overcome information problems in markets is almost always put in terms of the information necessary for reaching equilibrium. Even if governments were capable of doing so (a dubious assumption at best), it still ignores the discovery role of prices. As market process economists have long stressed, achieving equilibrium is not the standard by which to judge a capitalist economy. Rather, the comparison is between what really-existing market competition can achieve in comparison to really-existing (not what get drawn up on a blackboard or computer) government intervention that suppresses the market.

Macroeconomics does indeed matter and it is important to understand both the mainstream and non-mainstream approaches to the subject. The differences between these approaches are important for how we understand macroeconomic phenomena, how we assess their costs, and what we might do to reduce those costs. Austrian-type arguments are not just one more weapon one can pick up along with those of other economists. They reflect a distinct perspective on political economy which needs to be understood both on its own terms and in comparison to other such perspectives. It is important for those who value freedom to be reasonably aware of these differences and their implications. □

1. I have discussed these issues in much more depth in my, "The Political Economy of Inflation: Public and Private Choices," *Durell Journal of Money and Banking*, 3 (4), November 1991; and also "Inflation" in Peter J. Boettke, ed., *The Edward Elgar Companion to Austrian Economics* (Aldershot, UK: Edward Elgar), 1994.

THE FREEMAN
IDEAS ON LIBERTY

Why Economists Need to Speak the Language of the Marketplace

James C. W. Ahiakpor

Ask a group of economists whether saving is necessary to promote investment and economic growth, and you will get a variety of responses. Some would claim that the answer depends on whether the economy is operating at "full employment," since outside of full employment their answer is no. Others would simply say no, it is rather investment which makes savings possible. A minority however would say definitely, without saving there can be nothing to invest. Indeed, a debate last summer among historians of economic thought on the internet well illustrates this amazing state of confusion among economists over an issue so fundamental as the primacy of saving to make investment possible. So how did economists get into this state of affairs?

Trace it to the publication of Keynes' *General Theory* (1936), in which he argues what is now called "The Paradox of Thrift." Keynes' claim is that saving at the national level is bad for an economy because when people decide to save more rather than consume, they deprive producers of market demand. As a result, production contracts, fewer people are hired, less income is generated, and the community becomes poorer. And with lower incomes, people will actually save less than they initially intended—so the argument goes. But a community in which people decide to consume more than save would create more demand for producers who will hire more workers, and thus create more income from which more savings will flow. And interest rates are not supposed to react to the changing desires of the public to save. Through this reasoning, Keynes believes he found "an explanation of the paradox of poverty in the midst of plenty," namely, the problem of wealthy communities making themselves poorer by their inclination to save.[1]

Keynes' argument defies sound logic, although many economics textbooks teach it as if it were valid. Even some of the few who cast doubt on the empirical validity of Keynes' claim, nevertheless insist that the proposition is theoretically sound.[2] Modern dissenters from Keynes' fallacy, especially Henry Hazlitt, have had little luck dissuading a majority of the academic economics community from teaching the doctrine that increased saving is a public vice.[3]

Some students who go on to fields such

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as development economics or finance are taught that the public's saving in the form of purchasing (private) financial assets is conducive to economic growth. But many still get stuck in a state of ambivalence, never being sure whether saving is logically prior to investment. Such is the state of economics education that Axel Leijonhufvud calls Keynes' paradox of thrift "one of the most dangerous and harmful confusions ever taught as accepted economic doctrine," but this critique has had little effect in eradicating its teaching.[4]

The key to this dilemma for economists is their continued use of the term saving as Keynes defines it in his *General Theory* (e.g., pp. 81, 166–67) such that it could mean the hoarding of cash, which is inconsistent with language of the marketplace as well as the teachings of economists before him, including Adam Smith, David Ricardo, and Alfred Marshall. Indeed, when people think of saving, they do not plan to accumulate in cash portions of their monthly paychecks under their mattresses or in their stockings. Rather they think of putting such funds in a bank account, savings or credit union to earn interest, or play the stock market (for capital gains or dividends), or buy bonds for interest income (or capital gains, should they sell them before bond the redemption date). Thus, as Marshall states in his *Money, Credit and Commerce*, ". . . in 'western' countries even peasants, if well to do, incline to invest the greater part of their savings in Government, or other familiar stock exchange securities, or to commit them to the charge of a bank."[5] This is why the act of saving is not "the *negative act* of refraining from spending the whole of [one's] current income on consumption" as Keynes claims it is in his *Treatise*.[6] But rather, saving is spending on future income-earning assets.

Another way to clarify the active, rather than passive, act that saving really is, is to note that it is not the same thing as hoarding one's income in cash. Henry Hazlitt's criticism of Keynes on the paradox of thrift proposition focuses on the fact that hoarding is occasioned by government's disturbance of the people's confidence which leads to their preference not to hold financial assets. In *The Failure of the "New Economics,"* Hazlitt also quotes David Ricardo's correct criticisms of Malthus for the latter's concerns over excessive saving which could (in Malthus' mistaken mind) be injurious to effective demand.[7] But Malthus' firm statement of the meaning of saving, in which he declares that "No political economist of the present day can by saving mean mere hoarding," better helps to illustrate the error of Keynes' association of hoarding or non-spending with saving.[8] Similarly, John Stuart Mill's clarification of the meaning of saving in his *Principles* helps a great deal. He says:

> The word saving does not imply that what is saved is not consumed, nor even necessarily that its consumption is deferred, but only that, if consumed immediately, it is not consumed by the person who saves it. If merely laid by for future use, it is said to be hoarded; and while hoarded, is not consumed at all. But if employed as capital, it is all consumed [spent]; though not by the capitalist.[9]

Understood as the classical economists taught, and the general public means in common usage in the marketplace, increased saving does not depress total spending, but only shifts the composition of spending more towards investment or producers' goods and less towards immediate satisfaction of consumption demand. Such understanding helps easily to set aside the analytical fable called the paradox of thrift, promoted to a great extent by Paul Samuelson's best-selling textbook, *Economics*, by which increased saving depresses aggregate demand or total spending and causes a fall in subsequent level of income.

