

THE FREEMAN

IDEAS ON LIBERTY

CONTENTS
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4 Supermarket Myths

Melvin D. Barger

How market forces in the retail grocery business serve the best interests of consumers.

8 Real Purchasing Power

Bill Anderson

Government policies designed to create "purchasing power" eventually diminish the capacity of the economy to produce real wealth.

12 The Liability Crisis

Ridgway K. Foley, Jr.

The "liability crisis" is a manifestation of an all-encompassing liberty crisis.

28 Rousseau's "Social Contract": A Critical Response

Bobby Taylor

Under Rousseau's proposed contract, the State has much to win, while the individual has everything to lose.

30 The Irish Potato Famine

Teresa R. Johnson

How the free market helped reduce the effects of the famines in Ireland from 1845–1851.

35 The Sagebrush Rebellion

Douglas E. Wentz

Unlike government control, private ownership can produce incentives to preserve property for the long term.

37 A Reviewer's Notebook

John Chamberlain

Land of Opportunity—The Entrepreneurial Spirit in America by Donald Lambro.

38 Other Books

Decision at Philadelphia: The Constitutional Convention of 1787 by Christopher Collier and James Lincoln Collier. *The Economics of Time and Ignorance* by Gerald P. O'Driscoll and Mario J. Rizzo. *Poverty and Wealth: The Christian Debate Over Capitalism* by Ronald H. Nash.

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The Power of an Ideal

Anything that's peaceful. A fair field and no favors. No man-concocted restraints against the release of creative human energy.

These are the words Leonard E. Read used to describe his ideal of a free market, private property, limited government order. And this is the ideal to which The Foundation for Economic Education remains steadfastly dedicated.

But the real world is far from ideal. Markets are regulated, private property is violated, and government is frequently used, not to protect people from fraud and coercion, but for personal gain and special interest plunder.

The Foundation, it would seem, is out of touch with the real world. Our idealism, it can be argued, is a luxury which men and women of practical affairs can ill afford. It will only get in the way.

But if we pause to reflect, we see that idealism—standing ramrod straight for liberty—by no means prevents us from reaching practical goals. In fact, a principled stand for liberty may be the only way to attain the kind of society any of us—or our children—would want to live in.

Consider the following:

1. *Idealism is goal-oriented.* In our case, we constantly strive for a free society, although we are well aware that, in the foreseeable future, our ultimate goal remains out of reach. Such a clearly defined goal is our greatest asset, especially when things don't seem to be going our way. We know where we want to go and will not be swayed by compromise or political expediency.

2. *Idealism is energizing.* The ideal is worth working and sacrificing for. When the ideal goal is far from the everyday reality—as in the case of the freedom ideal—the student of liberty doesn't despair. His ultimate goal isn't tomorrow's Congressional vote or next year's election. He is striving to work on the highest possible plane—his own understanding and exposition of the freedom philosophy. Self-improvement along these lines is a full-time job.

There is no time to be disheartened when the political winds seem to blow against us. Self-improvement is enormously satisfying. And it is fun!

3. *Idealism is attractive.* It gains adherents who yearn for something more than pragmatism, compromise, and expediency. Our experience at FEE has shown time and again that the people who go on to work the longest, hardest, and most effectively for freedom are precisely those individuals who have been attracted by the purity of our message.

4. *Idealism works.* Combine a clearly perceived goal, a constant striving for self-improvement, and the energetic adherents this striving attracts, and you have a powerful force which will not be swayed from its ideal. In the long run, this is the only way anything worth having has ever been attained.

—BJS

Foreign Debtors

U.S. banks hold more than \$240 billion in foreign debts. What are the prospects of these debts being repaid? Recent developments in the loan markets may provide an answer.

Since 1982, when the international debt crisis first made headlines, New York and London brokers have been quietly trading portions of these debts in a secondary market. This market has now grown to where we can get an idea of the true value of these loans.

If traders are completely confident that a debt will be repaid, it will trade at book value—100 cents on a dollar. But many foreign debts are trading at much less than book value. Argentine debt, for example, is offered at 67 cents on the dollar. Mexican debt stands at 62 cents, Polish debt at 53 cents, Peruvian debt at 24 cents, and Bolivian debt at a paltry 8 cents.

As with any other market price, these figures vary with time and changing expectations. But with traders putting their money on the line, the secondary market for foreign debt may be the best gauge of debt serviceability.

—BJS

A Man's Home . . .

No one is really responsible for collectively owned property; no one cares. So it deteriorates. Individuals who own property do care because they know they are responsible. A recent visitor to the home of his ancestors in East Germany pointed to the contrast in an article in *The Wall Street Journal*.

He described the fate of that small East German town under the communist regime. The old castle, once a "stately mansion" surrounded by lavish park and flower gardens, was in shambles, with spider webs, wallpaper peeling, window sills covered with dust and dead moths, its garden overgrown. There was a state-run grocery store on the old castle's first floor and people were living in its nooks and crannies. "The neighborhood that belongs to all," this observer wrote, was "dingy and chaotic; chickens, ducks and rabbits run wild around the muddy streets and run-down houses."

The residents' private homes presented a sharp contrast. "[I]nside the homes, the private castles of the people, . . . pride and responsibility thrive. . . ."

When property is collectively owned, no one cares. When property is privately owned, the owners care; they are willing to "go that extra mile" because they know they are responsible for it.

—BBG

Liability Crisis

"Thousands of patients with rare neuromuscular disorders are suffering renewed contortions of the eyes, face, neck and other parts of the body because their supply of experimental medicine was cut off when its only manufacturer was unable to obtain liability insurance."

This item, from the October 14, 1986 issue of *The New York Times*, is indicative of the frightening trend in liability coverage. What is the cause of this crisis? Is there a cure? See Ridgway K. Foley's penetrating analysis which begins on page 12.

—BJS

Supermarket Myths

by Melvin D. Barger

Growing up in Norfolk, Nebraska, in the 1930s, I heard my elders voice a number of economic myths which were part of the populist folklore.

We heard shocking reports about the big oil companies who had bought up and suppressed the carburetor that would deliver 100 miles to the gallon. There were also sinister hosiery manufacturers who withheld silk stockings which would last a lifetime. And we felt deep rage when we heard that nine powerful men on Wall Street met every weekday morning to decide the nation's economic affairs for that day.

The threats posed by grocery chain stores were part of that folklore. Safeway Stores, the most successful of the four grocery chains operating in our town of 10,000, was the most feared of the group. There were also about 40 independent and neighborhood grocery stores in the city. Their proprietors warned us of the grim fate that lay ahead as a result of Safeway's growth and expansion.

A typical comment about Safeway would go like this: "Sure, Safeway offers good merchandise at low prices. But you just wait! With their size and profits, Safeway can drive us little fellows to the wall anytime they want. Then watch out! They'll get together with the other chain stores and charge any prices they choose." This dire warning might be followed

by a grumbling comment that the government should do something to curb the power of giants like Safeway.

But a funny thing happened to upset this grim scenario for Norfolk. *Safeway isn't there anymore!* It bit the dust in 1982 as part of the company's shutdown of its Omaha Division. And none of the other chains that operated in Norfolk in 1936 is still in business in the community! Yet Norfolk has almost doubled in population since the mid-1930s and enjoys a prosperity brought on by decades of improved farming and the development of manufacturing. Why could Safeway and other chains survive in the community during those bleak Depression years and then be forced to shut down in a later time of affluence and growth?

During a recent visit home, I discussed the Safeway closing with several people, including the independent proprietor who took over Safeway's building. My conclusion is that Safeway and the other chains came to grief because of market forces in the food business—the very forces that were supposed to be the chain stores' principal advantages. While it may have seemed to my elders that the chains had invincible power, they were never as strong as they appeared to be. And some of their strengths also became serious liabilities in later years.

One of Safeway's supposed advantages was its leverage as a volume buyer. With centralized purchasing serving a large number of stores, it could obtain price advantages that simply were not available to the small grocer. I

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can even remember neighborhood store proprietors telling me that certain Safeway *selling* prices were below their own *costs* for the same items.

While small outlets may always have this problem, it was not the same for larger independent markets in Norfolk which were competing directly with Safeway. Thanks to the rise of the food wholesalers and other organizations which perform buying and warehousing for large numbers of these independent stores, the chains' advantage in this area was soon blunted. The independents also turned out to be resourceful competitors by pooling their advertising efforts. Independent grocery retailers learned, too, that there was some advantage in being locally owned although connected with a larger buying organization. While this was probably not a large factor in sales, it was a way of trading on the natural resentment townspeople had toward absentee owners.

Union vs. Nonunion

Another fact my elders failed to understand in the 1930s was that "bigness" creates certain costs and problems which independent operators can sometimes avoid. One of the key points in Safeway's closing of its 67-store Omaha Division was the competition from "nonunion" stores in the area. Translated into more understandable terms, this means that aggressive union action had driven Safeway's costs up so high that the company found itself unable to operate profitably and was disadvantaged because independent supermarkets in the same area had lower labor costs.

In fact, however, unionization is one of the risks of bigness. Unions, despite the ideals they profess to the public, will devote far more time and effort to organizing a large company than they direct to a small one. For the union, it is much more financially rewarding to organize a large chain grocery with many outlets than to organize a single independent store with only 40 or 50 prospective dues-paying members.

Union officials representing retail grocery clerks would prefer a tidy world which would see all supermarkets in a single area being forced by government edict to operate under a union banner. The very presence of nonunion

stores acts as a check on union demands. Editorializing in his union's magazine, President William H. Wynn of the United Food and Commercial Workers noted: "Our contracts are, to a large degree, dependent on our success in organizing. In retail food, for example, our contracts are best in those geographic areas where virtually every grocery store employs UFCW members. Therefore, with all employers paying similar labor costs, then stores must compete on the basis of managerial ability, efficiency and customer acceptance, rather than by trying to squeeze profits out of their employees." (*UFCW Magazine*, March-April 1986)

While Mr. Wynn thinks standardized pay is a great idea, this is not the way the market works and it is not the best way to serve either the customers' or the store employees' interests.

While a nonunion supermarket owner may appear to be "squeezing profits" out of his employees, he may also be assuring the workers of long employment. The Safeway workers who lost their jobs with the closing of the Omaha Division were not helped in the long run by union pressures which forced their wages up to a level the general market would not support.

The union argument is that nonunion employees are used to whipsaw those who belong to unions. The lower wage worker is called a "scab." But the flip side of this argument is that persons who want to work in supermarkets are often excluded from employment by union contracts and arrangements which give the current employees of the firm an unusual advantage (no matter how poorly they are performing). But a wage that appears low to one worker may be very attractive to another whose needs and aspirations may be different. Rather than condemning persons who work at lower wages than the union scale, we should applaud them for working and for bringing needed corrections to a market situation that has been distorted by excessive coercion.

Another myth about Safeway stemmed from "awe of the expert" which sometimes afflicted business people in small towns. The large chain stores like Safeway supposedly had teams of management "experts" at corporate headquarters who outclassed the small, independent



The Safeway store, Norfolk, Nebraska, 1969.

proprietors in our hometown. It was believed that the local proprietor was too busy “running the store” to take note of long-term trends and developments which were necessary for the survival of the business.

In fact, however, the independent grocery store proprietors in Norfolk were more attuned to the demands and needs of their own market than anybody at a grocery chain headquarters ever could be. The independent proprietor who works long hours in his own store still might be the most cost-effective manager in the business. A typical owner-manager in Norfolk could be found almost anywhere in the store, helping out in the meat market, supervising an unloading on the dock, or working at the checkout. It is an intensive form of business management that results in clean stores, good merchandise, fast service, and low costs and prices. Best of all, a proprietor who works in this manner also is constantly keyed in to the performance of other store employees and how well they are serving customers. Owner-managers who worked this way in Norfolk kept their own costs under control and managed to stay competitive with Safeway and the other chains.

But these independents were larger grocery stores which stocked numerous items and sought high volumes; they were early supermarkets. Also scattered about the town, several blocks apart, were about 30 neighborhood stores—small establishments run by families who lived in rooms above or behind the store. And another of the myths we heard in the 1930s was about the importance of the neighborhood store. Something important was going to be

lost, we were led to believe, if these neighborhood stores went out of business.

But as I found on my recent trip home, the small neighborhood stores from the 1930s have disappeared from Norfolk. They actually began to disappear during World War II and in the years immediately following. But it wasn't perfidious price competition from Safeway that did them in. Most of the neighborhood stores I remember were marginal businesses and wouldn't be very attractive to us today. They have been largely replaced by the convenience stores with names like 7-Eleven and Mister G's Mini Mart.

The Neighborhood Store

In the 1930s, we lived next door to a small neighborhood store operated by a man named Bob. Bob and his wife lived in a small room or two at the rear of the store. They were friendly, kindly people, but I know today that their store probably made them very little beyond a small living. It existed largely because most people used it for convenience items like bread and milk, where Bob could usually be competitive with the larger stores. He also kept a barrel of kerosene because many people in the neighborhood used this fuel for kitchen stoves.

But Bob's prices for meats, canned goods, and other processed foods were usually much higher than at the downtown chain or independent stores. He was so much a part of the neighborhood, however, that my mother felt guilty about shopping downtown. When we returned from a downtown store carrying grocery sacks (we had no car), we would come in

through the backyards so Bob and his wife would not see us. As young people would say today, Bob managed to lay a guilt trip on us! It was all part of the populist folklore—the belief that we were somehow betraying our friends and neighbors by shopping at Safeway.

As we know, increased ownership of automobiles put Bob and other neighborhood stores out of business—but most of them went on to higher paying employment in another field. As for the convenience stores that replaced them, we are more realistic about their role than we were about the neighborhood store. If a 7-Eleven operates in our neighborhood, we no longer feel guilty about shopping elsewhere for better prices on our larger purchases!

Although Safeway had to quit the community in 1982, it did have a long run in Norfolk. It was successively in four different locations in the city, each an improvement over the previous one. The Norfolk Safeway store in the late 1930s was larger and more efficient than any store in the city, and it attracted considerable business from farm families who could bring eggs there in exchange for other food products. Although the Safeway store of the 1930s would be outmoded by today's standards, it forced the other stores to improve and upgrade their facilities. And Safeway, which battles with Kroger for eminence in the food business nationwide, continued to upgrade its Norfolk facilities and was occupying a new 19,000-square-foot building at the time of its closing.

Viewed as a threat in the 1930s, Safeway was actually a public benefactor because it set a standard which the other stores had to match—and would eventually surpass. But it is ironic that Safeway was the pacesetter in Norfolk during the depressed 1930s and faltered during a much brighter era. At the time of the Norfolk closing, Safeway Stores Inc. had consolidated sales of nearly \$20 billion and operated about 2,500 stores. What went wrong?

According to Safeway's 1982 Annual Report, the closing of the Omaha Division was to carry out a company objective of divesting operations with poor prospects so assets could be deployed into areas with a greater potential return on investment. *Business Week* (April 5, 1982, p. 109) noted that the division had

chronic losses and the region had limited population growth and increasing numbers of non-union stores. Safeway also left the Memphis market at the time of the Omaha Division closing and had left the New York City market 20 years earlier. These explanations make sound business sense and Safeway, at this writing, is apparently following strategies which will help it maintain its position as one of the world's largest grocery chains. It will probably continue to do well in many markets as it builds new stores and expands into more profitable lines.

But Safeway's performance record in Norfolk shows that it never had the power to monopolize the market, it never was in a position to set prices of its own choosing, and it was never more than a few steps ahead of its independent competitors in the city. And with its corporate overhead and general policies, it could not be profitable in markets like Norfolk where other retailers continue to make a good living.

In the light of what actually happened, the 1930s myths about Safeway and its vaunted powers over the market seem quaint today. But are they really so quaint? While I was in Norfolk recently, an independent supermarket owner voiced grave concern about the market strength of another chain competitor that is having considerable success in the region. I also heard concern expressed over the shakeout which may reduce the total number of food wholesalers to about ten.

My own feeling is that market forces in the retail grocery business have served the public well and will continue to bring needed changes as we require them. Our interests will be served if we let stores compete freely and if we don't fear or penalize the successful supermarket operator.

But I know that myths die hard. A few years ago, I heard a college graduate say that the big oil companies had bought up and suppressed a carburetor which will deliver 100 miles per gallon. Others have said that hosiery manufacturers design their products for short life, only now it's panty hose instead of silk stockings. And I still hear now and then about those nine old men on Wall Street who control our economic destiny! □

Real Purchasing Power

by Bill Anderson

One recent afternoon I took my daughter to a movie. The tickets cost a total of \$5 and to pay for them, I pulled a \$10 bill from my wallet. As any economics professor could have told me, I held \$10 of purchasing power. Since I could not resell the tickets once I had bought them, my purchasing power was reduced to \$5.

A trip to the concessions stand further reduced my purchasing power to slightly above \$2, which might be used for buying more snacks. When that money is spent, providing my coffers are not replenished, my purchasing power will be zero.

And so the cycle continues. I receive a paycheck, save some of it, and spend the rest. The size of that paycheck determines what I may purchase and what quantities I can buy. It would seem, then, that my purchasing power is derived from the amount of money printed on my paycheck. So it seems, but like so many other popular notions of economics, this idea is based on fallacy.

Henry Hazlitt writes in his classic *Economics in One Lesson* that “economics is haunted by more fallacies than any other study known to man.” This is not due simply to a lack of education, but is caused primarily by the presence of many conflicting special interest groups.