The great teachers of economics sought to communicate ideas in the language of the marketplace. Indeed, Alfred Marshall urges economists to do the same, arguing in regard to the term "capital" that "economists have no choice but to follow well-established customs as regards the use of the term capital in ordinary business, i.e. trade-capital."[10]

Keynes is known to have made up his own meaning for terms in ordinary usage, much to the confusion of his audience. And many of Keynes' modern-day followers continue with his distortion of language, as in the case of associating saving with the hoarding of cash, and hence a refusal to spend or "a withdrawal from the spending stream." Accordingly, modern Keynesians derive some surprising conclusions, e.g., Samuelson and Nordhaus' warning against "President Reagan's tax cuts put forth as a means of promoting [private sector] saving" in the United States, and that governments should promote consumption, not saving.[11]

But saving is not hoarding. It is what most people understand it to be: buying or investing in financial assets issued by banks and other borrowers or investors. This is why savings promote economic growth, as the classical economists taught before Keynes changed the language of modern economics so drastically to the detriment of meaningful dialogue or communication between economists and the rest of the public. □

1. John Maynard Keynes, *The General Theory of Employment, Interest and Money*, paperbound ed. (London and Basingstoke: Macmillan, 1974 [1937]), p. 30.

2. See, for instance, J. Vernon Henderson and William Poole, *Principles of Economics* (Lexington, Mass.: D.C. Heath, 1991), pp. 279–81, and Michael Parkin, *Macroeconomics*, 2nd ed. (New York: Harper and Row, 1993), pp. 224–25.

3. See Henry Hazlitt, *The Failure of the "New Economics"* (Princeton, N.J.: Van Nostrand, 1959) and *Economics in One Lesson* (Westport, Conn.: Arlington House, 1978 [1962]). Also see Mark Skousen, *Economics on Trial* (New York: Irwin, 1991), ch. 5, and *Dissent on Keynes* (New York: Praeger, 1992), ch. 5.

4. Axel Leijonhufvud, *Information and Coordination* (New York: Oxford University Press, 1981), p. 197.

5. Alfred Marshall, *Money, Credit and Commerce* (New York: Kelly, 1960 [1923]), p. 46

6. John Maynard Keynes, *A Treatise on Money* makes a similar claim in his *General Theory* (London: Macmillan, 1930), vol. 1, p. 172, emphasis in original. Keynes makes a similar claim in his *General Theory* (p. 210).

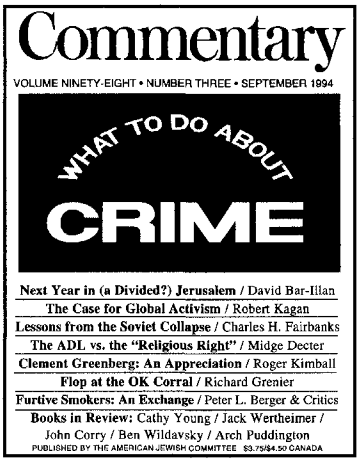
7. Hazlitt (1959, p. 218) makes the point that "people in a modern economic community do not simply hoard money in a sock or under the mattress," but does not focus on Keynes' distortion of saving as defined by the classics.

8. Quoted in Mark Blaug, *Economic Theory in Retrospect*, 4th ed. (Cambridge: Cambridge University Press, 1986), p. 166.

9. John Stuart Mill, *Collected Works*, vol. 2, ed. by J. M. Robson (London: University of Toronto Press, 1965), p. 70.

10. Alfred Marshall, *Principles of Economics*, 8th ed. (London: Macmillan, 1964 [1920]), p. 64/. See James C. W. Ahiakpor, "On Keynes's Misinterpretation of 'Capital' in the Classical Theory of Interest," *History of Political Economy*, Vol. 22, Fall 1990, pp. 507–28. Ahiakpor explains how Keynes' failure to follow this meaning of "capital" led to his inability to recognize Marshall's explanation of the theory of interest, that is, the rate of interest is determined by the supply and demand for "capital." In place of that valid explanation, Keynes then substitutes the supply and demand for liquidity (cash) as being the determinants of interest rates, a confusion which continues to plague economists.

11. Paul A. Samuelson and William D. Nordhaus, *Economics*, 12th ed. (New York: McGraw-Hill, 1985), pp. 171–74.



The Stagnation Thesis is Back!

". . . the economy cannot on its own generate enough steam to provide our full potential of growth."

—*Alvin H. Hansen, "The Stagnation Thesis"* (1954)[1]

". . . we no longer have a fertile frontier to exploit or a monopoly on the fast-growing mass-production and distribution industries that spearheaded growth."

—*Jeffrey Madrick, The End of Affluence* (1995)

Remember Alvin Hansen's "stagnation thesis"? The Harvard economist first proposed this quasi-Keynesian proposition in the late 1930s when the U.S. economy was "stuck" in a never-ending depression. Unless the government engaged in massive federal spending, he asserted, the economy was doomed to lackluster performance due to declining population growth, the disappearance of labor-saving technology, and the closing of new frontiers.

Fortunately, Hansen's stagnation thesis was repudiated both in theory and practice.[2] A booming population, advanced technology, and new frontiers (computers, electronics, telecommunications, etc.) propelled the U.S. economy to a period of rapid economic growth following World War II.

Now, a generation later, a prominent economic journalist has declared that the U.S. is going through another round of stagnating growth. According to Jeffrey Madrick in his new book, *The End of Affluence,* the nation's economic growth has slowed to 2.3 percent a year on average since 1973. Before that, it grew at an average annual rate of 3.4 percent. The decline of 1.1 percentage points represents $12 trillion in lost wealth since 1973. "Twelve trillion dollars is more than enough to have bought each of America's homeowners a new house, or paid off all our government, mortgage, and credit-card debt, or replace all of our nation's factories, including capital equipment, with new ones."[3]

Not only does Madrick paint a bleak picture of falling real wages, eroding markets, closed factories, and rising poverty, but, worse, he contends that there is virtually no way for America's economy to regain its old ways of high performance.

Madrick blames a new form of global capitalism, not government, for this disastrous "slow growth" development. "The main reasons for this decline are not inflation, government budget deficits, low levels of investment, faltering education, the irresponsibility of Democrats or Republicans, excessive spending on the military, the aged, or the poor. . ." (p. 3). Rather, the cause is the permanent loss of America's capacity for mass production, which has been replaced by "flexible" production by the Asians, Europeans, and other foreign competitors. No longer do companies produce a single mass product, but a wide variety of products in a single factory. This new intensive form of international competition has made economies of scale and big business obsolete. The result is a sharp curtailment in productivity growth, which is both permanent and worldwide. According

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to Madrick, even higher education and training don't pay like they used to. In short, we are doomed to slower growth, both here and abroad.