Consider a common fallacy—“the blessings of destruction.” We encounter this, in one form or another, following every war or natural

disaster. For example, after Hurricane Alicia struck Galveston, Texas, in 1983, one news reporter declared that the cloud of destruction had a silver lining: the cleanup after the storm would create many jobs. Furthermore, the newly hired workers would then spend their paychecks, bringing untold benefits to the community.

If this sounds familiar to students of liberty, it is: Frederic Bastiat exposed this fallacy in his brilliant satire of the broken window. In Bastiat’s example, a hoodlum who threw a brick through a shop window was hailed as an economic benefactor because he created work for the local glazier. In the case of Hurricane Alicia, many glaziers, tree surgeons, electricians, carpenters, and others were hired to clean and restore businesses and homes. In each case, workers received purchasing power, a large part of which was then spent.

But in each situation, we must remember that the principal spenders (property owners and insurance companies) before the incidents had not intended to spend their money on glaziers and electricians. They had other plans for their money—plans which would have involved their own spending, saving, and investment decisions. The money which was spent on repairs would have been used elsewhere. Spending money on repairs creates no net gain in wealth or employment.

Both the news reporter and the crowd gathered outside the shop’s window saw only a part of the economic picture. More importantly, they failed to understand the source of pur-

chasing power. And while the reporter's economic illiteracy may border on the humorous, we must bear in mind that many government economic policies are based on such false assumptions.

Government spends money which goes into someone's hands. The money is then spent, and jobs are supposedly created. Few people pay attention to where the money comes from, or what the money would have done if it hadn't been taxed and spent by government.

Of course, government, in its attempt to create "purchasing power," doesn't blow a hurricane onto our shores or heave bricks through our windows. But it brings economic destruction all the same.

Wealth—The Government Way

Ever since the Great Depression of the 1930s and the New Deal, it has been assumed that government is a net creator of wealth and employment. From the Civilian Conservation Corps to the Works Progress Administration to the Tennessee Valley Authority, Federal officials set up "Alphabet Soup" agencies to hire unemployed workers and, supposedly, "prime the pump" of the national economy through increased spending.

It was commonly assumed by economists of the day that the Great Depression was caused by "underconsumption" or "over-saving." According to John Maynard Keynes and others, the U.S. economy in the 1920s grew faster than workers' wages. Thus, the Keynesians believed, workers were unable to "buy back the products" they had manufactured.

The solution to this problem seemed simple: place more money in the hands of ordinary workers, who would then buy the products they had originally created. In other words, the answer was to give the workers more "purchasing power." The means to pay for such largess was to come in one or more of three ways. The first was to tax those with "excessive" incomes and transfer that money to those with lower incomes. The theory was that those in upper-income brackets would save too much; by transferring that "excessive" amount of money that would have been saved to poorer persons who would spend those funds, the

economy supposedly would be given a shot in the arm.

The second way to boost spending was by simply creating new money through the Federal Reserve System and funneling it to individuals deemed most in need. Their increased spending would then force up prices, decreasing the value of existing money and discouraging savings. Thus the rich would be kept from "oversaving" either by direct confiscation of their wealth or by eroding it through inflation. In this way, it was alleged, the overall economy would receive a net benefit.

The third way involved unionization of the American work force. It was believed during the 1930s that increasing wage rates through unionization of American workers would increase their purchasing power. Thus, Congress passed a series of laws in the 1930s that encouraged the formation of labor unions, and by 1953, more than a third of the U.S. work force was organized. On top of this, Congress enacted minimum wage legislation as well as laws that shortened the work week.

Results of the Experiment

For four decades after the New Deal, transferring wealth was the soul of national economic policy. Income tax rates rose as high as 94 per cent, while inflation came on in waves, climaxing in 1980 at nearly 14 per cent. It would seem that the Keynesian experiment, given these statistics, would have proven successful.

But real increases in personal income (adjusting for inflation), which were at significant levels before the start of the Great Depression, were tailing off badly by the end of the 1960s, as the United States began a decade of economic chaos. And even counting the latest economic recovery, which began at the end of 1982, the average American has barely been able to keep pace with inflation, while many of those in low-income brackets have lost ground.

In the past, a seven per cent unemployment rate would have been cause for alarm; today, seven per cent unemployment is considered to be close to "full employment." In economics, as in American social mores, what was once considered scandalous has now become accept-

able. At the same time, the once-vaunted industrial base in this country has deteriorated, and production facilities that once employed thousands of people and supported whole communities now are idle.

At present, there seem almost to be two Americas, one in which people are happily employed and looking forward to the future, the other where there reside large numbers of the poor and unemployed. What makes this situation even more tragic is that so much of the damage was done in the name of giving the poor more "purchasing power." The ironic truth is that real purchasing power—the ability to produce and be productive—has been torn from the hands of those who most need it; the ones who have deprived the poor of that power have been a combination of intellectuals, politicians, and union leaders, all of whom claim that their actions were done to benefit the needy.

The True Source of Purchasing Power

To reverse this disturbing trend, we must expose the flawed economic policy that is based on a false conception of "purchasing power."

So far in this article, I have used the term "purchasing power" in conflicting ways, from simple cash to economic production. Lest this seem confusing, it should be remembered that many people mistakenly assume that money really is the same as production.

To clear up this confusion, we must first show why simple cash does not necessarily equal "purchasing power." This belief is part of the larger fallacy that "money equals wealth," which Adam Smith criticized in *The Wealth of Nations*.

The first rule of money is that it is a *medium of exchange*. It is not the *object of exchange*, as many people seem to assume. The role of money is to facilitate the indirect exchange of goods and services, as opposed to barter where exchanges are direct. Within any economy, real exchanges always involve the trading of goods and services.

We gain support for this analysis when we examine economies in which public confidence in the currency has broken down. An excellent

example is Chile in 1973 during the hyperinflation brought about by the policies of the Allende government. When the Chilean *escudo* began to depreciate catastrophically, the Marxist regime began to impose currency restrictions upon its citizens to keep them from buying dollars on the black market.

Faced with prohibitions and price controls, the Chilean people simply resorted to barter (tobacco, the old standby, became a favorite with traders). While barter brought about certain inconveniences such as problems with storage and handling, it was the only sane alternative to holding the near-worthless Chilean money.

The Chilean government's economic strategy was centered around inflation. First, the Marxist government nationalized numerous businesses. Second, it gave workers in those nationalized enterprises large pay increases and financed the largess with the printing press. Suddenly the Chilean workers whose pay had been far less than that earned by middle-class employees, found themselves at parity with the middle class. The buying spree that followed soon stripped the store shelves; at the same time, production in the nationalized businesses fell drastically. The result was long lines and shortages.

To be sure, the Allende regime had its defenders who claimed that the government's policies had successfully increased the "purchasing power" of Chileans. But what really happened was a temporary transfer of wealth from wealthier Chileans to the poorer ones. The advantages gained by the poorer workers at the beginning, however, were short-lived. With production falling, the quantity and quality of goods Chileans could purchase fell, and continued to fall as the money supply rose. In the end, the poor were as bad off (or worse) than they had been before, while the middle-class workers were devastated. True, the incomes of the poor had reached parity with those above them, but any advantage gained was merely academic; the economy had stopped producing in any meaningful way, leaving Chileans with money in their hands but no place to spend it. Thus, the Chileans resorted to barter.

What does this have to do with purchasing power? The object of economic exchange is to

obtain goods and services; if the object were simply to obtain money, then Chileans in 1973 would have been among the richest people on earth. Instead, they found that their Marxist government's policies had impoverished them.

As Adam Smith pointed out in *The Wealth of Nations*, the true source of wealth in any economy is the production of goods and services, not the paper money government can crank off the printing presses nor the income it can transfer from one group to another. Wealth is a function of production, period.

Wealth is what people want, be it houses, cars, food, clothing, televisions, computers, or books. Wealth may be a concert, a play, or a walk by the shore. It is whatever one values as wealth.

An individual's so-called purchasing power is measured in the kinds and quantities of wealth he or she can obtain. Yet, one can only accumulate wealth on the basis of production, be it by that person or by someone else. For example, a child may buy candy at a store with allowance money provided by her dad; while the child did not actually produce to earn that money, her father probably did, and his productivity is the source of her purchasing power.

The point is that our ability to purchase goods and services is the direct result of either our own productivity or the productivity of someone else who contributes—either voluntarily or involuntarily—to us. And what is true for individuals is also true for a nation. Our nation enjoys a high standard of living only because we—not to mention our parents and grandparents—are a productive people. Take away our ability to produce, and you take away our “purchasing power.”

There is no substitute for production. Printing money only brings inflation, as Chileans found to their sorrow. Taxing one group of persons to give cash to another may transfer abilities to purchase, but fails to produce new goods and services. Raising wages through union activity is just another transfer scheme that takes abilities to purchase from non-unionized workers and gives them to union members.

Yet, our government has transferred wealth for the past 50 years in the name of creating

“purchasing power.” At the same time, government regulators, operating on Federal, state, and local levels, have imposed millions of rules and regulations on wealth-creating enterprises, not allowing them to produce to their full capacities, thus cutting down on the supply of wealth.

For all the talk of government bringing “fairness” into the economy through its policies of taxation and regulation, it is important to note that such activities do not create wealth. At best, they only transfer wealth; at worst, they destroy it. Such policies create “purchasing power” for some only at the expense of others and, in the long term, diminish the capacity of the economy to produce.

Because the real source of exchange is barter, it follows that increased exchanges (or purchases) can come about *only* when there are more goods and services with which to trade. And that can occur only when production increases. Anything that cuts overall production of goods and services cuts real purchasing power.

Conclusion

In the personal example at the beginning of this article, I gave the impression that my “purchasing power” came from the semi-monthly check given by my employer. The truth is, my “purchasing power” comes from my ability to render a service to my employer, who must, in turn, convince his consumers that he is giving them the best value for their money. Thus, my economic future depends on the productive efforts of others as well as my own.

It is the same with all of us. As long as our society produces acceptable goods and services in large quantities, all of us can consume in large quantities. Take away our abilities to produce, and we are denied opportunities to consume.

At its best, government can protect our rights to produce and consume, thus enhancing the prospects for future growth. At its worst, government can work to deny us the fruits of our labors. It is up to us to make sure that government protects our rights. □

The Liability Crisis

by Ridgway K. Foley, Jr.

An endless chain of crises and revolutions seems to beset the modern world. Currently, attention centers upon a “liability crisis,” a remarkably imprecise label for a host of intertwined problems. The issue has not suffered from a dearth of commentators. As usual, the vast majority display little acquaintance with the fundamental issue, its nature, its causes, and its solution.

Proper analysis requires a focus upon the critical inquiry of whether a “liability” crisis exists at all. In order to answer this basic question, one must consider: (1) what conditions are individuals referring to when they fret about a liability crisis; (2) are those conditions malevolent; (3) if so, what actions and ideas cause such events; and (4) what words and deeds will curb those causes and cure the unfortunate results to which the commentators apply the rubric “liability crisis”?

I. THE CONTENT OF “THE LIABILITY CRISIS”

As with many complex conceptual problems, “the liability crisis” most likely conveys a great variety of different thoughts to different people. While it would serve no purpose to identify and explicate every nuance, it does appear appropriate to evaluate the more common concerns perturbing our neighbors who employ the phrase “the liability crisis.” What becomes manifest is a scene not unlike the fabled blind men describing an elephant, each seizing that

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which is most apparent to him and ignoring the important “unseen” aspects of the creature.

Several related fears coalesce to form “the liability crisis.” First, more and more personal injury lawsuits are filed each year, employing more and more bizarre theories of recovery. By sheer numbers, these actions tend to clog the court system, resulting in the costs associated with delay, distress, and despair. Second, judges and jurors award substantially higher damage verdicts in more cases, particularly in heretofore unexpected sorts of claims, than ever before. Third, producers of products and suppliers of services quit producing and supplying as a result of the increased costs attributed to defending their activities, thereby lessening the array of goods and services available in the marketplace. Fourth, fewer and fewer insurance companies consent to write liability coverage in fields most affected by high-damage awards. In those areas where “capacity” (the seller-side of the liability insurance market) remains at all, premium costs and “self-retention” (deductible amounts which remain the responsibility of the insured) increase rapidly, and a poor claims record (even without proven fault on the part of the actor) often means complete unavailability of coverage the next term.

Thus, the common focus lights upon the province of civil law customarily termed “the law of torts.”¹ Since this essay seeks to deal with the phenomenon presently receiving such ardent attention, I shall not broaden the scope of my inquiry beyond these common fences. However, it should be noted that the issues and

errors considered here also permeate other fields of law²; the manifestations elsewhere carry an explosive charge quite equal to the current problem in personal injury law.

II. ARE THESE PROBLEMS REAL AND HARMFUL?

Some deny the existence of any "liability crisis." Reflection reveals otherwise. Relatively casual observation demonstrates the existence, significance, and danger arising from the four areas of concern identified above. Indeed, more careful analysis shows that these four clusters of problems penetrate to a much greater depth and cover a much greater breadth than customarily noted by most observers.

A. Increased Litigation

Simple empirical sampling bears witness to a litigation explosion in the United States during the past two decades. More actions are filed each year, employing more singular and curious theories of recovery, and cluttering courtrooms in a manner virtually unknown elsewhere. Increases in population, urban growth, and complexity of society—all common reasons suggested by those who disparage any notion of a litigation explosion—fail to explain the increased litigiousness of the America of today, for the growth of legal activity far outstrips any such putative reasons.

If the growth of litigation could be traced to an increase of legal actions pleading only traditional common law theories of recovery—negligence, assault, breach of contract, conversion, for example—one could draw some conclusions concerning the increased carelessness of society, or a heightened tendency to refuse to keep one's bargains. However, the past score years display a vast increase in legal proceedings employing the judicial system to enforce new "rights" or remedies, based upon newfangled theories of recovery woven out of whole cloth by legislators, administrators, judges, and law professors.

Suddenly, the American court system has become a jousting field upon which every real or perceived slight or mishap becomes a wrong to be righted, with accountability shifted to

someone other than the responsible actor, normally someone possessing "a deep pocket" in the parlance of judicial envy. The growth of enforceable personal "rights" cuts across most traditional boundaries of the law, and invades such fields as bodily injury, damage to reputation, dismissal from employment, disclosure of financial risk, refusal of credit, enforcement of common rules and mores of behavior as a precondition to participation, to name but a few. Many now seek to employ the law to adjust all thwarted expectations, no matter how unreasonable those expectations might have been or how unrealistic reliance might appear to the common observer.

The litigation explosion clearly encumbers the judicial system: it burdens the process with too many proceedings to allow inexpensive and expeditious decision. An ancient axiom proposes that "justice delayed is justice denied," for delay means higher cost, less certainty, more frustration, and increased waste.

Nevertheless, if a greater judicial burden represented the sole unpleasant result of an increased caseload, such a burden would constitute a cost which ought to be borne: after all, the legitimate function of government includes the provision of a court of last resort, a peaceful method of solving otherwise insoluble disputes, thereby permitting the inhabitants to get on with their lives and creative endeavors.

In fact, however, the litigation clutter contains much greater evils. First, it represents a state-coerced recovery of verdicts and judgments by some individuals and entities against others for "wrongs" which are not wrong and in vindication of "rights" which are not right; and the recovery, taken from the pocket of one who ought not be held accountable, produces some of the other "unseen" and unlovely results discussed in succeeding sections of this essay. Second, the litigation explosion creates a very real likelihood of "odd man out"; a welter of lawsuits may obscure the true victim, and a perverse fate may decree that deserving Doe may lose his meritorious claim for defamation, malpractice, emotional injury, or the like, while all around him the envious and irresponsible Roes and Moes reap the rewards of large verdicts ultimately paid by innocents. The natural rules of order which govern our tidy little

universe work their own results upon those who trifle with fundamentals.

B. Extension of Liability and Increase in Damages

The litigation explosion intertwines with a rapid expansion of concepts of liability and a remarkable increase in the size of damage awards. The litigation increase relates to the growth in number of legal proceedings; the extension of liability and increase in damages refers to the number of successful actions and the increasing amounts transferred by legal processes in vindication of "wrongs" and in recognition of "rights."

Again, some observers disparage the contentions of liability extension and damage growth; nonetheless, the favorite explanations of inflated dollars, enhanced population, and increased societal complexity fail to come to grips with reality. By any objective measure, the litigation explosion has produced a by-product of more and higher tort damage awards than ever before. Further, the ricochet effect of expanded liability and exploding damages directly occasions a comparable increase in settlement value in those many cases which never pass through the courthouse door; the courthouse verdict becomes the exemplar for like causes settled before trial.

What aspects of tort law bear witness to this expansion of liability and bloating of verdicts? All elements partake of this change. Traditional legal analysis of civil wrongs compels the plaintiff to plead and prove four factors as a condition to judgment: (1) a duty owed by the defendant to the plaintiff, (2) a breach or violation of that duty, (3) a direct and legally cognizable causal relationship between the breach of that duty and the plaintiff's harm, and (4) damage to the injured party measured in money. The last quarter century or so has observed a remarkable broadening of duties on the part of most defendants, a concomitant diminution of corollary duties owed by plaintiffs, a relaxation of rules of evidence relating to establishment of a necessary causal nexus, and astonishing developments in rules relating to the measure and amount of compensation.

Coupled with a rapid decline in the old-fash-

ioned common law principle requiring the judge to act as a screening tool, to weed out unmeritorious or unrecognized claims at an early and inexpensive stage of the proceedings, the attenuating changes in the four critical elements of tort law account for most of the expansion in the arena of civil wrongs. It remains to highlight a few representative changes in each of these four categories as a framework for understanding the concerns underlying this aspect of "the liability crisis."

(1) Duty. A curious dichotomy afflicts the concept of legal obligation, an aberration which ensures an ever-increasing loss-transfer cost: the duty of the putative tortfeasor or wrongdoer has broadened, while concurrently, the obligation of the plaintiff or victim has decreased.

With nominal variation, the later common law imposed relatively few and straightforward obligations upon individuals and their entities. One could not inflict intentional injury upon another, absent a privilege to repel aggressive action; one was required to keep his solemn contractual promises; one was not permitted to defraud or deceive another and gain from such conduct; and, in the area of careless or unintentional injury, the actor and the victim both were held to the mythical but quite workable standard of the hypothetical reasonable man of ordinary prudence placed in the same or similar context.

This jural code decried prior restraint and preconceived notions and favored unfettered individual creative action. In harmony with companion tenets of theology and moral philosophy, of economics and political theory, it produced a societal framework and individual perspective largely responsible for the flowering of greatness which caused the American Revolution and the American Experiment, and which marked the classical liberal period following 1750 in the English-speaking world. The society which developed was marked by an open texture, resulting not only in peaceable living but also in the greatest outpouring of goods, services, and ideas in recorded history.

Albert Jay Nock argued that the decline of the free society commenced with 1870, the year of his birth. One might well make a case for his point, or for any succeeding year, as the

retreat from classical liberalism picks up pace. By the time of his autobiographical *Memoirs of a Superfluous Man* in the waning years of World War II, Nock had become a most pessimistic social commentator; yet, one cannot deny that he would declaim even more acidly today, should he be resurrected 40 years later. While the seeds of destruction pre-existed, review and analysis demonstrate that the entire civil fabric of order and obligation has been rent asunder in the past score or two of years. With the sexual, theological, political, and moral revolutions surrounding us, no one should be surprised to learn that the legal system and substance have undergone correlative cataclysms.

The most noteworthy extension of duty affects those who provide the goods, services, and ideas which fuel the march of society: employers, manufacturers, professionals, businessmen, and the like. A notion of enterprise or absolute liability, while purportedly rejected in form by some courts, actually accounts for many increased obligations. Enterprise liability holds that business should bear the "inevitable human costs" of harm, regardless of fault, since business occupies a favorable position from which to diffuse or spread the risk.

Employer liability laws, Workers' Compensation Acts, and industrial safety codes represent early legislative appendages to our jurisprudence resulting from this doctrine. The employer bears the risk and the cost of injury, even where the employee or a fellow worker causes the harm, on the theory that the "business" benefits from the enterprise and "controls" the acts of its employers. Scant attention is paid to the incontrovertible fact that "business" survives (in a market) only as long as it serves a need perceived by its customers; that the employee "benefits" just as much, relatively, from wages and benefits secured without capital investment; and, that "business control" seems a strange sham in the heyday of civil service, compulsory unionism, affirmative action, wage claim acts, anti-discrimination and free access laws, and statutory impediments to reprimand and discharge.

Current legal theory does not restrict the fable of enterprise liability to the employment arena. Indeed, the concept permeates many

nooks and crannies. For example, the unspoken premise for the expansion of products liability and premises liability is precisely identical with the doctrine supporting the employer liability laws and Workers' Compensation Acts of the early twentieth century. Again, the rapid development of *respondeat superior* (the master is responsible to third parties for the torts of his servant acting in the course and scope of his employment) rests upon the same grounds. Further, the breadth of duty imposed upon professionals—doctors, dentists, lawyers, accountants, architects, engineers—under the rubric "malpractice liability" or professional negligence, stems from the similar belief that the creative or productive supplier of goods, services, or ideas ought to bear the cost for all manner of harm in any way seemingly related to the production or distribution of the product.

As observed earlier, the courts and legislatures have created and scattered further "rights" and obligations across the legal spectrum: "rights" of access and accommodation, of compulsory association, of employment, of disclosure, of entitlement, of equal treatment and fairness, and others too numerous to mention. While several of these edicts rest upon some of the same unfortunate tenets collected under the talisman "enterprise liability," another notion pervades the area: the leveling concept of envy, the faulty egalitarian premise that mandatory codes of conduct can be concocted and enforced in a manner to coerce all individuals to treat everyone else equally and fairly.

Several factors flaw this program: First, since all human value is subjective and all human choice is moral, the codifiers face an impossible task. Second, since we prize, by lip-service, freedom of thought and association, the egalitarian runs headlong into an insurmountable human barrier. Third, the perversity which follows from toying with natural law ordains that these vain attempts will result in quite unexpected and undesirable results, some of which will be treated in sections II. C, D, hereafter.

Concomitant with the rapid and vast increase of duty upon the creators, producers, and suppliers of society, we observe a decline in the obligation imposed upon those seeking recom-

pense or surcease.³ Plaintiffs have become considered helpless wards of the court system, believed to be unable to fend for themselves, employ common sense, or engage in everyday decision-making. The later common law developed the standard defenses of contributory negligence (the contributing carelessness of the injured party), assumption of the risk (the volitional entrance by the plaintiff into dangerous activities) and the fellow servant doctrine (the employer is not liable to employee A for negligent injuries caused by employee B). One by one, these barriers have crumbled, leaving in their wake an attenuated defense of comparative fault (the plaintiff's verdict is reduced by the percentage of his own fault causally related to the harm). In essence, the productive defendant is rendered legally impotent.

What has occasioned this decline in correlative duties of the "victim"? Again, the enterprise liability principle provides solid answers: consumers, users, workers, complainants, small investors, and the like, are viewed as unable to care for themselves and as requiring security and protection. The successful and creative have inherited the obligation to assure security and happiness to all who come into contact with them. Individual accountability has become a dinosaur in the modern age.

(2) Breach. A similar erosion of the concept of a plaintiff-proven breach has occurred in a more silent manner than the expansion of duty. Subtle concepts have wended their way into tort law, slowly obviating the old-fashioned requirement that the complaining party must plead and prove his case. By tiny footsteps, the effective legal burden of persuasion and of proof has shifted to the defendant.

A few examples suffice to make the point. At the outset, various jural concepts lumped under the doctrinal label of "alternative liability" or "market share liability" radically alter time-tested legal fundamentals. In "alternative liability" theory, for instance, an injured plaintiff names all possible defendants in his action, asserts his harm (usually in painful and poignant fashion), and reclines while the court compels the defendants to prove a negative, to justify their particular conduct and nonliability. Entry-level students of philosophy recognize

that proof of a negative constitutes an exceedingly difficult task. Couple that logically necessary fact with the natural sympathy evoked by the plight of a single injured person, and the harm incurred by defendants as a result of burden-shifting becomes patent.

"Alternative liability" partakes of several common forms, most likely stemming from an admixture of the ancient English principles of liability for release of ultrahazardous substances and *res ipsa loquitur*⁴ and the modern apostasy of enterprise liability. Thus, where a patient anesthetized for surgery suffers an unexpected occurrence or result, the common practice encourages suit against everyone within the realm and range of possibility, with the judicial requirement that the various physicians, nurses, aides, and scrubwomen come forth and explain why they did no wrong. Or, in a famous California case,⁵ two hunters fired simultaneously, each striking the victim, with one shell fragment doing much greater harm than the other; both defendants were held liable, since no one could determine which projectile caused the serious injury. In the modern world, where a patient reacts adversely to a drug and cannot identify the manufacturer readily, the law may hold all manufacturers of that particular drug liable for the plaintiff's harm without proof of fault or causation, and prorate the loss among the producers based upon the particular entities' share of the market.

Everlasting liability creates another morass. Conduct which not only violated no duty but also harmonized with the best and the brightest thinking at the time of performance may face sudden and significant challenge years after the deed. For example, use of asbestos in numerous industrial contexts accorded with standard practice years ago; current findings suggest prolonged exposure may cause illness in certain susceptible individuals. A particular employee may have spent his laboring years working for several companies in various industries and in several capacities. Time eradicates records and erases memories. The worker complains of asbestosis (quite often increased by his own voluntary conduct, e.g., use of tobacco or marijuana), sues all employers past and present, and steps aside while those

charged try to defend conduct long forgotten. Strange legal doctrines, not founded on fault, come to the fore, such as the "last injurious exposure" rule (the employer on whose premises the worker last might have encountered the injury-producing mechanism bears the entire loss) or some prorated diffusion of risk theory akin to market share liability. Changing political and social theories, then, not only effect the creation of new and greater obligations and "rights," but also penalize past actions wholly appropriate at the time of conduct by application of some notion of eternal liability.

Note also that the strange dichotomy considered in the "duty" analysis (higher duties for producers, diminished obligations for users) applies in the breach context as well. The creator, producer, or employer must be virtually prescient as to the development of knowledge far into the future, while the recipient, user, or employee need not possess even the most common fund of knowledge nor take the most rudimentary steps (*e.g.*, first-party insurance coverage) for his own protection and well-being.

Another citadel has fallen, concurrent with the amelioration of plaintiff's obligation to prove breach and the growth of everlasting liability: statutes of limitation and ultimate repose have become marred with well-meaning but ill-conceived distinctions which further deaden the chances of defense. Statutes of limitation impose strict time limits within which to file a lawsuit and serve notice upon defendants. Anglo-American jurisprudence has long recognized that it is to the general good that controversy be resolved promptly and not allowed to fester so as to cause dislocation and civil chaos; fairness also requires prompt notice to the defendant, so that he may ably defend himself before witnesses die, memories fade, and evidence disappears. Legislators have made reasonable exceptions to statutes of limitation for claims by infants and the insane. More recently, however, judges and legislators have invoked a "discovery" rule, granting the plaintiff an extended period of time within which to sue after "discovery" of negligence and harm. While courts declare allegiance to an objective (reasonable prudence) test of discovery, in fact the injured party is held to a

minimal standard of "reasonableness." Such a development coincides with growth of everlasting liability to render the defendants' task ever more burdensome.

(3) Causation. Traditional tort law compelled a plaintiff to plead and prove both a direct (cause in fact) and a proximate (legally sufficient) causal relationship between the breach of defendants' duty and the damage suffered by the complainant. Modern legal theory has truncated direct causation and eliminated proximate causation. The result: a lighter burden for the plaintiff and a greater likelihood of a jury verdict against a defendant who ought not bear responsibility.

Man assesses causality poorly. We forecast inaccurately. Mankind also errs in attribution of effect to cause, even with the gift of hindsight: judges, jurors, lawyers, and experts, not to mention witnesses, argue incessantly over the effective cause of an accident or an injury. Even looking back with care in a courtroom setting, assessment of relationship proves fraught with difficulty. Hence, reliance upon a watered-down version of direct cause opens wide the door to abuse and injustice, particularly where the law now requires not only that the cause be merely one of many other direct causes but also that the defendant must anticipate the malevolent, tortious, or even criminal conduct of the unrelated third party which intervenes and affects the outcome. The concept of proximate cause, whatever its inherent ambiguities and defects, at least provided another judicial screen to sort out, at an early date, those matters too remote or tenuous to be countenanced in a reasonable system.

Why does mankind encounter such exceeding difficulty in assessing causal nexus? In part, because of our inherent nature, our finity, our lack of capacity for total knowledge. In part, because of our lack of observation and perception, again hindered both by our fallibility and our perspective and self-interest: every lawyer knows that parties and witnesses tend to put their own position in the best light, to advance their point of view, to shade their testimony (sometimes subconsciously) in self-fulfilling fashion. In part, because causal relationships, particularly those involving human

action, are incredibly complex given the unique nature of each human being, the vast number of human actors whose conduct interacts, the inability to comprehend all human and non-human forces which may intertwine, the "ripple" effect of human decisions where choices do affect succeeding choices of the actor and of many other individuals in an infinite plum tree,⁶ and the like.

Next, causation has expanded for substantially similar reasons that duty and breach have expanded, further occasioning the growth of false doctrines favoring loss-transfers to injured persons. Thus, vicarious liability theories impose causal responsibility upon those who act without fault but who possess financial resources (a "deep pocket"). *Respondeat superior* represents a single instance of imposition of accountability upon one (usually an employer) who (1) did nothing wrong and (2) possesses no real control over the acts of the real wrongdoer.

Other examples of vicarious liability abound. A widow operating a small motel acquiesces in importuning by transient woodcutters who offer to top her trees for a fixed price and assure her of their competence; in the course of tree-topping, the workmen drop a limb upon a neighbor and leave; the widow bears responsibility, probably without insurance coverage. Or, a friendly loan of equipment results in injury to the borrower or a third party and a lawsuit against the kindly lender. Or, a doctor or lawyer refers a potential patient or client to another professional more skilled in the needed specialty and the latter makes a mistake; the referring physician or attorney finds his name listed as a defendant on a summons.

Furthermore, the law has created greatly extended duties upon many of us to "warn" others of risks and results of action and nonaction. A concomitant effect: further attenuation in the proof of causation and the encouragement of a great fiction that most individuals can and will read and heed. For example, drug manufacturers must warn of all manner of problems which may arise upon ingesting a drug or receiving a vaccine. In most instances, contraindications require many pages of fine print. Even a comprehensive litany of possible adverse reactions is truly useless precisely be-

cause we are unique individuals living in an incredibly complex world; in other words, warnings of all potential risk resides beyond the capacity of mere finite men for the identical reasons that causation is so difficult to predict by foresight or to assess by hindsight.

Moreover, the law now requires warnings of great detail upon such common devices as knives and ladders. These mandated warnings often could paper the entire product. Again, as in the duty and breach analyses, the plaintiff, the employee, the user, is presumed to lack even an iota of a common fund of knowledge or good sense. Indeed, the rules have become so silly that, in some instances, a perfectly good and complete warning or disclaimer has been challenged not upon content but upon *location*: a court decides, after the fact, that the warning in paragraph 7 was sufficiently important that it should have appeared in paragraph 2. And, since no two of us think or act alike, the next judge may relegate the warning to paragraph 19! To cap it all off, it is idle to assume that (1) most people can read, (2) most people will read, and (3) most people will change their course of conduct, even with the appearance of a hypothetical "objectively perfect" warning!

(4) Damage. No less a revolution has taken place in the extent and proof of damage awards for personal injury. Once again, after a brief preface, several examples selected from a great array will prove the point.

The common law recognized three categories of damage: special, general, and punitive (exemplary). Special damages normally compensate an injured party for out-of-pocket losses: medical, hospital, drug, and therapy bills; lost wages; and the like. General damages constitute an attempt to measure physical, mental, and emotional loss and future inspecific harm by monetary value: hence, an injured person may recover for lost opportunities or injury to his reputation emanating from slander; for emotional scars and stress resulting from proscribed discrimination; or, for the infamous "future pain and suffering" and loss of earning capacity stemming from a careless automobile accident or a botched surgery. Punitive damages represent a civil penalty (beyond any actual loss) awarded by the law to the injured

party, designed not to replace the plaintiff in his proper position from which the act of the defendant removed him, but to deter outrageous or socially undesirable conduct. Except in the unusual case governed by precise statutory or contractual language, the victorious party does not recover his reasonable attorneys' fees as damages.

Proof of "damage" has become a fine art in the skilled hands of plaintiffs' counsel and compliant "experts." By the time the parties reach the courtroom, the natural sympathy exuded by all of us for the unfortunate may be intensified by clever before-and-after portraits of the victim. Evidentiary rules concerning expert testimony have washed away, permitting all manner of academicians and "experts" to work econometric alchemy by charts, graphs, and incantations, premised upon highly unlikely assumptions, all purporting to demonstrate that an injury may be translated into a very substantial dollar loss.

The development of these norms has been quite one-sided: for example, in many jurisdictions, the defense may not inform the jury that any general damage award is non-taxable; the plaintiff freely implies that he is starving and penniless, while the law forbids the defense from demonstrating the existence of "collateral source" income (e.g., payments received by the plaintiff under private first-party insurance coverage, Social Security, various other legislative programs, trust funds, and the like); the forensic economist indulges in the fiction of eternal celibacy for a widowed surviving spouse as a necessary part of his concocted statistics, while the defense may not prove a pending or existing remarriage or substitute relationship; the expert assumes prudence in investment and moderation in life when he calculates damages, while the jury remains ignorant of the true-life spendthrift nature of the injured party.