Of course, Madrick's fatalistic argument is as fallacious as Hansen's old stagnation thesis. There is no reason why the United States can't grow 3 percent or 4 percent or even 5 percent a year over the next decade—if the right actions are taken. To suggest that fiscal and monetary policy has little to do with economic performance is preposterous. And to assert that increasing competition and innovation reduce productivity is absurd. But that's the kind of thinking that comes from a former NBC economics reporter and graduate of Harvard Business School.

Recent evidence contradicts Madrick. In fact, the day I bought his book, *Business Week* (Oct. 9, 1995) came out with a cover story on U.S. productivity. Due to restructuring and innovative production methods, U.S. productivity posted a remarkable 3.5 percent gain over the past year, higher than all other industrial nations. "Technology is transforming the American economy into the most productive in the world," the magazine reported. "The result: higher living standards seem inevitable."

Moreover, American business could do even better if the government adopted the right kind of macroeconomic policies. What Joseph Schumpeter said about the stagnation thesis could well apply to Madrick's theory: "Though there is nothing to fear from people's propensity to save, there is plenty to fear from other factors. Labor unrest, price regulation, vexatious administration and irrational taxation are quite adequate to produce results from income and employment that will look exactly like a verification of the stagnationist theory."[4]

Imagine the favorable effects the following policy recommendations would have on American industry and wage growth:

—reducing or eliminating the capital gains tax;

—adopting a flat tax with generous exemptions for low-income workers;

—replacing Social Security with a genuine private pension system;

—curtailing wasteful spending, selling off federal assets, and privatizing government services, resulting in a budget surplus.

Despite Madrick's claims to the contrary, such macroeconomic policy changes would cause a sharp drop in real interest rates and a dramatic increase in economic growth and productivity.

Skeptics who question the benefits of a "supply side" revolution should take a look at the recent success story of Peru. For decades, Peru experienced a form of secular stagnation, suffering from high taxes, hyperinflation, bureaucracy, and corruption. Then unexpectedly an outsider, Alberto Fujimori, was elected president. His administration transformed the economy. Inflation was cut from 7,650 percent in 1990 to 13 percent this year. Peru imitated Chile by creating its own alternative private Social Security pension plan. It engaged in extensive privatization, including Telefonicas del Peru. Even better than Chile, it abolished taxes on capital gains, dividends and inheritance. The maximum tax rate on income was cut to 30 percent. And there are no foreign exchange controls.

Not surprisingly, stagnating Peru became the fastest growing economy in the world, with a real economic growth rate exceeding 13 percent this past year. President Fujimori was re-elected recently with 64 percent of the vote.

The United States could see a dramatic rise in its fortunes if it followed a similar path. Its growth rate may not reach 13 percent, but it could easily double to 5 percent or more. To paraphrase Adam Smith, there is much potential in a nation. Don't sell America short. □

1. Alvin H. Hansen, "The Stagnation Thesis," *Readings in Fiscal Policy*, ed. by Arthur Smithies and J. Keith Butters (Irwin, 1955). Hansen first raised the specter of secular stagnation in *Full Recovery or Stagnation?* (Norton, 1938).

2. Hansen's theory was dealt a deathblow by George Terborgh's *The Bogey of Economic Maturity* (1954). Economists as diverse as Paul Samuelson and Mark Blaug agree that Hansen was proven wrong.

3. Jeffrey Madrick, *The End of Affluence* (Random House, 1995), p. 6.

4. Joseph Schumpeter, *Capitalism, Socialism and Democracy* (Harper & Row, 1950), p. 398.

BOOKS

The Foundations of American Constitutional Government

Compiled by Robert D. Gorgoglione
Introduction by Clarence B. Carson

The Foundation for Economic Education • 1995 • 294 pages + index • $14.95 paperback

Reviewed by Daniel F. Walker

We've all heard the abominations which pass for popular political discourse throughout America today.

"The American way is the way of democracy; the majority rules."

"Human rights obviously are more important than property rights."

"Rights are given to us by the government."

"The 'general welfare' clause of the Constitution justifies our welfare state and the redistribution of wealth."

Admittedly, current times offer some hope for a re-birth of appreciation of fundamental constitutional values. At the Clarence Thomas hearings, Richard Epstein's *Takings* was waved around by a Joseph Biden terrified at the prospect of the national government being required to compensate citizens when federal regulations diminish individuals' rights to property. The U.S. Supreme Court has, albeit meagerly, begun to recognize constitutional protection of property rights. This year the Tenth Amendment, too, was rediscovered by the Supreme Court, the federal legislative branch has been informed that there are limits beyond which statutes cannot go. State legislatures are passing "10th Amendment Resolutions" as shots across the bow of the Beltway leviathan.

Still, the rediscovery of the Constitutional design has a long way to go. Several years ago, Robert Bork referred to the Ninth Amendment as an "inkblot." Few conservatives expressed any dismay at Bork's commentary. Even in the midst of a so-called Congressional "revolution," block grants from Washington to the states, with fewer Federal conditions, are considered an indication of "federalism," as if under that concept the states are only quasi-administrative units of the national government—but with more "freedom" to craft programs, freedom "allowed" by Congress.

When an overwhelming majority of legislative "revolutionaries" and movement "leaders" fail to exhibit a sound, complete grasp of our primary, foundational document of governance, it is all the more important for the citizenry itself to grasp the essence of that document—to understand its principles, its historical context, the guiding presuppositions and beliefs of those who drafted the Constitution and those who ratified it.

FEE's most recent collection of essays, *Foundations of American Constitutional Government*, is just the publication for anyone who wants a thorough grounding for understanding our Constitution and applying it to our political life. This collection of previously published *Freeman* essays spans 30 years, including contributions from historian Clarence Carson; the late M. E. Bradford, the noted "Southern agrarian" conservative; philosopher John Hospers; historian Robert Higgs; and economist Dwight Lee, among others. The book is marketed as a primer, but be assured that the person who absorbs this book's lessons will gain a sober grasp of the intellectual ground from which the Constitution grew, its historical context, what the Founders intended it to accomplish, the permissible reach of government powers, and how profoundly "undemocratic" our government was structured to be—and why that's so. (The primary drawback of this book is the appendix; while it contains for reference the original Constitution and the first ten amendments, the other 17 amendments are not included. Also, the absence of the Articles of Confederation, predecessor to the Constitution, is regrettable.)