A further doctrine feeding the increase of damage awards may be uncovered in the heightened use of punitive damage judgments in all manner of cases. In earlier years, a claim for exemplary damages constituted a most extraordinary occurrence; it is now commonplace in the most simple and harmless of cases. The law ought not command overpayment to the

plaintiff; to do so infringes upon the province of the criminal court and produces extreme asset transfers based upon passion instead of good sense. Human beings act much too liberally with other people's money; when they receive free reign to "punish" conduct which they subjectively believe to be "wrong" only mischief can result. Judges and jurors freely award millions in sympathy and anger, yet those same citizens would not contribute a moment of time nor a dollar from their pocket to the "hapless victim."⁷

An additional jural element plagues the realm of damage awards: the traditional concept of "joint and several liability." Simply put, this doctrine provides that if plaintiff sues D_1 , D_2 , and D_3 for her harm, and the jury finds the plaintiff blameless, D_1 responsible for 75 per cent of the injury, D_2 responsible for 20 per cent, and D_3 responsible for only 5 per cent of the loss, the plaintiff may collect the full amount of her judgment against any one of the three defendants, regardless of the size of their contribution of actual fault.⁸ As it happens, D_1 and D_2 may be missing or insolvent, so D_3 must bear an inordinate burden—and, quite often, D_3 may be so far removed from reasonable accountability that he would have prevailed in the absence of the extensions of duty, breach, and causation considered heretofore. Few, if any, jurors recognize this twist in the law and one might surmise that they imposed a five per cent finding of fault upon D_3 as an afterthought, a mistake, or a poorly conceived "message" *sans* real consideration of right and wrong.

Bankruptcy statutes provide one additional ingredient worthy of note. In recent years, some manufacturers and other "target" defendants faced with a large number of potentially ruinous claims have sought the shield of bankruptcy, insolvency, and other debtor-protective laws in an attempt to keep the business afloat and to ameliorate or spread the loss. A growing legal trend denies full and equal protection to these penitents, apparently founded upon the politics of envy. A libertarian cannot readily accept bankruptcy codes in a world of pristine purity; however, denial of equal access on the basis of wealth or productivity certainly constitutes a discrimination as vile as others for

which mankind receives regular chidings these days.

C. Outmigration and Market Disarray

The unprecedented extension of liability causes all manner of producers, professionals, and providers to leave the market. By nature and necessity, development and innovation in providing goods, services, and ideas bring risk, and entrepreneurs constitute exceptional risk-takers. A portion of a producer's return compensates him for the risk incurred, just as other profits reward him for his knowledge, his innovation, his diligence, and his foresight.

Some entrepreneurs develop enterprises by diffusing the risk of the venture, thereby partially insulating each individual from the full effects of the most likely costs. The limited liability afforded by law to limited partnerships and corporations provides one common mode: each venturer takes "a piece of the action" but limits his potential loss to the amount of the investment. Another redoubtable protection developed in the Sixteenth Century: insurance and reinsurance against specified liabilities or casualties. In essence, the insurance carrier assumes some of the risks of a venture in exchange for a premium, a price calculated upon a forecast of danger premised on human action and history. The decline in insurance capacity is considered hereafter in Section II. D.

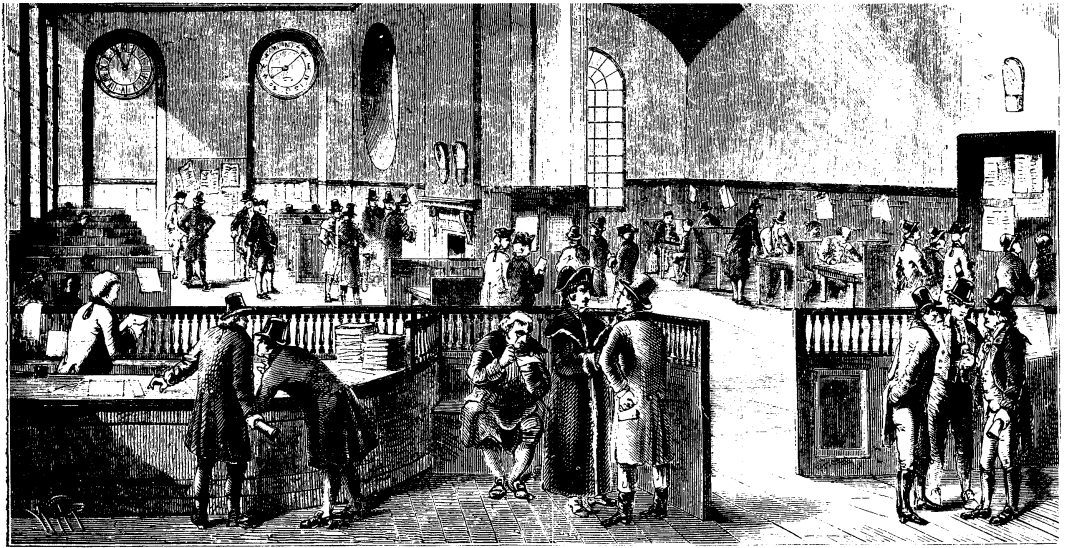
When traditional methods of risk diffusion disappear, or when the penalties employed impose unanticipated and seemingly random risks upon the productive, or when the extent of liability exceeds the reasonable expectation of return, the entrepreneur abandons the market and employs his capital, knowledge, and skill elsewhere, in a place where he can achieve "more bang for his buck." These results are taking place currently across the country, in increasing fashion.

Once again, some naysayers dispute the accuracy of this contention of dislocation. Both empirical and rational evidence support the thesis, however, although human beings do encounter difficulty in assessing causality and perceiving historical events occurring before their very eyes; it seems to be a human failing

to comprehend essential cause-and-effect relationships and significant principles of human action much more cogently from a distance in time.

Nonetheless, observation offers proof. The increase in duty and damage, and the concomitant amelioration of breach and causality, render it increasingly difficult to anticipate risk and plan accordingly. With certainty and prediction, the provident provider can foresee dangers and spread the risk; in a random world, no man functions with any modicum of efficiency, and fear and frustration soon cause him to give up altogether; after all, life is too short for the creative to abide by the disharmony of the litigatory society. Again, the cost of risk diffusion in an accelerating world of liability may become sufficiently great so as to price the product or the service out of the market, thus depriving the non-litigant consumer of his full range of choice. Finally, the risk-spreading activity of the liability and casualty insurance industry may be significantly deterred in like manner, drying up that avenue of protection.

Thus, proof abounds for the perceptive observer. For example, in medicine, specialists curtail or terminate lucrative and otherwise satisfying practices early, and dissuade their offspring from the profession. Successful corporations find no one willing to serve as an outside director. Quality legal and accounting firms refuse specific "dangerous" kinds of practice. Manufacturers close out profitable lines as a preventive measure. Inventors and investors restrain research and development of new drugs, or machines, or processes, while their foreign counterparts—unhindered by any "liability crisis"—forge ahead and build new enterprises based upon creativity and innovation. Employers fear recrimination so much that they accept the "lowest common denominator" resulting from an inability to manage, penalize, and discharge, with the necessary outcome of shoddy work, poor service, and bad ideas. The list goes on, like a disharmonious version of an unchained melody. In essence, the wheels of production have been grinding to a slow but sure halt for some years: we are, and have been, living for decades upon the largess of relatively unfettered creative action and sacrifice of our ancestors.



THE BETTMANN ARCHIVE

The Subscription Room at Lloyd's.

Astute observers, like Frederic Bastiat and Henry Hazlitt, have taught us to seek both “the seen and the unseen.” Their exhortation deserves attention. One might cry out, “what’s one surgeon (or druggist, or lawyer, or piece of machinery, or antibiotic) more or less? We enjoy a surfeit of such provisions, and others will take their place. No one is indispensable!” Unfortunately, two things occur, both distasteful: first, the replacements tend to be less skillful, caring, and creative, since individuals of highest character and caliber tend to comprehend the natural rules of order most astutely and to adjust to disagreeable circumstances most quickly; second, after a while no replacements will exist, as the problem intensifies and a distended State, vainly attempting to cope with the current “crisis,” does all the wrong things at the wrong times.

Whatever one’s personal view of the moral issue, relatively few contraceptive devices or drugs remain on the market today, compared to a decade ago. The few remaining manufacturers of “DTP” vaccine (which has saved millions of children from suffocating death) have raised the price three-fold, with no end in sight. Employers refrain from hiring workmen who exhibit the slightest precondition to illness or injury, fearing the possible catastrophic consequences to that individual, his fellow workers, the consumer, and the business if the pre-existing condition becomes manifest in a

manner which occasions a major or a minor misfortune. Hence, the obvious consequence of “the liability crisis” in this regard might be characterized as a “market shake-out,” whereby creators and producers concerned with cost and loss abandon the enterprise for less risky ventures; the deeper “unseen” consequences involve a great misallocation of resources and contravention of the subjective desires of the buying public, a grand attempt to avoid risk and achieve everlasting security, and an eventual destruction of the market, a route which guarantees the most risky and least secure existence possible.

D. A Crisis in Capacity

Insurance developed as a market response to the need for risk diffusion in the late Middle Ages. A thriving trade depended upon the carriage of goods by sea, and the sea proved to be a dangerous and sometimes whimsical adversary. The merchants whose vessels survived storm and piracy enjoyed great profits; the traders whose goods perished (often along with the crew) suffered financial calamity. Entrepreneurs who frequented Lloyd’s Coffee House on London mornings devised a plan of selling shares in ocean-going ventures, pledging personal assets in syndicated fashion so as to share gains and spread losses. From this unstructured beginning arose an industry which has provided

a method of risk diffusion sufficiently malleable and effective to permit adventurous mankind to break out of the ordinary barriers imposed by the possibility of catastrophic loss. By the twentieth century, myriad modifications allowed most individuals and entities to insure against all kinds of ordinary dangers involving liability or casualty (*e.g.*, death, personal injury, fire, theft, earthquake, litigation, and the like), not to mention life, health, and disability risks.

No legitimate question may be raised concerning the decline of capacity, or the ready availability of liability insurance. Insurers depart the market in droves as a result of the litigation and liability explosion, either directly (through insolvency or bankruptcy) or indirectly (by means of a business judgment designed to avoid insolvency, bankruptcy, or untoward and unrewarded risk).

Private insurers stay in business only to earn a profit. Profit emanates from two primary sources: premium income and investment income. In many special lines of liability coverage, the industry pays out \$1.40 or more each year for each \$1.00 of premium income received. Astute investments have enabled some companies to survive this aberration in the short-haul, but few of us possess sufficient charitable traits to continue losing money on the premium side of the equation. Hence, insurers leave the field, either redeploying assets elsewhere or dropping entire lines of coverage.

Statists exacerbate the situation by decreeing that all insurers must accept certain heightened risks (*e.g.*, assigned risk pools for automobile liability coverage) and must not "discriminate" even if the private carriers' choice rests upon sound reason.⁹ To make matters worse, the usual collection of demagogues harangue for edicts preventing insurers from leaving the field and for rules prohibiting non-renewal of policies at expiration "without cause" (and, guess who defines "cause").

While the litigation expansion affects all fields of life and law, the primary assault has penetrated "special lines" or "long tail lines" of liability insurance, the type of coverage normally employed to protect against the risks of tort claims, *e.g.*, professional malpractice, product liability, and the like. Properly used,

liability insurance provides a regulating and planning device for avoiding risk and encouraging commercial market transactions. This function rests upon reasonable predictability and stability; in a free society, one by-product is lower cost coupled with greater certainty.

Liability insurance represents a promise to pay in the future upon the occurrence of a certain event, for example, upon a bodily injury for which the insured must bear legal responsibility. The farther out into the future one proceeds, the more difficult it becomes to predict such matters as changes in the law, alteration of societal values, the expected standards of business and professional performance, and the like. Yet, special lines of insurance often have a long "tail" of some eight to ten years out from the date of receipt of premium, which compounds the effects of errors in prediction: a premium is paid and the term is set in year one, yet the manifestation of harm and the resultant litigation may not occur until year five, or eight, or ten.

Risk aversion has been greatly complicated by expanding and increasing uncertainty in the law. The analysis in Section II.B. has provided a cursory overview of some of these jural modifications which have intensified the problems of certainty and predictability for insurer and insured alike. In summary, some of the leading components of uncertainty include (1) the growth of expectation of risk protection at all levels of society; (2) highly variable actual monetary inflation with the "ripple" effect that this variability causes both in velocity of exchange and in future predictions; (3) unprecedented and unanticipated changes in standards of expected performance, leading to unanticipated claims five, eight, or ten years in the future; (4) wholly unpredictable legislative and judicial changes regarding insurance policy interpretation as well as elements of proof and content of duty; (5) the escalation of legal fees, and concomitant costs of decision-making, on the part of both prosecution and defense of tort cases; and (6) a social inflation which includes a tendency to employ insurance products to solve all "social ills" perceived by various elements of society but actually unrelated to the insuring agreement.

Loss of certainty and predictability, coupled

with actual loss on premium dollars, explains the decision of many insurers to curtail unproductive and risky lines of coverage and to allocate investment assets elsewhere. Indeed, these decisions partake of the same elements as those which affect the outmigration of producers and providers discussed in the preceding Section II.C. The two elements intertwine: the insurer departs from the market or raises its premium and restricts its coverage in reaction to the litigation and liability explosion, thereby causing the seller's side of the market to shrink; the insured professional, producer, or provider faces restricted coverage, rapidly increased premium costs, and a reduction in choice as a buyer of the insurance product; thus, the aspects discussed in Section II.C. encourage top producers to depart from the buyer's side of the market, a tendency which merely intensifies the parallel phenomenon afflicting the seller's side. The result: market disarray and shrinkage, deprivation of choice, and a decline in the satisfaction enjoyed in a free society.

III. CAUSES OF THE CRISIS

Many commentators have offered flawed theories concerning the cause of "the liability crisis." Few have looked beyond the apparent to seek the real. An abundance of demagoguery persists, with fingers pointed at insurers, attorneys, litigants, and the judicial system. A quick view of these imagined "causes" ought to dispel any notion concerning their validity, and should lay the groundwork for insight into the true cause and its results.

A. Four Imagined Causes

The insurance industry provides an obvious scapegoat. Carriers suffer losses, raise premiums, reduce coverage, act selectively, and sometimes depart from the field altogether. To the demagogue, these commonplace market actions violate his ardent and ancient economic fables, so he assigns fault accordingly.

Insurance traducers flay their victims with allegations of "excess" or "windfall" profits in an era of constant loss, ignoring the truism that, in a market, a profit deserves no adjective inasmuch as it represents the increment of

value beyond cost placed upon the good or service by the voluntary purchaser. Similarly, the anti-insurance lobby rails at carriers for making poor investment decisions, and subsumes some odd sort of unfairness if the carrier increases premiums to cover such losses; the successful insurer, to the contrary, has made prudent investment decisions over the past several years, and this prudence has enabled some companies to remain in business at a time when premium dollar income has proven woefully inadequate to cover claims losses. In any event, in a market, the insurer may charge what the buyer wishes to pay for a risk diffusion service, and motive plays no role.

A related attack challenges the power of a carrier to cancel a poor risk, or to fail to renew for whatever reason; this challenge rests upon some obdurate notion of anti-discrimination or inherent unfairness. The position is inherently inconsistent: should the insurer be forced to maintain its relationship at the same premium level forever upon entry into a contract despite changes in time or circumstances, and no matter if the contract expires after a specified term? Would the insured endure the same enslavement, or would he possess the absolute right to shop for a better deal and cancel at any time? How can logic justify different treatment in this context?

Finally, critics shriek "conspiracy" among the myriad competitors in a highly fragmented industry, supposing that hundreds of insurance companies band together to "fix prices" and restrict the market. One can assume that if a lucrative market existed on the capacity side, new carriers would enter the field promptly. Thus, the contention that the insurance industry has caused "the liability crisis" comes up wanting.

Lawyers also receive their share of opprobrium. The public views the bar as an overcrowded and avaricious profession, diligently fomenting lawsuits and inveigling otherwise decent citizens into improper and foolish actions. This surmise overlooks the independent character and downright stubbornness of most citizens; very few Americans betray their basic principles at the importuning of another, and no attorney can proceed without a client.

Those who consider lawyers to be menda-

cious troublemakers often assail the contingent fee as a causative factor in producing the "crisis." In a contingent fee arrangement, the client in a bodily injury action agrees to pay the costs normally associated with preparation and trial of his case except for the attorney's fee; the attorney agrees to take the case "on a contingency," and shares in any settlement or verdict, receiving nothing for his time and effort in a losing cause. While some Codes of Professional Responsibility abhor the practice, in many cases the attorney also advances substantial costs of the lawsuit, particularly in payment of "expert witnesses" (who also may be serving on a contingency) and other trial preparation expenses.

Unfortunately, the attack upon the contingent fee is an attack upon the freedom to contract; in addition, since the contingent fee does not cause the problem, the attack constitutes wasted effort which incidentally wounds liberty. One might disparage the contingent fee as unwise insofar as the lawyer becomes a subjective participant with a "piece of the action" instead of an objective advocate, but those who enter such a bargain are better able to determine their subjective desires than is some lofty codifier apart from the fray.

A better rule, and one adopted in a number of English-speaking provinces, would require the lawsuit loser to pay a reasonable attorney's fee to the successful party; in addition, where the plaintiff (upon filing) does not display financial stability which would enable him to discharge such an obligation (which may exceed \$100,000 in a critical case) the law might require the plaintiff to post a bond or to secure guarantors for the potential debt. Indeed, a lawyer truly wedded to a contingent fee case might be willing to stand as surety and place his or her assets behind the cause.

A third body of opinion lays blame at the feet of litigants on one or both sides of the aisle. Some chide defendants as careless and uncaring; others contend that plaintiffs are greedy and lazy. Parties in most actions are individuals, singly or banded together, who partake of the same human condition as the rest of us: no better, no worse, just mill-run folks trying to live as disorderly creatures in an orderly world. To some extent, then, the proponents of this

position are correct: "the liability crisis" results from human failings, but those frailties are poorly understood, as demonstrated in Section III.B., *infra*.

Finally, the judicial system comes in for its raps. Judges, jurors, legislators, bureaucrats, lobbyists, and all manner of individuals related to the justice system and the political apparatus receive their forty lashes from particular parties to the debate. One could comment upon the lost courage of judges who, in a common law system, ought to exercise a screening function, just as one may decry the tendency of juries to liberally and carelessly disburse other people's money in a grand display of envy and spite. Legislators and their bureaucratic aides have created a whole new universe of "rights" which are not right and which compound existing wrongs. Indeed, of all the imagined causes, the "system" may be at fault in the normative sense but, as with the litigants, challenge to the "system" proves to be rather meaningless camouflage. In final analysis, our juridical system mirrors society, albeit with a warped mirror reminiscent of our days in the carnival fun house.

B. The Cause and Its Results

(1) **Cause.** Results often flow from the application of deceptively simple causes. This general rule applies to "the liability crisis": the effects decried result from a noteworthy human frailty, the inability or unwillingness of each of us to make fine distinctions and to live consistent lives. Inconsistency and discord mar mankind and constitute a portion of the human condition; in the present context, this discrepancy causes each of us to place impossibly high standards upon our opponents while imposing nominal obligations upon ourselves. Thus, a doctor or a manufacturer or an employer is required to exercise superhuman efforts to insure safe and pleasant results, while a patient, a user, or an employee need exercise but minimal care and foresight.

Proper positive law provides necessary general rules for peaceful resolution of human disputes, general rules of conduct patterned, insofar as is possible, upon the natural law of order and obligation, of cause and conse-

quence, which undergirds our universe. The aforementioned refusal to make and abide by fine distinctions warps these general rules, with each participant seeking to create an exception for his cause all the while pinning his adversary to the strict stanchion of the law. This tendency is analogous to the advocate of freedom who attempts to rationalize trade barriers, subsidies, or market entry restrictions in the “special case” of his industry or enterprise. No difference exists between the subsidy-seeker and the litigant who argues for extended liability, attenuated concepts of breach and causation, and expanded damages.

The siren songs of egalitarianism, entitlement, and enterprise liability (fed by the unlovely and all-too-human traits of greed, envy, and jealousy) pander to this quest for exception, this establishment of multiple standards which mocks any semblance of “equality before the law.” Redistributionist theories of wealth transfer and codified attempts to enforce an unclear and unattainable “fairness” coincide to justify legalized theft as a balm to thwarted but unrealistic expectations: it seems foolish to expect perfection of others if we do not seek it for ourselves, yet the modern legal “progressives” turn the Golden Rule of Jesus Christ and the Silver Rule of Immanuel Kant (“Act only on that maxim through which you can at the same time will that it should become a universal law.”) upon their respective noggins.

The lack of consistent conduct and ideological sensibility displays another facet: the rapid decline in personal accountability. Responsibility requires the actor to accept the consequences of his conduct without a whimper; it does not permit him to shunt the untoward results of his acts and errors unto the unwilling shoulders of another.¹⁰ Nonetheless, while most individuals profess a love for personal freedom, few are willing to live with the results of their own errors, or the pitfalls naturally afflicting a disorderly man in an orderly universe, or the consequences of the interplay of human action where each party merely performs as an ordinary fallible human being. Coupled with the innate difficulty of comprehending causality and long-term effects, this tendency produces a “beggar-my-neighbor” legal system

where Bastiat’s metaphor of a circle of pick-pockets applies most assiduously!

(2) Effects. Thus far, I have alluded to myriad results of this cause in providing descriptive examples for textual statements. Examples are not exhaustive; they serve to identify and to provoke, not to end the discussion. A few highlights, some of them redundant, may provide useful illustrations of a long-range disquieting consequence already set in motion by “the liability crisis.”

First, insurance carriers no longer enjoy the right of selective underwriting, a right which ought to exist under any reasonable concept of freedom of contract, and one which permits the channeling of conduct into safer modes. The current trend of assigned risk pools, aggressive state regulation, statutory limitation upon non-renewals, and sibling ideologies, render the insurer impotent to freely choose the least risky enterprise to insure and thus encourage care in a free society. Actuaries err, as do we all, but fundamental freedom and the basic rules of human action dictate that the channeling function can be performed only in a market.

Second, over the long haul, efficient business becomes inefficient business and, absent the reversal of things in motion, commerce will eventually grind to a halt. The law has become a schizophrenic intruder: no way exists to harmonize the competing codified mandates of reduced risk, diminished price, increased “regulation” and higher wage, let alone “egalitarianism,” “anti-discrimination,” “pro-competitive,” and “fundamental fairness” rules, except in a market system; the very existence of these infernal and vexatious norms dooms any notion of freedom. As a result, managers can’t manage, owners lose the right to control the fruits of their labor, sloppiness, shoddiness and false swearing become the rule of the day, and the well-intentioned but poorly-conceived laws designed to promote safety, well-being, and plenty produce just the opposite results. Even those nominally principled persons, who would abide by general rules of good behavior in many instances, renounce principle and join the throng to milk the system; after all, why pay for something that is free?

Third, greed and envy translated into high verdicts for faultless conduct penalize the unprotected innocent. The “odd man out” poses a very real concern. More poignantly, the consumer or employee who wishes to accept a nominal risk is denied his opportunity where the costs of litigation cause producers to leave the market or products to disappear. Suppose a wonder drug or vaccine allegedly causes death or injury to one patient in one million; the resulting litigation forces all manufacturers to withdraw the compound; who cries for the 999,999 individuals who wish to take the drug, whatever the risk, in order to avoid death or crippling disease?

Fourth, the disintegration of accountability causes manifestations far beyond the scope of this essay. Loss of responsibility afflicts us all in realms of economics, politics, law, theology, philosophy, education, indeed in any discipline of pertinence. Certainly, self-responsibility declines when those who smoke tobacco, imbibe alcohol, or eat ice cream to excess complain of, and recover for, allegedly resultant lung, liver, or lipid disease. It disappears when a worker refuses to purchase first-party coverage, spends his paycheck as he desires, suffers an injury or loss, assigns the cause without reason to a covered entity, and enjoys—free—the benefits his fellows have paid for voluntarily over the years. Strangely, those who bleat most loudly about “social justice” ignore the pervasive injustice necessarily and eternally flowing from their bad ideas and worse acts.

IV. THE CRISIS CAN BE CURED

Complex problems do not always yield easy answers, particularly when those problems stem from pervasive assumptions which are just plain wrong. In the present case, the solution to “the liability crisis” is clear: an application of increasingly large doses of liberty; the methodology of the application is complex, given the human trait of avoidance of responsibility.

Self-responsible people, accountable people, free people have neither the time nor the inclination for needless lawsuits. Pettiness and bickering mark the slave society, not the free

society, where men and women solve most of their interpersonal problems short of access to a court of last resort. Thus, “the liability crisis” will be ameliorated by the release of creative human action. Those who seek to extend liability and increase damage verdicts by employing the legal process to impose impossible or tyrannical obligations upon others do so out of a fear of accountability for their own actions, a belief that someone else must pay their way. These false ideologies—entitlement, egalitarianism, and enterprise liability—can only bring gloom.

What premises underlie the free society? The basic principles include a commitment to personal freedom, individual responsibility, a market economy, respect for private property, and limited government, all designed to unfetter individual energy in the creative realm. Rational, empirical, moral, and theological proofs demonstrate beyond cavil that human problems are always solved more quickly, fairly and appropriately in a state of relative liberty.

Many of the proposed “solutions” suggested by commentators and lobbyists interested in “the liability crisis” partake of government regulation and Draconian limitation: “caps” (limitations) on general damages, restrictions on contingent fee arrangements, mandatory state insurance pools, increased regulation of the insurance industry, elimination of selective underwriting, and a host of others. Such barriers to market entry accomplish nothing but exacerbation of problems. The press worthy panjandrums of the day iterate “bold new solutions” which, upon examination, turn out to be the same failed socialism of the past: increased regulation, expanded codes of prior restraint, and other innate foolishness.

One might accept a few of the nominal suggestions put forth from some quarters: elimination of punitive damages; obliteration of joint and several liability for unrelated defendants; revival of a judicial screen designed to prevent a tyranny of the majority; an award of attorneys fees to the victor to be paid by the loser; and the like. But these band-aids will not staunch the hemorrhage. Free man deserves and requires an open textured legal system: a few fundamental rules of good conduct quickly and ably en-

forced, fully understood by all members of society, restraining destructive action: positive norms forbidding and penalizing the aggressive use of force against another; barring deceitful and fraudulent conduct; requiring adherence to freely entered contracts; affording a mechanism for the resolution of otherwise insoluble disputes which invariably arise amongst the citizenry; and permitting the orderly construction and continuance of the necessary governmental apparatus to carry out these few important functions. No state has adequately discharged these necessary functions; how could we expect such a flawed entity to perform well in channeling creative human endeavor?

Suppose that my thesis is correct, that the so-called "liability crisis" is merely one of many manifestations of an all-encompassing liberty crisis which detrimentally afflicts every aspect of our lives. How then do we implement the solution?

The answer resides within each of us. Each individual in society must learn to act consistently with principle, make fine distinctions, exercise the restraint mandated by self-government, and continue on his never-ending quest for knowledge and propriety. Leonard Read's truism concerning the ultimate effects of the loss of a belief in accountability finds a ready home in this regard: personal freedom cannot exist without individual responsibility, and unless we wish to live in a ring of pickpockets—

or worse—the recapture of liberty is imperative.¹¹ Vigilance commands us to look within for the seeds of destruction which take root without: for example, those who create exceptions for themselves cause consequences far beyond the perimeters of their immediate action; those who torture new meanings into "force," "fraud," and "duty," occasion a rippling loss of liberty for us all.

Note well that "the liability crisis" will not disappear in a puff of smoke even in the wake of that highly improbable event, the immediate development of a free society. All too many individuals prove to be summer soldiers, leaving the standard of freedom when personal problems beset them, or when they mistakenly assess causality and assign a villain's role to the free society, or when radical and rapid improvement does not take place before their very eyes. We lose liberty by miles, regain it by inches, and our recapture must be painfully slow as a result of our imperfect rational processes.

The analysis in this paper and the solution to "the liability crisis" presents nothing novel: our betters of the past have offered like solutions, to like problems, employing like principles. Unfortunately, a lesson forgotten is a lesson unlearned; it is mankind's misfortune that each of us must relearn the lessons of the past. □

1. "Tort," in the legal lexicon, refers to a civil injury to a person, his reputation, or his property done by another. Traditionally, our common law of torts dealt with intentional and unintentional wrongs, the former often also constituting a crime punishable by the state, the latter premised upon a lack of ordinary prudence in carrying out one's everyday affairs. The very causes which will be considered hereafter have resulted in a blurring of these traditional distinctions and an increased haziness of these fundamental concepts.

2. For one example, the law of contracts has long accepted Romanist modifications which obviate the need for each man to abide by his solemn word (of course consent obtained by duress or deceit does not constitute consent at all, and forms quite a different inquiry). The current expansion of the "ameliorating" contractual defenses of "mistake," "impossibility," "commercial frustration," "commercial unreasonableness," and the like, create an analogical quagmire resembling the mess in tort law. Other examples abound in such disparate fields as securities issuance and regulation, anti-trust barriers to market activity, employment rights and remedies, and the like.

3. One should recognize that an individual or entity may, at different times or at the same time, fall within both broad categories. Human inconsistency being what it is, the same party may display the same categorical tendencies in each position, demonstrating a curious legal and moral schizophrenia.

4. *Res ipsa loquitur* means, literally, "the thing speaks for itself." It was employed in the later common law where a plaintiff

suffered injury by means of an instrumentality controlled by a defendant, although the plaintiff could not identify the actual breach of duty and causal nexus.

5. *Summers v. Tice*, 33 Cal 2d 80, 191 P2d 1 (1948); compare *Restatement (Second) of Torts* § 433B. *Contra: Anderson v. Maloney*, 111 Or 84, 225 P 318 (1924).

6. Ex. 20:5, 34:7; Deut. 5:9.

7. This circumstance resembles the wealthy Senator who wildly taxes and spends his constituents' hard-earned funds for grandiose schemes beloved by the lawmaker—but not so much favored that he would support them voluntarily by his personal contribution!

8. In most states, some juridical idea of contribution among joint tortfeasors and/or indemnity exists. The rules in this regard are so diverse and complicated that further discussion would serve no useful purpose. In the example—an all-too-perfect portrait of the real world—a right to indemnity or to contribution by D3 would afford small solace where D1 and D2 are insolvent.

9. For example, the District of Columbia has recently decreed that health insurers cannot exclude carriers of AIDS virus from coverage. Or, insurers may not recognize inherent actuarial male/female distinctions. Mere recitation of governmental nonsense approaches infinity.

10. Ridgway K. Foley, Jr., "Individual Responsibility," 26 *Freeman* (No. 1) 42-51 (January 1976).

11. Ridgway K. Foley, Jr., "On Recapturing Liberty," 29 *Freeman* (No. 5) 304-14 (May 1979).

Rousseau's "Social Contract": A Critical Response

by Bobby Taylor

Political theorists have long attempted to find a plausible rationale for the existence of the coercive State. This quest reached a climax during the Enlightenment when philosophers and political scientists rejoiced over the discovery of a new model depicting the relationship between the individual and the State: the social contract.

According to the theory of the social contract, individuals may leave an anarchic "state of nature" by voluntarily transferring some of their personal rights to the "community" in return for security of life and property. A seemingly rational and practical concept in its general form, the social contract theory began to lose its luster as its proponents clashed over what form the State should take and what rights, if any, the individual should retain.

During this period of intense conflict, French philosopher Jean Jacques Rousseau produced a seminal work entitled "The Social Contract." In it Rousseau proposes a visionary society in which all rights and property would be vested in the State, which would be under the direct control of "the People." Large meetings of the public would be held in order to determine the collective interest as perceived by the "general will"; this the State would then dutifully enforce. Rousseau justifies this strange synthesis of communism and direct democracy by arguing that the abrogation of individual rights would abolish special privileges, and that tyr-

anny would be impossible because the People would never oppress themselves.

"The Social Contract" has been used by both democrats and totalitarians to support their respective positions. This ambiguity is rather symptomatic of the contradictions underlying Rousseau's entire essay. His work is particularly vulnerable in three essential areas: the formulation of the "general will," the subordination of individual rights, and the validity of the "social contract" concept.

The term "general will" seemingly implies that there is an interest common to all persons involved. But even if this were true, running a direct democracy on this principle would be hopelessly impractical. Rousseau, after building a heady image of united purpose and brotherhood among the masses, finally admits the impracticality later in the essay and provides a slightly less demanding criterion: majority rule.

By accepting this annotation, however, Rousseau deviates from his position that the People would never oppress themselves. History has clearly shown that majoritarianism without constraints, such as the Bill of Rights, leads to oppression of the minority and State confiscation on a vast scale. The only legitimate conception of the "general will" that would satisfy Rousseau's great expectations is complete unanimity, and if it could ever be reached in a large body of self-interested individuals, why would the coercive State be needed at all?



Jean Jacques Rousseau 1712-1778

“Whoever ventures to undertake the founding of a nation should feel himself capable of changing human nature, so to speak, of transforming each individual, who by himself is a perfect and separate whole, into a part of a greater whole, from which that individual receives all or part of his life and his being; of changing the constitution of man in order to fortify it; of substituting a partial and moral existence for the physical and independent existence that we have all received from Nature. In a word, he must be able to deprive man of his own powers in order to give him those that are foreign to him. . . .”

—from *The Social Contract*

Rousseau believes that personal liberty need not be secured since the individual would in a sense rule himself via the “general will.” As we have seen, however, Rousseau’s conception of the “general will” is an inadequate safeguard against tyranny, and in reality the individual citizen would be incessantly victimized by the State. This monstrous miscalculation on Rousseau’s part stems from his regard of human beings as means to higher ends, rather than as ends in themselves. His utter disregard for the rights of man runs directly counter to traditional Western individualism and leaves his ideal society suspended in a sterile moral vacuum.

Finally, Rousseau maintains that the State may exercise complete control over the lives and property of its citizens because these individuals have granted it this right by virtue of the social contract. The term “social contract” works to legitimize actions normally considered to be enslavement and theft, and at first glance the concept seems rather reasonable. Upon further reflection, however, an important question arises: Is the social contract really a contract at all?

Where Rousseau Fails

Contracts by definition must have two basic features: they must be entered into voluntarily and they must also clearly enumerate the rights and duties of the parties involved. Rousseau’s

social contract fails miserably on both points.

The social contract is ostensibly voluntary, but any individual refusing to enter into the contract would be forced to flee by the State and would have his land confiscated, though he had not initiated force against anyone. Additionally, the terms of the contract are extraordinarily vague: the contracting individual agrees to grant his precious life, liberty, and property to the State in return for one ineffectual vote in the formulation of a governing but extremely faulty “general will.” This so-called contract is actually the epitome of the one-way street: the State receives everything yet grants nothing and therefore holds all the cards. The fact that no contract even faintly resembling Rousseau’s has ever appeared in the free market is ample proof that such an agreement would never be accepted by anyone—except, perhaps, at the point of a gun.