Several essays stand out. George W. Nilsson's essay, "Not in the Constitution," carefully examines the context and meaning of the "general welfare" clause, oft-cited and terribly misunderstood. This essay should be read by every political science undergraduate student, every first-year law student, and every public official in America. The gist of the essay? There is no grant of plenary power to the national government; as Nilsson wrote, "Knowing what led up to the war, and reading the charges in the Declaration of Independence, can anyone for a minute think that the colonists generally, and the members of the convention specifically, would have adopted a constitution which granted general welfare powers to the federal government?" Clarence Carson's essay on "The General Welfare" nicely complements the Nilsson essay.

Robert Higgs' essay regarding individual rights and the nature of government is a reality-based summary which should be widely read.

Higgs destroys the false dichotomy between "human rights" and "property rights," but not before reminding us that "[e]very government, ultimately if not immediately, relies on physical violence to enforce its rule."

Professor Dwight Lee's piece on "The Political Economy of the U.S. Constitution" offers a particularly good review of the U.S. Supreme Court's economic jurisprudence through 1986. Lee's likening the government to the role of a referee in a football game is just the sort of illustration appropriate for those who seldom or never have thought through the implications of Constitution-related discussions they've heard before.

M. E. Bradford's contribution, "Not So Democratic," is an outstanding essay regarding the profoundly "undemocratic" beliefs of the framers of the Constitution and the numerous anti-majoritarian mechanisms within the document. The Constitution is no mere blueprint for populist, majoritarian government; the super-majority votes required for amending the Constitution obviously are structured and required to prevent tinkering by bare majorities. Consider the Senate, where the least populous and most populous states are represented by the same number of Senators: two. A simple majority is not sufficient to override a Presidential veto; two-thirds of the House and two-thirds of the Senate must vote accordingly. Other examples of anti-majoritarian mechanisms abound. One cannot read Bradford's essay without a deeper appreciation for the "anti-democratic" measures in our Constitution which passionate, fleeting majorities on given issues cannot ignore, measures which safeguard us from the tyranny of the majority.

Clarence Carson's essay on "The Meaning of Federalism" is an excellent survey of the topic, highly recommended. A point particularly appreciated by this reviewer is Carson's attention to the phrase of states' rights: "states have powers (as do all governments), not rights. . . . Rights belong to individuals in the American constitutional system." Amen. The less semantic confusion over rights and powers, the better.

Finally, John Hospers' essay concerning "Freedom and Democracy" cleanly picks apart the mythology of democracy as "self-government." "[W]hen people speak of democracy as self-government, they are not speaking about each person governing himself; they are speaking of a process in which a majority of voters, or a majority of members of a legislature, make decisions which have the force of law for everyone, including those who are opposed to what is enacted." Participating in decision-making is one thing; living with the consequences of collectively made decisions is entirely another. Hospers' piece is a solid companion to Bradford's essay; together, they force the worshippers of "democracy" and "the will of the people" to reconsider the ramifications of their beliefs.

Overall, *The Foundations of American Constitutional Government* is a refreshing and provocative review of historical context, the substance, and the political theory infused within the Constitution. Students and non-students alike would do well to arm themselves with this book before confronting those "modern interpreters" who twist the Constitution to justify the intrusive, belligerent "Nanny State" we know as the federal government. □

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Leviathan at War

edited by Edmund A. Opitz

The Foundation for Economic Education • 1995 • 191 pages • $14.95 paperback

Reviewed by Robert Higgs

Perhaps the most valid justification of government is its defense of citizens against foreign aggressors. But when governments wage war, a thin line separates defense and offense. And even in a defensive war, governments typically deprive their own citizens of many liberties. Historically, war has done more than anything else to enhance the power of governments and to diminish the liberties of the people. Classical liberals have always recognized the dangers of war and supported policies, such as free international trade, that reduce the likelihood of war.

The Foundation for Economic Education has stood squarely in this classical liberal tradition, and over the years its monthly publication, *The Freeman,* has presented many articles alerting readers to the domestic dangers of war and espousing policies that promote peaceful international relations. *Leviathan at War,* edited by Edmund A. Opitz, reproduces many of those articles as well as several other commentaries. The longest essay in the collection, Wesley Allen Riddle's "War and Individual Liberty in American History," is a previously unpublished contribution.

In a chapter on "The Roots of War," Ayn Rand succinctly states a major theme of the book: "If men want to oppose war, it is *statism* that they must oppose. So long as they hold the tribal notion that the individual is sacrificial fodder for the collective, that some men have the right to rule others by force, and that some (any) alleged 'good' can justify it—there can be no peace *within* a nation and no peace among nations."

In an excerpt from *Human Action,* Ludwig von Mises expresses similar ideas. "Aggressive nationalism is the necessary derivation of the policies of interventionism and national planning. While laissez faire eliminates the causes of international conflict, government interference with business and socialism create conflicts for which no peaceful solution can be found." Mises describes how the engagement of governments in "total" war led them inexorably to extend their controls over economic life.

Perhaps the starkest wartime deprivation of liberty is the conscription of men to serve as soldiers. The United States first conscripted men during the Civil War. In World War I nearly 3 million were drafted, in World War II some 10 million, and the draft persisted until 1973. In "The Conscription Idea," written in 1953, Dean Russell lamented that "the principle of conscription is now fearfully close to becoming a permanent American institution." Russell, who had served in the Air Corps for five years during World War II, rejected the standard defense of the draft, which maintains that the end justifies the means. Said Russell, "Those who advocate the 'temporary loss' of our freedom in order to preserve it permanently are advocating only one thing: the abolition of liberty." He believed that if the United States were genuinely menaced from abroad, volunteers would come forward in sufficient numbers to defend the country.

The book reprints Daniel Webster's stirring speech opposing conscription when it was proposed in 1814. "An attempt to maintain this doctrine upon the provisions of the Constitution," declared Webster, "is an exercise of perverse ingenuity to extract slavery from the substance of a free Constitution." Anyone would be struck by reading Webster's speech alongside the unanimous decision of the U.S. Supreme Court upholding the constitutionality of the draft in 1918. Then, Chief Justice Edward White found himself "unable to conceive" how anyone could regard conscription as involuntary servitude—obviously, America's effective constitution had changed enormously since 1814. In an excerpt from a 1944 book, the British military historian B. H. Liddell Hart criticizes conscription, calling it "a decisive step towards totalitarianism."