Although “The Social Contract” is a blatantly anti-libertarian document, it should be read and studied closely by all students of the free society. In Rousseau’s work one can discover the roots of contemporary socialism and can see the mass of contradictions and fallacies underlying this morally bankrupt ideology, unobstructed by the clever rhetorical devices of modern collectivists. The principles espoused by Rousseau in his essay haunt us even today, and until they are finally faced, the specter of tyranny will continue to hang like a pall over the Western conscience. □

The Irish Potato Famine

by Teresa R. Johnson

Every year from 1845 to 1851 a deadly blight attacked Ireland's potato crop, causing severe famine. About a million people died and at least a million others emigrated. Historians offer various explanations of how such massive suffering could have occurred in a province of Great Britain, then the richest nation in the world. Although their explanations vary, most historians insist that if the British government had abandoned free market principles, few, if any, Irish people would have died. Yet evidence shows that free market principles did not increase the suffering of the Irish, but, rather, alleviated much of the misery that the famine caused.

It is not my purpose to determine the reasons for Ireland's distress. I do intend to show, however, that free market economics did not murder a million Irish people, despite what many historians say. I will present a brief history of the tenant-farmers, the people who suffered most during the famine. Next, I will demonstrate that the British government did not consistently uphold free market principles. I will then discuss how free enterprise reduced the effects of the famine. First, however, I will show how a few historians describe the impact of free market principles on Ireland's misery.

Some historians who favor government intervention suggest that the British leaders were caught up in forces beyond their control. For example, Kevin Nowlan writes: "The history of the great famine does not sustain a charge of deliberate cruelty and malice against those gov-

erning, but it is a chastening story of how fashions in social and economic ideas and human limitations can combine to increase the sufferings of people." (p. 133). Likewise, Thomas O'Neill says of Parliament, "The fetish of free trade had tied their hands" (p. 257). Yet those who would make such statements blame the system of free market economics without acknowledging that Parliament did not strictly follow that system and without mentioning that the Irish people bore some responsibility for their own situation.

Lawrence McCaffrey is one historian who explicitly condemns Parliament for supporting free enterprise. Whereas Nowlan refrains from charging the British leaders with deliberate cruelty, McCaffrey compares them to the Nazis. Likening the famine-stricken Irish to the Jews in Nazi Germany, McCaffrey says that both groups suffered "ideological murder." He continues,

Certainly the Nazis were more ruthless, heartless, and consistent in the application of racist principles than Trevelyan and his colleagues were in enforcing the dogmas of political economy. But an Irishman dying of hunger or crowded into the bowels of an emigrant ship in the 1840's would have had scant consolation in knowing that his predicament was not the result of race hate, but the price he must pay to maintain a free enterprise economy. (p. 66)

McCaffrey admits that Ireland's situation was complex, and he censures those Irishmen who see the prejudice of Englishmen as the cause of all Ireland's misery. Yet he oversimplifies the situation by placing all the blame on Parliament for adhering to free market principles.

Background: Irish Tenant-Farmers

The situation of Irish tenant-farmers explains how the failure of a single crop could devastate an entire country. Since most of the farmland in Ireland belonged to a few wealthy English and Irish landowners, the majority of the Irish agricultural population did not own land and had to trade their labor for the use of a dwelling and a

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THE BETTMANN ARCHIVE

Peasantry seizing the potato crop of an evicted tenant.

garden plot. Although some of these tenant-farmers paid rent by raising and selling a pig, many worked in their landlords' fields of oats, rye, or other grains. For their own families they planted only potatoes, which cost little and yielded more food per acre than most other crops (Woodham-Smith, p. 35). Also, potatoes thrived on this rented land: ground unfit for the landowners' grain or animals (Green, p. 103).

For most rural laborers, then, their potato crop was the only source of food. Tenant-farmers lived in constant danger of famine, not only because they depended upon a single article of food, but also because the potato "in its very nature [is] peculiarly liable to fail in certain seasons" (O'Brien, p. 223). The crisis that began in 1845 was not Ireland's first potato famine. An 1851 census reported that the potato crop had failed in some degree at least 24 times since 1739 (Woodham-Smith, p. 38). Every summer more than two million people went hungry until the new crop came in (Woodham-Smith, p. 165). So the failure of the potato crop yearly from 1845 to 1851 greatly increased the misery of a country already burdened by extreme poverty.

Although historians emphasize Parliament's free market stance, the best way to describe the

British economy of 1845 is that it was a fusion of free market principles and certain governmental interventionist measures. Parliament's critics assert that free market policies increased the ill effects of the famine. Yet evidence shows that government intervention in the form of the corn laws, the navigation laws, and the poor laws intensified Ireland's difficulties.

When the potato crop failed, Parliament adhered to free market principles by refusing to close Ireland's ports. Critics insist that Parliament should have prevented the export of other crops, arguing that the Irish people should have benefited from Irish produce. However, not only did those crops rightfully belong to the landowners, they were also needed to feed English laborers (O'Neill, p. 257). If Parliament had closed Irish ports, famine, rather than being prevented, would have been transferred from Ireland to England. The suggestion that the government buy Ireland's produce and distribute it among the Irish would have solved the problem of paying the landlords (Woodham-Smith, p. 75), but not the problem of feeding the English laborers.

Yet the corn laws and the navigation laws show that Parliament was less dedicated to the free market than many historians would indi-

cate (O'Brien, pp. 265-6). The corn laws, passed to protect British agriculture, kept the price of grain artificially high by imposing tariffs on imported grain. The navigation laws protected the British shipping industry. Under these laws, only British ships could carry goods into British ports.

Such protectionist measures worked against both the English laborer and the Irish tenant-farmer. The corn laws increased the price that the English laborers paid for food. And while thousands of Irishmen were dying of starvation, food that private societies in the United States had sent to distribute to the Irish could not go directly to Ireland. It first had to be transferred to a British ship, increasing the cost of aiding the needy and lengthening the time that starving people had to do without food (O'Brien, p. 266). The combination of the corn laws and the navigation laws made it unprofitable for foreign markets to sell grain to English or Irish markets.

Only after the famine had continued for several months did Parliament finally repeal these protectionist measures (O'Brien, p. 249). With the repeal of the corn laws in January 1846, American grain was bought to sell in Ireland, thus providing food that the Irish desperately needed. A year later the repeal of the navigation laws allowed donations from foreign countries to enter Ireland freely.

The poor laws provide additional examples of government intervention in Ireland. These attempts to legislate charity were met with disapproval on all sides. Landlords opposed the bills because property taxes funded the provisions for the poor (O'Brien, p. 187). The poor despised the workhouses, which were the major provision for aid under the laws, because of the hideous conditions at those institutions. In many of the workhouses prison-like discipline was enforced; in others, overcrowding and a lack of discipline allowed immorality to go unchecked. Some parents decided that it was better for their families to remain hungry than to live among such immoral conditions (O'Neill, p. 250).

Therefore, the belief that Ireland suffered because of Parliament's dedication to free market economy is wrong on two counts: First, in practice, Parliament was not completely ded-

icated to the free market, as evidenced by its willingness to retain protectionist laws and to legislate charity. Second, when the market was finally made freer by the repeal of two protectionist measures, both the Irish and the English benefited.

Direct Government Aid

The huge amount of government aid given to Ireland during the famine is further evidence that Parliament did not strictly follow free enterprise principles. In fact, Britain spent £8,000,000 on famine relief in the first year alone (McCaffrey, p. 65). Initially, Parliament provided the Irish tenant-farmers with public employment so that they could earn money to buy grain, which Parliament imported from the United States.

Parliament's public works system was, for the most part, an exercise in futility. Since the government had stipulated that the works should not benefit any individual, most of the work involved building roads, many of which led "from nowhere to nowhere" (Woodham-Smith, p. 166). Some of the road work was so badly managed that it bordered on vandalism: "The roads of Ireland were ruined. . . . Distances which were formerly driven in about an hour and a half . . . now took four hours, and accidents were frequent" (Woodham-Smith, p. 166). Because wage payment was often delayed for several weeks, some workers died of starvation. Thomas O'Neill relates that "Denis McKennedy of Caharagh, co. Cork, who died on October 24 on the roadside, was employed by the board of works up to the day of his death and was owed wages for a fortnight" (p. 229). Another serious problem with the public works was that many people were on the payroll who did not really need help (O'Brien, p. 253).

Before the spring of 1847, it became evident that the public works system had not fulfilled its purpose (O'Neill, p. 234). And the worst of the famine had not yet occurred. Whereas blight had ruined only a portion of the 1845 potato crop, it destroyed the entire 1846 crop. By July 1847, so many Irishmen had died of starvation and related diseases that the British government began its second phase of famine relief: distributing free food. These direct

handouts also defied the free market policies that historians say Parliament upheld religiously.

The Free Market in Ireland

A study of the government food distribution in July 1847 provides evidence that free enterprise aided Ireland. Although the northern counties depended upon agriculture almost as much as the western counties (Green, p. 89), less than 20 per cent of the population in the north took advantage of the government's offer of free food, whereas in some western counties as much as 100 per cent of the population received free food (O'Neill, p. 242). Ireland's only thriving manufacture, the linen industry, made the difference for the north (McDowell, p. 14). Because of this industry, many people in the north had a secure source of income and, thus, could buy food instead of relying on government aid. The linen factories, which in 1850 employed almost 20,000 people (O'Brien, p. 327), did not provide the only opportunities for spinners and weavers. Northern tenant-farmers could earn money by producing linen at home (McDowell, p. 15).

The "balanced economy" that the linen industry provided the north gave those counties many benefits that the rest of the country did not enjoy (Green, p. 122). In most of the other counties virtually all transactions took place by barter; money was practically unknown. Since more capital was available in the north, most vendors, including food merchants, were also there. Even where food was available in other parts of the country, the lack of jobs and of capital prevented the destitute tenant-farmers from buying that food.

In most accounts of the famine years, historians say little about private relief efforts, preferring to discuss government aid to Ireland. Yet private charity, which is a vital part of a free market economy, kept vast numbers of Irishmen alive (O'Brien, pp. 247-8). Such charity was of two basic forms: contributing food or money, or providing work.

Several organizations world-wide sent donations almost immediately upon hearing of the famine. The first contributions came from Irishmen who served in the Queen's troops in

India (Woodham-Smith, p. 156). Many donations of food and money came from Irish-American organizations. But the Society of Friends (the Quakers) offered the most consistent aid in the early famine years. In November of 1846 they formed the Central Relief Committee in Dublin, which worked closely with a similar committee in London (Woodham-Smith, p. 157). After surveying the situation in Ireland, they decided that the most immediate need was to set up food distribution sites throughout the country. Their soup kitchens were so successful that Parliament used them as a model for its food distribution program (O'Neill, pp. 235-6).

Once the immediate crisis ended in a particular area, the Quakers attempted to stimulate the local economy by helping the Irishmen to earn a living. In 1847, at the height of the famine, they distributed turnip seeds to farmers who could not afford seed. The resulting crop was so bountiful that the Central Relief Committee decided to continue the program (Woodham-Smith, p. 286). They later bought and operated a farm in Galway county to develop and to demonstrate improved agricultural methods (O'Neill, p. 258).

The Quakers also aided the Irish fisheries. Since bad weather often prevented Irish fishermen from going out to sea, they normally relied upon potatoes for food when they could not fish. When the potato crop failed, many fishermen pawned their boats and tackle in order to buy food. The Quakers, through local committees, lent the fishermen enough money to redeem their equipment (Woodham-Smith, p. 292). In the community of Arklow alone, more than 160 families survived because of these loans (Woodham-Smith, p. 292). The Quakers also set up new fishing stations in the western counties of Galway and Mayo and in the southern county of Cork (Woodham-Smith, pp. 292-3).

A private relief effort that historians generally overlook is the establishment of lace-making as a cottage industry. The lace-making centers were concentrated mainly in the northern and extreme southern regions of the country. Convents ran most of the lace-making schools in the south, while wealthy ladies sponsored the schools that opened in northern

Ireland. The lace industry began mainly because many of the poor women strongly desired to work (Wardle, p. 187). Not wishing to rely on government aid, they asked only for a way to provide for their families. Those who sponsored the lace schools offered exactly that: they trained and equipped the destitute women to make lace, and in many cases they volunteered to find English buyers for the finished product.

Many women who opened lace schools had to perform the tedious job of unravelling an existing piece of lace in order to find out how it was made. They would teach the method to a few women, who would then teach others (Wardle, p. 178). They soon learned to concentrate on making the most time-efficient kinds of lace. And because crochet work can be done faster than most traditional lace methods, some of the schools developed crochet patterns that imitated lace (Feldman, p. 90).

The cottage industry that grew out of these efforts did more than provide money to buy food; it reunited many families (Wardle, p. 197). According to Mrs. Susannah Meredith, a proprietor of one of the lace schools, several children who had gone to lace-making schools when their parents had been forced to enter a workhouse could soon earn enough money to feed their families. Once the family was back together, other members learned the trade and increased the family income. The ability to earn a productive living inspired the workers with hope and maintained the dignity that handouts can sometimes destroy.

Conclusion

Neither a relatively free market nor government relief programs kept many Irish people from suffering greatly. Ireland's problems had been years in the making; they could not be solved overnight. Yet the urgent needs created by the potato crop failure required overnight solutions. To blame free enterprise for not providing those solutions is to ignore the complexity of Ireland's situation.

Free enterprise, while it did not save every Irishman, did not increase the suffering that occurred in Ireland in the mid-1800s. In fact, Parliament's move toward freeing the economy by repealing the corn laws and the navigation laws

alleviated much of the suffering in Ireland. And in northern Ireland, where the linen industry had raised the standard of living, the people suffered less and relied less on government aid. Furthermore, private charity saved the lives of countless Irish tenant-farmers, worked to improve local economies, and started a cottage industry that provided employment for many Irish women through the rest of the century.

Lawrence McCaffrey, after maligning free enterprise, grudgingly admits that it allowed the Irish immigrants in the United States to prosper: "They lived in a country with social mobility and economic opportunity. American capitalism might be vicious, but it provided . . . possibilities for wealth" (p. 81). Such a backhanded compliment obscures the fact that free enterprise in both Great Britain and the United States helped the Irish people. Millions of Irishmen before, during, and after the great famine were willing to risk the difficult passage to the United States so they could take advantage of the opportunities that "vicious American capitalism" offered.

We need to be aware of this "vicious" tendency to interpret history so that free enterprise is seen as a villain. Those who oppose the free enterprise of the past are those who would insist that government intervention is the only way to eliminate the poverty that exists today. But government aid, in today's America as in yesterday's Ireland, is at best ineffective, and at worst damaging to those who are supposed to benefit by it. The American welfare system has failed just as Parliament's attempts to aid Ireland failed. □

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The Sagebrush Rebellion

by Douglas E. Wentz



Artemisia tridentata
common sagebrush

In a flurry of recent magazine and newspaper articles, authors across the country have criticized attempts by federal, state, and local governments to sell or to lease public lands for private development.¹ The “Sagebrush Rebellion,” or the movement to encourage the privatization of western public lands, has been characterized as a deceitful attempt by vested interests to channel public treasure into private pockets. At risk, say groups of leading environmentalists, are the nation’s parks and wilderness lands, if not the very air we breathe and water we drink.

In response to such criticisms, Reagan Administration officials and others involved in the Sagebrush movement generally have relied upon cold facts and “fiscal responsibility” to support their case. It is noted, for example, that Uncle Sam’s vast holdings, covering 727 million acres or about one-third of the nation’s land area, seem more than adequate to allow both the sale of selected properties and the preservation of park and wilderness lands.² Moreover, it is estimated that the sale by the federal government of certain properties, such as the 1774 acres at the entrance to the Golden Gate Bridge in San Francisco (that currently is being used, free of charge, by a private golf club), could raise in excess of \$17 billion in revenue, providing substantial and badly needed funds in the fight to lower the national debt.³

There is, however, a second and perhaps

more fundamental reason for supporting those who encourage the privatization of western public lands. In the context of a common property resource such as a body of water or a wilderness forest, it often is private ownership, and not government regulation, that best assures the maintenance of favorable environmental conditions. Indeed, from both an economic *and* an environmental standpoint, private ownership can produce incentives to preserve property for the long term, while government regulation can and has produced inefficiencies that are both frightening and real.

As an example to illustrate this point, let us consider the case of the Bristol Bay area of central Alaska, location of one of the richest runs of sockeye, or red, salmon in the world. Over the course of many years, American fisherman drew ever increasing catches from the waters of the bay until, by 1950, the salmon run had declined markedly. The Alaskan government, in an attempt to reverse the trend, set about to regulate virtually every aspect of the salmon fishing industry, and administrative rules governing fishing hours, boats, and gear increased in complexity until today they can be summarized as follows:

© 1986 by Douglas E. Wentz. Mr. Wentz is an associate with the law firm of Drinker Biddle & Reath in Philadelphia.

BRISTOL BAY AREA—

SALMON FISHERY REGULATIONS

1. Fishing Seasons: May 1 to September 30.
2. Fishing Periods: 9:00 a.m. Monday until 9:00 a.m. Friday or Saturday, depending on the fishing district.
3. Gear: Set and drift gill nets in most districts.
4. Gill net specifications:
 - (a) Gill net mesh may not be less than 6¾ inches through 9:00 a.m. June 16 and not less than 4½ inches after 9:00 a.m. July 15 in one district, with different rules for different districts.
 - (b) Gill nets not more than 29 full meshes in depth.
 - (c) Drift gill nets not exceed 150 fathoms in length or set gill nets exceed 50 fathoms.
 - (d) Maximum drift gill net on vessel not exceed 150 fathoms.
 - (e) Individual allowed two set gill nets.
 - (f) Operation of gill net only by person in whose name it is registered.
 - (g) Set gill nets shall be operated in substantially a straight line.
 - (h) etc.
5. Identification of Gear:
 - (a) Bright red flag or buoy required at the end of each drift gill net, marked with vessel license number.
 - (b) When using set gill net, a marker must be placed above the high tide line directly in-shore of the net.
 - (c) etc.
6. Minimum Distance Between Units of Gear: varies by district.
7. Vessel Specifications & Operations: maximum length 32 feet.
8. Vessel Identification: License plate with symbols at least 12 inches high.
9. Closed waters: various areas at different times.
10. Registration and Re-Registration:
 - (a) Must register for a specific district.
 - (b) Cannot change to another district before 24 hours after re-registration.
 - (c) [Further rules on hours and locations of local representatives.]
11. Landing requirements: All salmon must be landed in the district from which taken.

Not unexpectedly, the impact of these regulations was immediate and direct. Today, Alaska's fishermen generally are poor, both because they are forced to use small boats and inefficient equipment, and because they can fish only a small fraction of the time and only then in designated areas. American consumers, for their part, pay an unusually high price for salmon, a price much higher than that which would be charged if efficient fishing methods

were permitted. And Alaska taxpayers, of course, bear the cost of creating and enforcing their state's myriad regulations.

And what about the salmon runs the Alaskan government's regulations presumably were designed to protect? Ironically, rather than thriving, the salmon runs have continued to decline, and it is not difficult to understand why. Under the current non-ownership arrangement, no individual fisherman is particularly concerned with the preservation of the salmon run. In fact, given the current state of affairs, the incentives are quite the opposite! The fisherman's best interests are served by catching as many fish as possible during any one season.

This of course contrasts sharply with the result that would be obtained if the Bristol Bay were privately held. In this case, the fisherman/owner would have not one but two goals: to use the most efficient technology to catch salmon at the least cost, *and* to permit enough salmon to survive to perpetuate the runs. The owner would be encouraged to act in a manner that is both economically "efficient" and environmentally sound.

The analogy, of course, is not limited to salmon runs and bodies of water. Some of this nation's greatest forests, for example, already are owned or are leased by large, responsible companies such as the Weyerhaeuser Company which each year spends hundreds of thousands of dollars not only to harvest timber, but also to plant young trees for future generations. In such cases, the government's sale of surplus timberland has assured the survival of the very forests that opponents of privatization have sought to protect.

As the above examples show, it is not necessarily destructive of environmental goals to support the privatization of public lands. Quite to the contrary, in many cases only private ownership can create the incentives necessary to produce a result that is both economically efficient and environmentally sound. □

1. *E.g.*, Bruce Hamilton and Brooks Yeager, "Paradise Leased," *Sierra* 81: 38-43 (March/April 1986); George Reiger, "Sagebrush Rebellion III," *Field & Stream* 90: 29-30 (July 1985).

2. Randy Fitzgerald, "Uncle Sam's Surplus Land Scandal," *Reader's Digest*, 128: 33-36 (January 1986).

3. See Fitzgerald.

4. State of Alaska Administrative Code, Title 5, Chapter 6 (Bristol Bay Area), Art. 3 (5 AAC 06.001 - 5 AAC 06.990).

Land of Opportunity

by John Chamberlain

Donald Lambro, who has written some excellent books about Washington as “fat city,” believes in statistics. So, in his latest work, *Land of Opportunity—The Entrepreneurial Spirit in America* (Boston: Little, Brown, 176 pp., \$17.95) he parades the figures about new jobs and new companies that have made the six years of Ronald Reagan’s “supply side” presidency so exciting. From 1983 through 1985, some 600,000 new companies were created each year. A total of 11 million new jobs were accounted for in the three-year span. The total labor force stood at 109 million, the highest ever. Unemployment had fallen from 10 per cent in 1982 to 7.1 per cent in 1985. The interest rate had been cut in half from the 21 per cent of 1980, and the rate of inflation had dropped from the 10.4 per cent of 1981 to 3.2 in 1983.

The really important thing about Lambro’s book is that the author is so curious about the human faces behind the statistics. What manner of people were responsible for so many new enterprises and new jobs? It wasn’t the *Fortune* 500, the big companies that John Kenneth Galbraith believed were about to take over the country. They are getting along with fewer and fewer employees. It has been the “little people” who are primarily responsible for thousands of new enterprises that specialize in unique services. Instead of one “ladder industry” lifting the country up, as happened in the days of the railroad and automobile tycoons, it is a case of thousands of small step-ladders.

“The rags-to-riches stories,” says Lambro, “are at once endlessly fascinating, infectious,

and inspiring to all who seek to emulate them and create a successful, prosperous enterprise of their own . . . they come forth in seemingly inexhaustible numbers, people of all ages and from all classes, native Americans and immigrants, millionaires and paupers, young and old, to write their names across the sign boards of new industries and new enterprises, big and small.”

The first remarkable example cited by Lambro is Frederick W. Smith. In the mid-sixties, when he was an undergraduate at Yale, Smith wrote a paper for an economics class outlining his idea for a company that would provide next-day delivery service across 3,000 miles of country for letters and packages that “positively have to be there overnight.” The professor gave Smith a “C” on his paper. When Smith formed his company in the seventies at the age of 27, he lost \$29 million in the first two years of operation. This was in the period of high energy prices. The Yale professor might have smirked for a moment, but Smith proceeded to get an “A” in practical life when his company grossed \$1.4 billion in revenues in 1984, earning \$115 million in post-tax profits from the delivery of 450,000 packages and letters a night for a fee of \$11 per item.

Lambro is fascinated by the character of Joel Hyatt, a graduate of Dartmouth and the Yale Law School who, in the spirit of the sixties, had only disdain for businessmen. Hyatt’s father had been unhappy in his own business career in umbrellas. Imbued with the idea of “service,” Hyatt looked for a way to help that large segment of the public that was afraid of lawyers and didn’t know where to go for legal

services. With his wife Susan, Hyatt founded Hyatt Legal Services in Cleveland to target the 70 per cent of the people who were worried about excessive legal fees.

The response of the public made Hyatt an entrepreneur in spite of himself. He appeared on television to sell his services to the masses, ending each spot with the promise, "You've got my word for it." Thus he joined a stream of mass medium entrepreneurs that includes Maryland's chicken salesman Frank Perdue, who talks in an ordinary voice to his customers directly.

Other Success Stories

From Hyatt, Lambro jumps to a cookbook author named David Liederman, an ex-lawyer who took a job as a chef in a French restaurant in preparation for starting his David's Cookies, with more than 130 stores in the U.S. and abroad. Liederman has eschewed dependence on high-priced marketing researchers. Instead, he goes directly to children for opinions about his product. His 4-year-old daughter and her friends were the "experts" who were called upon to pass on David's macadamia, chocolate chunk confections.

Colonel Sanders and his Kentucky Fried Chicken are an old story. The Sanders success has inspired people who have nothing to do with the food business. Al Sutherland, a retired insurance salesman, was asked by his son to take care of his home during a vacation. After a few periods of house sitting, Sutherland told himself, "If chicken can have Colonel Sanders, house sitting can have me." Sutherland now franchises his Home Sitting Service for a minimum fee of \$6,000 for a city of 100,000 population.

Lambro goes on to tell how Morris Siegel built a big company on his wife's herbal tea. His Celestial Seasonings now produces twenty-seven varieties of herbal tea and has branched out into herbal shampoo and conditioners. He refuses to install time clocks for his more than 200 employees.

Space doesn't permit me to recite more of Lambro's stories of "little people" who have started successful businesses. It's a cornucopia that Lambro offers. □

DECISION AT PHILADELPHIA: THE CONSTITUTIONAL CONVENTION OF 1787

by Christopher Collier and James Lincoln Collier

Random House-Reader's Digest, 201 E. 50th St., New York, NY · 331 pages, \$19.95 cloth

Reviewed by Robert M. Thornton

Ten years ago we celebrated the 200th anniversary of the Declaration of Independence in a spirited if not intellectual fashion. One hopes for a proper celebration in 1987 but I doubt there will be one because there is little "glamour" or excitement connected with constitution making. In contrast to revolutions it is a dull affair—dozens of questions to be asked, studied, debated, and voted upon.

Many compromises were necessary to write a constitution which would be acceptable to the fifty-five participants and the voters of the thirteen colonies. Each general subject opened the door to specifics. There were the issues of slavery, foreign and interstate trade, voting, the chief executive, congress, judiciary, armed forces, foreign affairs, national/state relations—the list is almost endless.

Perhaps the greatest problem for all the men in attendance was the challenge to form a government strong enough to enforce laws but not strong enough to become tyrannical. What developed was a system of checks and balances and a separation of powers to prevent any part of government from dominating the others.

The authors of this very readable volume set the scene for The Grand Convention and offer biographical sketches of the major participants—Washington, Madison, Hamilton, Sherman, the Pinckneys, Gouverneur Morris, Edmund Randolph, Elbridge Gerry and others. Most were influential, prominent and well-to-do; many were lawyers. There was a great variety in their personalities and characters, but all were independent thinkers. They labored to produce a constitution which would contain government within proper bounds, as befits a free people.

Two points stand out: first, these were men willing to split their differences; they were not

ideologues who would concede nothing. If these men had not made mutual concessions there would have been no Constitution and probably no United States of America as we know it today. The document is imperfect, of course, like everything in life. Second, the men at the Constitutional Convention understood human nature. As the book points out:

“The Constitution, beyond all else, was forged in the heat of human emotion. In the end it reflected, for good or ill, the human spirit. It worked because it was made by human beings for the use of human beings, not as we might wish them to be, but as they really were.”

The Constitution of the United States was made flexible on purpose. To have spelled out everything in detail would have been to draw up a document that would have been outdated in a few years. Brilliant men put together the Constitution, but none is so wise as to foresee the future. What we need to recapture is the spirit and intent of the Founding Fathers whose love of liberty underlay their remarkable work during a long, hot summer 200 years ago. □

(*Mr. Thornton resides in Lakeside Park, Kentucky.*)

THE ECONOMICS OF TIME AND IGNORANCE

by Gerald P. O’Driscoll and Mario J. Rizzo

New York University Press, 562 W. 113th Street, New York, NY
10025 · 1985 · 261 pages, \$34.95 cloth

Reviewed by Richard Ebeling

Austrian Economics, born a little more than a century ago, has always been “dynamic” and process-oriented in its approach. It has focused on man as actor and doer; it has emphasized the imperfection of human knowledge and the pervasive uncertainty surrounding human choice; it has analyzed the market as a rivalrous competition through which the plans of market participants are brought into harmony; and it has drawn attention to the problem of how market and social institutions emerge and evolve over time out of

the actions of many people without anyone planning their development.

A new generation of Austrian economists is taking the field and a series of important books and articles is flowing from their pens. One of these is *The Economics of Time and Ignorance* by Gerald P. O’Driscoll and Mario J. Rizzo. The first five chapters, devoted to subjectivism, knowledge, time, and uncertainty, are a frontal attack on the predominant view among economists that human choice and action should be analyzed as if they were nothing more than applications of mathematics and Newtonian mechanics to a particular problem, i.e., man as decision-maker in the social world.

The authors argue that man is something more than a particle of matter moving through space along a geometric time axis. Man is a creative being who imagines and makes his future in unexpected and unpredictable ways. As a result, man’s future is inherently unknowable because its direction and path only emerge out of the actions of individuals as they are confronted with new and unanticipated opportunities and obstacles.

Such things as uncertainty and possibility cannot be reduced to statistical probability alone; to be able to do so would imply that the knowledge that will emerge only through time can be known before it is experienced. Replacing the standard mathematical view of market equilibrium used by most economists with a concept of dynamic market coordination through time, O’Driscoll and Rizzo develop an analysis of how agents come to anticipate each other’s behavior in terms of patterns or types of human activity that become institutionalized in the market order.

The remaining four chapters apply these insights to the problems of competition; monopoly and government policy; capital and production in the market order; money and the business cycle. The central theme is Hayek’s idea that the market order should be viewed as a dynamic and never-ending discovery process for the dissemination and acquisition of knowledge and information needed for harmonizing the multitude of human plans being worked out under the social division of labor. In this context, the authors criticize the standard theories of competition and monopoly and demonstrate

the harmful and perverse effects of government regulation, intervention, and control.

The chapter on capital theory (written by Roger Garrison) lucidly outlines the nature and complexity of the production process in a developed market economy and how both the uses of capital and the rate of interest emerge out of the choices and preferences of the market participants. The crucial and delicate nature of the production process then serves as the background for O'Driscoll and Rizzo to explain the role of money in facilitating the smooth working of the intricate web of market relationships and to explain how monetary manipulation can distort market price signals and bring about a business cycle.

The Economics of Time and Ignorance both continues within and goes beyond the past contributions of the Austrian School. Its original and thought-provoking quality demonstrates just how alive and vibrant the Austrian tradition remains in economics. The book is a challenge and a standard for mainstream and Austrian economists alike. □

(Richard Ebeling is assistant professor of economics at the University of Dallas, Irving, Texas.)

POVERTY AND WEALTH: THE CHRISTIAN DEBATE OVER CAPITALISM

by Ronald H. Nash

Crossway Books, 9825 W. Roosevelt Road, Westchester, Illinois 60153 • 1986 • 223 pages, \$8.95 paperback

Reviewed by Richard A. White

Good intentions divorced from sound economic theory can produce disastrous consequences, and, according to Professor Ronald Nash, this is precisely the trouble with ecclesiastical pronouncements on social issues.

Nash approaches economics almost exclusively from the Austrian free market perspective, expounding such basic tenets as marginal utility, opportunity cost, and supply and de-

mand. His chapter on value provides a fine critique of cost of production theories and stresses the importance of the subjective theory—the theory that individual preferences determine the economic value of a good, not the quantity of labor it took to produce it. Nash is quick to point out, however, that “The price of an economic good reflects the extent to which individuals desire it; and this is something quite apart from the question of how desirable it is.” Subjective economic value does not exclude the possibility of objective moral precepts.

After explaining the basic operation of the market, Nash describes the unworkability of socialism. Relying on the early work of Ludwig von Mises, Nash demonstrates the impossibility of “rational” economic calculation in a socialist society. He criticizes “liberation theologians” for their futile attempt to synthesize Christianity with Marxism, concluding that their program is neither liberating nor theological.

In a later chapter, Nash discusses the biblical view of money and wealth. “Since the world is God’s creation,” he writes, “and since God placed us in such a close relationship to the material world, the creation and use of wealth is a perfectly proper activity.” Wealth is good, but as a means to other ends and not as an end in itself. Private ownership is necessary for the practice of Christian stewardship and the biblical requirement of private charity. The Bible in no way sanctions the redistributionist policies of the modern state. Prosperity is better than poverty in God’s material world, and the free market economy is the way to prosperity. But the market cannot thrive in a spiritual vacuum, nor in the absence of biblical standards of morality.

Nash provides an excellent introduction to free market economics within a biblical framework, as well as a penetrating and cogent study of liberation theology. In a day when socialist ideas are creeping into seminary classrooms and many church pulpits, Nash’s *Poverty and Wealth: The Christian Debate Over Capitalism* is especially welcome. □

(Richard White is a first-year student at Trinity Evangelical Divinity School, Deerfield, Illinois.)

THE FREEMAN

IDEAS ON LIBERTY

44 Goodbye, Mr. Chips: U.S. Creates a High-Tech OPEC

Michael Becker

A new government-enforced cartel will destroy competition in the semiconductor industry.

46 A Visit to South Africa

John Hospers

South Africa must have economic freedom—and prosperity—to assure its peaceful survival.

55 Social Theorists See Groups, Not People

Kenneth McDonald

Government transfer benefits seem to have little effect on income distribution.

57 The Worst Polluters

John K. Williams

Compelling evidence that environmental problems are not market-created phenomena.

59 The Political Economy of the U.S. Constitution

Dwight R. Lee

Reflections on the political and economic wisdom of our Founding Fathers.

70 Freedom in the Dock

Howard Baetjer Jr.

A spirited defense of *laissez-faire* capitalism.

72 The Politics of Deficit Spending

Hans F. Sennholz

Unbalanced budgets sanction wasteful expenditures, political “pork barreling,” and ever-increasing mountains of debt.

78 A Reviewer's Notebook

John Chamberlain

A review of “The Capitalist Revolution: Fifty Propositions About Prosperity, Equality and Liberty” by Peter Berger.

79 Other Books

“Will It Liberate? Liberation Theology and the Liberal Society” by Michael Novak.

CONTENTS
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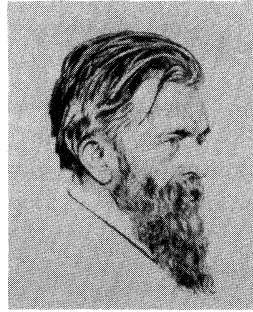
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PERSPECTIVE



Carl Menger



Eugen von Boehm-Bawerk

February Birthdays

Two men, both born in February, helped to make the modern market economy possible by explaining how the market functions—Carl Menger and Eugen von Boehm-Bawerk.