In "How to Finance a War," Willard M. Fox exposes the fallacy that the costs of war can be shifted to future generations by debt financing. He observes that "the real cost of waging war is borne by the living who are deprived of things that in the absence of war could be produced and consumed in ordinary peacetime life. No amount of fiscal hocus pocus can change that reality." He also shows how the U.S. government has resorted to inflation to help finance its wars, and he explodes the myth of wartime prosperity. He concludes that "by a combination of persuasion, appeals to patriotism, veiled threats of coercion, and bidding a high enough price, government can get what it wants in the market" for most wartime purposes.

Nothing displaces sound morality quicker than warfare. Soldiers are lionized for indiscriminately killing people and destroying property—actions that would ordinarily bring moral censure. Government propaganda encourages citizens to dehumanize enemy populations, so that mass murder can go forward without moral restraint. Leonard E. Read's contribution, "Conscience on the Battlefield," challenges the herd mentality underlying the savagery that attends the waging of war. Mark Twain's classic "War Prayer" hits the same target.

James Madison spoke wisely when he warned that "of all the enemies to public liberty war is, perhaps, the most to be dreaded." It is inconceivable that, absent the wars of the past century, the government of the United States—and probably many others as well—could have grown nearly so powerful. From its participation in wars, the U.S. government gained, for example, high income-tax rates and income-tax withholding, the system used to finance the voracious modern welfare/warfare state. Even more importantly, victory in the world wars convinced Americans that the federal government has the ability to achieve great social objectives in the public interest and can be trusted to do so. A clear progression leads from wartime economic planning to the massive contemporary government meddling in economic affairs.

Edmund Opitz deserves much credit for compiling an excellent collection of commentaries on a subject of the greatest importance. No matter how much Americans may wish to throw off the shackles of the welfare state, recover their lost liberties and live in peace, they stand little chance so long as the government can divert them by engaging in war. As Opitz wisely observes, "while many people say they want peace, few know or want the things that make for peace. . . . When men rely on political privilege to acquire economic goods, they have already embraced the near end of a principle whose far end is war." □

Robert Higgs is Research Director for the Independent Institute.

Alien Nation

by Peter Brimelow

Random House • 1995 • 327 pages • $24.00

Reviewed by Gregory P. Pavlik

Peter Brimelow, a journalist and senior editor at *Forbes* and *National Review,* has written a stimulating and illuminating discussion of the morass that passes for U.S. immigration policy. Brimelow argues, correctly, that current immigration regulations are part of a wider trend that seeks to change the face of America: that is, the official policy of the federal government is part and parcel of the domestic social engineering efforts that aim at a radical transformation of American society from its European mores, folkways, and culture. Hence, along with the elevation of Third World lifestyles under the leftist rubric of "multiculturalism," current supporters of U.S. immigration laws and so-called open borders, are buttressing anti-Western trends by importing masses of largely unassimilable minorities.

Contemporary libertarian critics of open borders contend that immigration serves to bolster the cost and size of the welfare state, a point that Mr. Brimelow demonstrates conclusively. It is also important to note that the current shape of immigration is politically determined: it actively limits the immigration of skilled Europeans who are more likely to assimilate—as well as add to the economy.

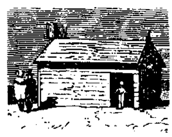
In his book, Mr. Brimelow addresses the economics of immigration directly. He shows that the economic benefits from recent immigration have been almost unnoticeable. In fact, there would have been virtually no loss of economic growth if the current massive immigration wave had never occurred. Brimelow also shows that the quality, in terms of economic potential, of current immigrants is much lower than that of the current American work force, the long-range effects of which have yet to be felt.

Mr. Brimelow also provides a provocative demonstration that free trade can replace immigration in public policy, allowing us to enjoy the benefits of the international division of labor without the social dislocations and destructiveness of mass immigration. As an example, "[t]he Japanese have factories in the Philippines rather than Filipinos in Japan." A similar situation existed in Victorian England. In Britain, the period of "splendid isolation" was characterized by almost unlimited free trade and virtually no immigration. In other words, the international division of labor and the mobility of capital tends to eliminate the need for large-scale immigration.

Alien Nation is a hard-hitting rebuttal of the positions embraced by advocates of open borders in other ways. Supporters of mass immigration obscure the dangers that continued immigration from the Third World presents to America's European civilization. The basis of this obfuscation rests in part on what has been called the Myth of Economic Man—the fallacious world view that boils all of human society and interaction down to economics and materialism. There are values, ways of life, and aspects of civilization that are extrinsic to economics, and motivations for human behavior that are determined by longstanding cultural practice—and even biological urges—that a purely economic worldview is unable to address, understand, or explain. It's worth noting that the Myth of Economic Man also underlies classical Marxism, whereas it is decidedly *not* a part of the free market view of the Austrian School which teaches that human actions are motivated by human values which may be entirely unrelated to material concerns.

Mr. Brimelow also makes an important corollary point: freedom and free markets do not—in fact, cannot—emerge from a vacuum. Freedom is a political category that emerges from a particular history that lends itself to a particular political disposition. If this were not the case, free political institutions would be the hallmark of world politics. Mr. Brimelow's contention is that the supporters of our current policy, and their apologists in the open borders corner, are in the process of overhauling the character of America. No honest person can believe that this will be without political ramifications. □

Mr. Pavlik is Assistant Editor of The Freeman *and Director of FEE's Op-Ed program.*



The Case for Free Trade and Open Immigration

edited by Richard M. Ebeling and Jacob G. Hornberger

The Future of Freedom Foundation • 1995 • 143 pages • $17.95 cloth; $9.95 paperback

Reviewed by Robert Batemarco

Should a free country's freedom stop at its borders? Libertarians have long answered this question with a resounding "No!" Yet in recent years, some staunch friends of a free and open economy have come to see open borders as a threat to domestic freedom rather than a complement to it. Peter Brimelow, whose provocative *Alien Nation* is reviewed in this issue, is a case in point.

The contributors to *The Case for Free Trade and Open Immigration*, however, see freedom as indivisible. They are of one voice in blaming any adverse consequences of our most recent wave of immigration on our domestic welfare state. They view calls to restrict immigration as confirmation of Mises' claim that any hampering of the market economy creates problems which are used to "justify" further intervention. Co-editor Richard Ebeling blames, "licensing restrictions, . . . heavy tax burdens, . . . welfare programs, . . . government schools with their mandatory bilingual programs," as opposed to immigration *per se*, for any threat immigration poses to our economy and our culture.

Ultimately, their advocacy of free immigration rests on the sanctity of property rights. As Sheldon Richman points out in his piece, "There is nothing inherently coercive about a foreigner's move to the United States. He pays for transportation. He rents or buys living quarters. He works for a consenting employer or starts his own business." If he does not, he is an invader rather than an immigrant and should indeed be repelled. Those anti-immigrationists who, in the heat of argument, treat all immigrants as an invading army, however, seem to have lost sight of this distinction.

One important libertarian pro-immigration argument this book fails to include is the nature and magnitude of the new powers we must hand over to our government if we are really serious about sealing our borders. The power already granted to disrupt operations and levy fines on employers of illegal immigrants seems to have had minimal effect. Can seizing those employers' assets or putting them in prison be far behind?

While the immigration issue is currently stirring up controversy among free-marketeers, it only constitutes half of this book. The rest deals with free trade, where among libertarians consensus still reigns. As in the chapters on immigration, the contributors exhibit a knack for getting down to first principles. James Bovard, for instance, succinctly captures the essence of what distinguishes fair trade from free trade by posing the query: "Is coercion ever fairer than voluntary agreement?" Discussions of managed trade, U.S. protectionist policies, and Friedrich List's role in promoting protectionism round out this section of the book.

The contributors to this volume should be quite familiar to readers of *The Freeman*, most having served as FEE staff members, lecturers, or writers for *The Freeman*. In addition to editors Hornberger and Ebeling, contributors include Leonard E. Read, Ludwig von Mises, Bettina Bien Greaves, W. M. Curtiss, Lawrence W. Reed, and Gregory F. Rehmke. For those interested in understanding the classical liberal view that both people and goods should be permitted to cross borders freely, this book is an excellent place to start. □

In addition to editing the book review section of The Freeman, *Dr. Batemarco is a marketing research manager in New York City and teaches economics at Marymount College in Tarrytown, New York.*

Simple Rules for a Complex World

by Richard A. Epstein

Harvard University Press • 1995 • 375 pages • $35.00

Reviewed by William H. Peterson

America broods over laws and lawyers, as witness:

Q. Why didn't the shark eat the lawyer?

A. Professional courtesy.

Q. What are 500 lawyers at the bottom of the ocean?

A. A good start.

Q. How can a single lawyer in town without enough to do succeed?

A. Get another lawyer to move into town, and both will thrive.

Witness more. In 1936, at the height of the New Deal, the *Federal Register* had 2,411 pages of myriad rules and regulations; in 1991 it came to 67,716 turgid fine-print pages, a 28-fold increase, a sort of Full Employment Act for Attorneys. The United States, with a population of 260 million, has some 800,000 lawyers; Japan, with half that population, has 15,000. In the 15-year-span between 1972 and 1987 the number of *Washington* lawyers increased fourfold, from 11,000 to 45,000.

What gives in this lawyerization of America with its ten million laws trying to emulate the Ten Commandments? Richard A. Epstein, the James Parker Hall Distinguished Service Professor of Law at the University of Chicago and the author of the 1985 classic, *Takings: Private Power and the Power of Eminent Domain*, rejects the conventional wisdom that so many laws and so many lawyers are but a natural outgrowth of an increasingly complex society. Like a fresh breeze, he harks back to Jefferson-Thoreau: That government is best which governs least.

To Professor Epstein, government works best when it sets the rules of the road, not when it tries to determine the composition of the traffic. He likens the breakdown of numerous forms of U.S. regulation to the breakdown of socialism in Eastern Europe—in both cases public officials can't overcome disincentives and critical informational gaps. Moreover, many regulators avoid or evade legal rules to "constrain their [own] self-interested behavior," engaging in "rent-seeking," catering to special interests. Such becomes a vast shadowy, shoddy business of the modern regulatory state.

Like Henry Thoreau, the Epstein solution is simplify, simplify. His rules include individual autonomy, private property rights, freedom of contract, and protection from aggression or inadvertent harm against person or property. That protection supposedly covers, per the Fifth and Fourteenth Amendments, just compensation for public takings of private property. Supposedly, for that protection has waned since the New Deal.

Waned until recently, as Professor Epstein illustrates in reviewing the seminal case of *Lucas v. South Carolina Coastal Council*. Developer David Lucas bought two beachfront properties only to find state authorities charging him *ex post facto* with harming tourism and unobstructed ocean views. They then took away his right to develop his two properties with no compensation whatsoever. In 1992 the U.S. Supreme Court in effect ordered South Carolina to fork over $1,500,000 to Mr. Lucas—and his lawyers. South Carolina thereby took title to the lots, and promptly, and most ironically, resold them for development of single-family beachfront homes.

Professor Epstein hails the resurrected take-but-pay idea. He sees it as a blow for liberty since government demands less when it has to pay more.

Similarly the author applauds the flat tax. He sees a progressive tax allowing the government too much political leeway on the level of taxes and their incidence, especially on "the rich." Also, rent-seeking special interests pressure lawmakers for concessions on deductions and income exclusions, all adding to complexity and administrative costs. So the 10,000-page Internal Revenue Code hardly stands as a monument to simplicity. Too, progressive rates spur income redistribution and warp incentives to work, save and invest, thus setting back economic growth.

Richard Epstein, like Thomas Jefferson, recognizes that a legal system should be anything but a complete social system. He sees that the private sector under the rule of law can better advance the interests of society without the social engineering in interventionist statutes like the Fair Labor Standards Act of 1938, the Endangered Species Act of 1973, and the Americans with Disabilities Act of 1990. He comments: "Complex rules for a complex world are an invitation for disaster."

Postscript. Unlike so many attorneys hiding behind circumlocution and legal gobbledygook, this law professor has the added virtue of writing directly and—what else?—simply. □

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Liberty and the Great Libertarians

edited and compiled, with Preface, Introduction, and Index by Charles T. Sprading. With a new Foreword by Carl Watner

Fox & Wilkes • 1995 • 362 + xiv pages • $24.95 cloth; $14.95 paperback

Reviewed by Daniel Klein

I was at Powell's bookstore in Portland and saw the aged print on the binder-edge of the yellowed dust-jacket: *Liberty and the Great*

Libertarians—Sprading—$1.50. Very curious, I thought. The Preface began with a definition from *Webster's: "Libertarian:* One who upholds the principle of liberty, especially individual liberty of thought and action." This "Anthology of Liberty" collected the most libertarian passages from the writings of Burke, Paine, Jefferson, Godwin, von Humboldt, Mill, Emerson, the abolitionists, Josiah Warren, Thoreau, Spencer, Spooner, Ingersoll, George, Tucker, Auberon Herbert, and many others. In all it was 540 pages, "published for the author," in Los Angeles. I marvelled at the publication date: 1913.

When I arrived back home the new catalogue from Laissez-Faire Books was waiting, with a re-edition, newly typeset, of this remarkable volume featured on the cover.

The new dust-jacket contains information provided by Carl Watner about Charles Sprading (1871–1959). As a convert to Benjamin Tucker's individualist anarchism, Sprading moved to Los Angeles soon after the turn of the century. In that city he spoke frequently for the Liberal Club. He was active in the Libertarian League and served as contributing editor of its journal: *The Libertarian* (1922–1924). During the 1920s Sprading wrote several tracts and short books which were published by The Libertarian Publishing Company. The Libertarian League in Los Angeles "petered out during the 1930s, as its main participants passed from the scene."

It is apparent from the care and judgment that went into the selection, as well as from Sprading's Introduction, that the libertarian spirit was alive and well in Los Angeles in 1913.

Sprading shows a delight in aphorisms and short pithy passages. There are ample pages of selected "Laconics of Liberty," representing scores of thinkers, famous and obscure. The volume serves as a libertarian sampler permitting easy acquaintance with insightful and passionate lovers of liberty.

To me the special significance of the book is Sprading's resolute usage of the term "libertarian." There is no reason to think that Sprading fancied the thought of having a definitive characterization of The Good in all political matters. The wide-ranging material might suggest that Sprading was aware of ambiguities and incompleteness of the idea of individual liberty, even in its specifically libertarian sense. It is a growing awareness today of limitations of the paradigmatic libertarianism of the late, great Murray Rothbard, I believe, that has prompted leaders of the movement to promote alternative names for the party of liberty—"neoliberalism," "market liberalism," "classical liberalism," "postlibertarianism." These are efforts to project a less brittle philosophy which nonetheless affirms the worthiness of radical anti-state reform. I've been gathering a file of material that shows that long before Rothbard, diverse writers saw the trouble of the term "liberal" and employed "libertarian." Sprading's book is a landmark that assists one in maintaining that the family name is *libertarianism.* □

Dr. Klein is Assistant Professor of Economics at the University of California, Irvine.

Public Policy and the Quality of Life: Market Incentives versus Government Planning

by Randall G. Holcombe

Greenwood Publishing Group • 1995 • 190 pages • $55.00

Reviewed by Jane M. Orient

This book asks a lot of the right questions. On general issues, it is a primer on free-market solutions. It considers how private regulatory mechanisms might work. It shows how market incentives could be harnessed to protect the environment and reduce pollution. It highlights important political insights: "political victories are never permanent . . . with government ownership, there is no way to prevent those with political power from using it to gain access to publicly owned resources."

When it gets to specifics, however, the book is a real disappointment, and in fact could be detrimental to the cause. The author is apparently not very well informed about either medical or environmental issues and thus discredits the very solutions that he favors.

The American Medical Association is *not* the answer to regulation of the medical profession. The AMA is allied with the government in preserving a medical cartel. Because of the AMA's help, destructive governmental interference, such as the price controls called the "Resource-Based Relative Value Scale," gain a credibility they otherwise could never earn. The AMA would indeed like to be involved in "policing" the profession by coercive governmental means. It would like to have absolute immunity for establishment "peer reviewers." In fact, California does grant absolute immunity, even for actions taken in bad faith for anti-competitive motives. When "private" regulators can tell malicious lies with impunity, the resulting House of Peers can become at least as corrupt as the government.

This is not to say that private regulation could not work. It already does, to some extent. The bulwark against bad doctors is informed patients. And patients should inform themselves not by asking the AMA but by asking a nurse, another doctor, a malpractice lawyer, or family and friends.

The author gets even further off track when he states that Health Maintenance Organizations offer "improved" incentives. Actually, HMOs put physicians and patients in an automatic conflict of interest. Furthermore, the author confuses "traditional fee for service" (in which the patient paid most bills directly) with prepayment for consumption (most bills paid by third parties), erroneously called "insurance."

On environmental issues, the book gets the principles right but the technical details wrong. For example: "the elimination of lead and asbestos from the environment is a legitimate public health goal because those substances have been linked to noncommunicable health problems." First, it is impossible to eliminate these natural substances from the environment. Second, efforts to reduce the amounts to lower and lower levels have led to absurdities that actually increase risk, if by no other mechanism than wasting money that might have been spent in a productive way.

This book may help to balance an academic reading list. But its dry professorial prose is unlikely to inspire the layman. The majority of *Freeman* readers could better invest both their time and their money in reading the classics. □

Dr. Orient is an internist in solo private practice. She serves as the Executive Director of the Association of American Physicians and Surgeons. She wrote Your Doctor Is Not In, Healthy Skepticism about National Health Care *(Crown, 1994).*

A Trade Policy for Free Societies: The Case Against Protectionism

by Robert W. McGee

Quorum Books, Westport, Conn. • 1995 • 197 pages • $55.00

Reviewed by Joseph T. Salerno

For over two centuries, economists have argued that protectionism is a policy designed to "protect" not consumers and workers at large but special interests, namely, inefficient domestic firms and their often highly paid and unionized labor forces. "Protecting the American economy" from cheap foreign imports of agricultural products, apparel, and pharmaceuticals, for instance, means creating a greater scarcity and increasing the prices of food, clothing, and medicine in the United States.

Robert McGee's book clearly and concisely drives home the point that protectionism is a species of monopoly privilege that benefits special interest groups at the expense of the average American. The first section, the "Philosophy of Protectionism," ruthlessly exposes and refutes the web of misconceptions and fallacies that lie at the heart of the protectionist case. McGee not only sets forth and then demolishes, one by one, 17 of the most common arguments in favor of protection, but also presents the positive arguments for free trade. Unlike most economists writing on the subject, McGee does not limit himself to expounding the "utilitarian" or efficiency aspects of the free trade case, as important as this task obviously still remains. He also emphasizes its ethical dimension, in particular the fact that "The moral basis of free trade is property rights."

In Part II of the book, McGee undertakes an assessment of the crushing "Cost of Protectionism" borne by American consumers and workers. He provides a useful summary of recent studies that have attempted to estimate the monetary costs of protectionist policies, in the form of higher prices and misallocated resources, both for the economy as a whole and for individual industries. For example one study estimated that, in 1986 alone, protectionist policies cost U.S. consumers about $65 billion in higher prices. Another study reckoned that Reagan's "voluntary export restraints" on Japanese auto manufacturers cost American car buyers $14 billion in 1984 alone. Various analyses have also indicated that protectionism raises the price of clothing to American consumers by between 39 and 76 percent for imported items, which in turn facilitates a 19 to 46 percent increase in the price of domestic apparel. Perhaps the most egregious example is sugar. Protection of this industry has forced Americans at times to pay up to four times the world price for sugar. Nor does the author overlook the nonmonetary costs of protectionism in terms of lost jobs, the social conflict and squandered resources involved in lobbying for or against various protectionist measures, the reduction of consumer choice, and the attenuating of individual rights of property and contract.

The third and final part of the book is devoted to an analysis of "Antidumping Policy." Especially enlightening is McGee's exposé of the shocking arbitrariness inherent in the administration of the antidumping laws.

Concluding a blistering and well-deserved critique of the intellectually bankrupt philosophy of antidumping policy in chapter 10, McGee writes:

> Antidumping laws cannot be justified by any theory of liberal democracy. They are not utilitarian because they do not result in the greatest good for the greatest number. Indeed they provide good for the minority (producers) at the expense of the greatest number (consumers). They reduce rather than enhance social cooperation and harmony. They violate rights. Even redistributionists would argue against them because they redistribute income in the wrong direction—from the poor and the middle classes to the rich. There is no rational reason why antidumping laws should exist.

There are a few minor flaws in the book. For example, McGee's novel accounting analysis of the trade deficit, presented in chapter 2, is not well grounded in economic theory: it attempts to quantify and interpersonally aggregate the gains from trade and conceives these gains as dependent on the gross profit rates of the participating firms, which are arbitrarily assumed to be equal. Without this unrealistic assumption, similar hypothetical arithmetic examples could easily be constructed that purport to prove that "trade deficits are bad" for the United States. Overall, however, this book is well worth a read by anyone, including the professional economist, seriously interested in understanding and possibly contributing to the intensifying debate over what constitutes an economically optimal—and ethical—trade policy for the United States. ☐

Dr. Salerno is Professor of Economics at the Lubin School of Business, Pace University, New York City.

Discovering a Good Society Through Evolution and Design

by Martti Vihanto

Turku School of Economics and Business Administration, Turku, Finland • 1994 • 262 pages • $47.00 paperback

Reviewed by Kyle S. Swan

Martti Vihanto's *Discovering a Good Society Through Evolution and Design*, is an interesting and new approach to Austrian welfare economics and social philosophy. Vihanto's treatment consists of first, an extended essay explaining the main tenets of Austrian economics and their historical development. He reviews the Austrians on methodology, how theorists in the Austrian school have historically approached economics, and introduces the concepts of human ignorance and entrepreneurial discovery.

The six remaining previously published essays elaborate on the various elements introduced in the first by bringing into the picture contributions from different disciplines. For example, Vihanto borrows from public choice theory for his critique of contemporary welfare economists who develop fancy social welfare functions to justify the unlimited government action they recommend. These economists' models assume benevolence in government officials when James Buchanan, among others, has demonstrated that people in government are self-interested like everybody else and tend to misuse public power for personal gain. Abandoning the assumption of benevolence paints a more realistic picture of political phenomena and strengthens Vihanto's criticism of the use of unrestrained government action to enhance welfare.

Discovering a Good Society's strongest area is the discussion of the spontaneous order. The pursuit of one's own interests results in an unplanned harmony of interests. As spelled out by the Physiocrats of eighteenth-century France and echoed by Classical economists such as Adam Smith, the spontaneous order always referred to a state of affairs where individuals utilized given information to coordinate their ends, clearly a static concept. The subtle refinements made by Austrian economists Ludwig von Mises and F. A. Hayek implied a spontaneous ordering and evolution of the market highlighting the inevitable possibility that competitive forces would push individuals to discover as yet unforeseen possibilities with unknown results. Such are the workings of a truly spontaneous order.

Vihanto broadens this analysis to apply to social theory in general. He explains that deliberate search for unforeseeable discoveries is impossible. The best social, political, and legal institutions for the maintenance of society must be discovered. Says Vihanto, in a liberal order "we should create favorable conditions for such discoveries rather than be content with the institutions we currently happen to know."

These institutions affect all members of society and thus must in the minds of all members be agreeable not to just a few privileged members of society, a majority of elected officials, or a bureau of planners. Unanimity is a necessity. Austrian economists have shown that you can only know individual subjective preferences through a person's actions. As Mises said, preferences cannot even be said to exist outside individual acts of choice. By rational reconstruction of their actions we interpret their goals, desires, preferences, etc. Vihanto argues that there are only two ways for individuals to reveal their preferences for or against institutions. First, by popular referendum. However, the unanimity criterion makes this option unlikely. Second, by moving to or remaining in a society where the institution exists. Vihanto calls this group competition and argues that good institutions will be discovered as an unintended consequence of this process. Moreover, as individuals move from societies with "bad" institutions to those with "good" ones, these latter societies will have survived the natural selection process and potentially prosper. The process may also lead societies with "bad" institutions to adopt the institutions that have proved successful for more prosperous societies.

Vihanto's discussion is really teaching us the importance and benefits of decentralization, by echoing the classical liberal stance on toleration and experiments in living. His seems an excellent argument for states' rights advocates or even secessionist movements. The impetus for change lies in these decentralized units. The United States potentially has 50 different models to discover the best ways of doing things. Further investigation into the implications of Vihanto's study may yet bear fruit. □

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BOOK REVIEWS

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