Carl Menger, born in the Austro-Hungarian Empire on February 23, 1840, bridged the gap between the Age of Monarchy and the Age of Liberalism. His *Principles of Economics* heralded a new approach to economics which lent support to the philosophy of limited government and individual freedom. For Menger, the individual was at the center of the economy. Economic values start with the wants and wishes of individuals. Entrepreneurs look to the ideas, values, and actions of consumers when deciding what, where, when, and how to produce. Carl Menger's theories lay the groundwork for the "Austrian School of economics" and for the modern defense of free markets.

Eugen von Boehm-Bawerk, born on February 12, 1851, also in the Austro-Hungarian Empire, followed in the Mengerian tradition. He was well known among his contemporaries for serving three stints as his government's Minister of Finance, 1895, 1897, and 1900-1904. However, his more lasting fame stems from his scholarly contributions to economic theory and to his explanation of the importance of capital goods, capital savings, and capital investments, all of which depend on the protection of private property and a market economy.

Menger and Boehm-Bawerk explained how people cooperate voluntarily to solve complicated problems. When people are free, they are

remarkably ingenious, innovative, resourceful, and cooperative. Given free markets and free market prices, they provide well for themselves and others. People need no government directives to make arrangements for obtaining needed resources, transporting them over vast distances, and transforming them into the goods and services consumers want. Menger and Boehm-Bawerk explained why freedom works.

—BBG

Rare Species Protected by Invisible Hand

Where can one find thriving populations of the following endangered species: Indian blackbuck, Sub-Saharan beisa oryx, Japanese sika deer, South African white-tailed gnus, Armenian red sheep, Moroccan aoudad, Nile lechwe, and Persian gazelles? The answer, according to *Sports Illustrated* (September 8, 1986): the hill country of Texas. On about 370 ranches, exotic species are raised for conservation purposes, for aesthetic reasons, and as game for hunters. A 1984 census counted 120,201 animals in 59 different species from all over the globe. Why are they doing so well in Texas though threatened in their homelands? Because in Texas, they are private property.

Paradoxically, where animals are privately owned and unprotected by law, they are often much more secure than when they are owned “by everyone” and in the care of government wildlife services. The paradox is not a matter of good and bad intentions or people, but of good and bad systems, of incentives to conserve or to despoil.

Under common ownership—where no one really owns at all—there is an incentive to get what one can before someone else gets it first. Hence resources tend to be depleted; animals are slaughtered indiscriminately. Government regulation often fails because wildlife officials have too little stake in doing their jobs diligently. Frequently they succumb to the temptation of payoffs from poachers. Many African wildlife services are said to be riddled with corruption, with officials sometimes killing the

animals themselves for the black market in horn and ivory.

Private owners, by contrast, have strong incentives to husband their resources. Since they reap the financial (and aesthetic) benefits of conservation and long-term planning, they conserve and plan carefully. The game herds are an important source of present and future income to hill-country ranchers, hence they carefully regulate the hunting on their lands. Only “bachelors” or aging males past their breeding years are taken as trophies, and the herds thrive.

The incentive structures of private ownership are crucial to conservation. The greater kudu and the beisa oryx, not to mention the deer and the antelope, play more securely at home on the private range.

—HB

Nothing To Do

In La Libertad, Mexico, employees at the state-owned sugar mill report to work every morning, sit around all day doing nothing, and then go home. But they still get paid.

The reason they have nothing to do is that the mill is officially closed—the government’s own price controls on sugar have rendered the mill unprofitable (*The Wall Street Journal*, October 13, 1986). But why are the workers still there? The government also has a policy of steep severance payments—it would cost too much to let the workers go. So the workers play cards, look out the windows, and wonder why their nation is so poor. Such is the tragedy of socialism.

—BJS

Alderbrook Seminar

FEE’s annual Northwest seminar will be held April 10-12 at the Alderbrook Inn on beautiful Hood Canal in Washington State. Dr. Stuart Pritchard is organizing the program. Speakers will include Dr. John Williams (just returning from Australia), Howard Baetjer Jr., and Greg Rehmké. For more information contact Dr. Pritchard at P.O. Box 4101, Tumwater, WA 98501, (206) 352-4884, or contact us at FEE.

Goodbye, Mr. Chips: U.S. Creates a High-Tech OPEC

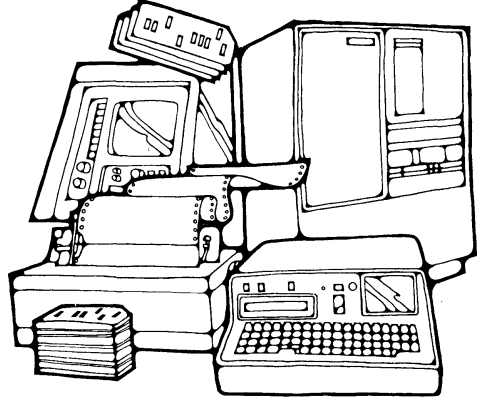
by Michael Becker

Playing a role usually reserved for Arab oil sheiks, the U.S. government recently created its own high-tech OPEC in the semiconductor industry. As a result, consumers will likely pay hundreds of millions of dollars more for home computers, videocassette recorders, microwave ovens, and other products which use computer chips.

The new government-enforced cartel results from a recent agreement on computer chip trade between the U.S. and Japan. The agreement, in effect, represents the Reagan administration's attempt to respond to Congressional pressure to "do something" about America's negative balance of trade figures. Egged on by the Commerce Department, an agreement has been produced which can only hurt American consumers, workers, and chip users.

The agreement has three major provisions. The two governments agreed to fix minimum prices for chips, assign market quotas, and guarantee that the Japanese would not undercut the agreement with sales in third countries. For those acquainted with OPEC, all of this should sound familiar. Price increases, market shares, concerns about "cheating" and being undercut through third countries—this is the jargon of a cartel.

The agreement already is causing chaos in the chip market. U.S. chip users, who have come to expect declining prices, have seen prices of some chips double and triple since the



agreement. Buyers faced with higher prices are cutting back on purchases. And as is often the case when government intervenes in the free market, the agreement will have several unintended consequences—consequences now beginning to show up.

One of these is reduced international competitiveness for American companies which use chips, such as computer and electronics manufacturers. American firms faced with higher domestic prices will relocate in other countries. Immediately following the agreement, Hong Kong and Singapore were described as "mob scenes" as U.S. firms attempted to find manufacturing space overseas to avoid the premium. This will mean a loss of American jobs.

Less visible will be the jobs lost in American firms who find it impractical to move overseas, but will be at a competitive price disadvantage against foreign companies with access to cheaper chips. This disadvantage will mean fewer sales; fewer sales mean fewer jobs.

In addition to these direct costs—higher prices, fewer jobs—the agreement has produced a variety of other unintended consequences. First, it will prove difficult to enforce. South Korea, for example, is not a party to the agreement, and South Korean manufacturers can undercut the cartel's price. The Japanese

Michael Becker is a policy analyst with Citizens for a Sound Economy. He is also a research fellow at the Center for the Study of Market Processes at George Mason University.

companies themselves have been accused of violating the agreement by "dumping" chips in third countries. It has also proved quite easy to attach chips to circuit boards overseas and then import them duty free. After all, the restrictions are on chips, not circuit boards.

The agreement has also produced a black market in computer chips—a black market that some estimate to be a \$1 billion-a-year business. Chip smuggling already is so rampant that domestic chip distributors on the spot market are finding that it is necessary to purchase smuggled chips to stay in business. The next stage of this game is now being played as the government sends out customs agents to "crack down" on illegally imported inexpensive chips.

When the agreement is circumvented, American consumers benefit. The danger is that the agreement's unintended consequences will simply lead to more protectionism.

The U.S. government has started down a course which will require more government intervention to deal with the consequences of the chip agreement. While the chaos in the industry may not reach consumers, higher prices will. Under the original terms of the agreement, for example, the price of imported Japanese 256K memory chips doubled from around \$2.40 to \$5.00. Consumer products which use chips—personal computers, VCRs, calculators, and home appliances—will cost more. The price of an average personal computer could rise by as much as \$45, experts believe.

The chip agreement was premised on charges raised in 1985 that Japanese chip producers were engaging in predatory pricing, that is "dumping" chips into the U.S. for less than it cost to produce them. The U.S. International Trade Commission (ITC) investigation which followed produced little or no evidence to

prove this. Japanese 256K memory chips, for example, prior to the agreement sold for \$2.60 in the U.S. compared to \$1.70 in Japan. Prices for Japanese chips overall were *higher* in the U.S. than in Japan. Despite this, the ITC simply inferred that because prices were dropping and U.S. firms were losing business, the Japanese were guilty.

The more plausible reasons for the drop in chip prices—declining demand and the obsolescence of some chips—were ignored. Also ignored was another factor which contributes to lower prices for chips: efficiency. The semiconductor industry has a "learning curve" which results in falling unit costs as producers accumulate experience in producing chips. The learning curve gives companies an incentive to price low and generate a high sales volume in order to "learn" how to produce chips more cheaply in the future. This price-cutting incentive has in fact been one of the driving forces behind the sharp price decreases and innovation which have characterized the industry.

Under the terms of the agreement, however, Japanese companies must price above the bureaucratically determined "fair price." Attempts to price low in order to take advantage of the learning curve are likely to be interpreted as predatory pricing by government regulators. As a result, this beneficial practice will be curtailed.

Essentially, the ITC and Commerce Department have declared illegal the very practices which have produced the high level of growth and innovation in the industry. In the long run, these new protectionist measures can only destroy the competition which has made the semiconductor industry such a dynamic and productive economic force. The industry and consumers can do without a government-enforced high-tech cartel. One OPEC is bad enough. □

Trade and Productivity

The rule to remember is that what hurts consumers hurts business, and what hurts business hurts proficiency. After all, what is proficiency? Simply the power to produce. The power to produce is best determined by free trade, and not by bureaucratic decree. The power to produce is a corollary of the power to trade. Thus the more trade the more production, and the more production the more trade.

—WILLIAM H. PETERSON

IDEAS
ON
LIBERTY



A Visit to South Africa

by John Hospers

The media create a misleading impression of life in South Africa. It's not that what they report is untrue; it is what they decline to report that distorts the picture.

I spent part of July and all of August 1986 in South Africa, under the auspices of the Free Market Foundation of South Africa, giving lectures and seminars at a dozen universities in Pretoria, Johannesburg, Cape Town, Stellenbosch, Durban, and Pietermaritzburg, as well as Namibia (Southwest Africa) and Umtata (in the "independent republic" of Transkei). I spoke with many people of various races and walks of life, and visited numerous areas, from rural black school districts to the private palace of the Anglo-American Oil Company. I walked the streets of cities for hours, meeting people and talking with them, trying to capture the ambience of each place and to sort out what were the sources of strife as well as of harmony, who was to blame for what, and how the problems could be solved or ameliorated.

Economic Inequality

To the outside world, the key word to describe what is wrong in South Africa is *apartheid*, which means simply that the races live apart. But apartheid by itself has very little to do with the current unrest in South Africa. If members of various races live apart by choice,

little can be said against it; it is *forcibly* living apart that is objectionable. This still occurs in South Africa, notably in suburban enclaves like Soweto near Johannesburg: blacks work in Johannesburg by day but must return to their dwellings in Soweto at night. Yet a great deal of apartheid has been changed since my earlier visit in 1983.

- A few years ago, theaters, some shops, and all restaurants were segregated. Now they are integrated, and few people seem to think anything of it.

- The mixed-marriage laws and pass laws have been repealed.

- Black families live in apartments in Johannesburg and other cities alongside whites, going to the same shopping places and films and living their lives much as whites do. When you walk the streets of the posh northern suburbs of Johannesburg, you see almost as many blacks as whites, going to work and entering and leaving their homes. This is strictly illegal, but nothing is done about it.

- Formerly the government built tract-housing for black settlements and rented them to black families. Now those families for the most part have 99-year leases, and for all practical purposes the homes belong to them. The result is a great increase in beautification—lawns, gardens, trees and shrubbery, newly painted houses—which always accompanies private ownership.

Yet the legalization of mixed marriages, integration of public places, and the abolition of the pass laws have had a much less positive ef-

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This article recounts experiences from Professor Hospers' six-week stay in South Africa last summer.

fect than the white population assumed they would. This, I think, is because the basic cause of unrest has not been touched by these measures. Blacks do not give first priority to social relations with whites. What affects them most is the unfairness of the laws and regulations which do not permit them to compete economically on an equal basis with whites or even with Indians. The desire to rise in life, and to provide adequate support for one's family, is constantly frustrated by the legal system. If apartheid were continued but economic opportunities for the races were equal, the current unrest would largely subside. But blacks are held back by government controls:

"If a white person wants to open a fish and chip shop in a white area, all he has to do is fill in a form, find a zoned business site, and sign a lease with the landlord. If he complies with health regulations, he is entitled to sell fish and chips. No one must approve of him as a person; no questions are asked about his nationality, competence, resources, or language. No bureaucrat decides if there is adequate 'need and desirability' for such a shop. Simply because he is a white in a white area, he is entitled as a right to run a fish and chip shop or almost any other business or industry.

"For a black, the situation is very different. Before he can open a fish and chip shop in Soweto, he has to ask an official for a site. The official may or may not grant his request, for reasons which he need not disclose. He may say "yes" because he likes the applicant, or is related to him, or because he has received a sufficiently generous bribe. He may say "no" for equally subjective reasons. Once the site has been granted, the potential entrepreneur has to apply to another official for a license. This may or may not be issued, for similar reasons. Then on to the health officials. And the building inspectors . . . until, many months and hundreds of rands later, he might be turned down for unspecified reasons.

"South African blacks today have no experience with laws which are equally applicable to all regardless of sex, creed, or color. What they experience now, from day to day, is arbitrary rule by men, a system which by its nature is rife with both real and suspected corruption. No self-respecting human being can be sub-

jected to such a system without feeling frustrated or angry." (Leon Louw and Frances Kendall, *South Africa: The Solution*, pp. 61-62. Amagi Publications Ltd., 1986).

An end to such discriminatory legislation would solve a large part of South Africa's problems in one stroke. Whether the government is at the moment prepared to do this is doubtful; but circumstances may yet force its hand.

The result would be beneficial to whites as well, for it would remove the enormous tax burden of caring for blacks at government expense. Six million taxpayers in a total population of 32 million sustain the entire remainder in a huge welfare state. South Africa is a $\frac{3}{4}$ socialist state, providing (however inadequately) for the daily needs of black housing, health, and education, at an enormous and ever-increasing cost. The facilities are far from equal, of course: black education is markedly inferior to white, in spite of vast increases of money spent on it—an increase of 2600 per cent for next year alone, I was told in Pretoria, enough to bankrupt the national treasury in a few years. (There are, of course, some black taxpayers as well, and the 12 per cent sales tax, up from 6 per cent three years ago, is imposed equally on everyone who buys goods.) Many urban blacks, however, are tired of being "cared for"—they want to make it on their own. What they suffer from is *black socialism*—being treated like children who cannot take care of themselves.

The irony is that blacks tend to associate the present system with capitalism, and therefore condemn it, often embracing socialism as the system that will cure their ills—little realizing that it is socialism that they have been suffering from all along, and that capitalism is their only means of rising out of their present situation, creating industries and jobs and allowing persons to rise to the limit of their abilities.

The government educational system is enormously frustrating to both whites and blacks. A school building is built in a black development; soon the windows are broken and the building vandalized. The government rebuilds it, and the same thing happens again. How often are the taxpayers of South Africa supposed to repeat this procedure? Whites are inclined to

argue, "If that's what they want to do, let them stay in their own mess."

But why do blacks do this? Because they see education as largely irrelevant to their needs. If at the end of schooling you can't get a decent job, the argument seems to be what's the use of education? Then one might as well destroy the buildings which are the symbols of what is being forced upon them. These actions are a response to black socialism, to which they have been subjected by the white government; but socialism is not the way they identify it. They identify it as a manifestation of white capitalism. Therein lies the tragedy.

The Clash of Cultures

The outside world pictures the blacks of South Africa as one unified force, opposed to whites and Indians. In fact, however, blacks are deeply divided along tribal lines. The Zulu dislikes and is suspicious of the Xhosa, the Xhosa dislikes the bushman, and so on, far more than any of them fears or dislikes the whites. Were it not for police intervention, there would be tribal wars and massacres as there have been for thousands of years.

Most blacks are quite non-political; they are much more interested in meeting their daily needs than in political action. They will not rise up against the whites unless they can be whipped into a frenzy by outside agitators. They are inclined to be easy-going, fairly passive, "mellow"—quite unlike the "edginess" experienced between the races in America. Violence is usually initiated by teenagers and children, whose parents are ashamed for them and apologize in the strongest terms for their behavior.

Most blacks who work for whites tend to be content with their lot. They are employed, and at much higher wages than they could obtain elsewhere. They will defend the whites against blacks of other tribes, toward whom they are openly hostile.

I was a guest at a dinner at which a black man was seated, and the black cook, after inquiring where he was from and what tribe he belonged to, refused to serve him at table. She continued in this refusal even though her job was on the line. She considered serving whites

to be her proper place, but she would have no truck with blacks of other tribes. She was somewhat reminiscent of the housekeepers in the old American South, as in *Gone With the Wind*.

One might say, of course, that blacks should not be in such a servile position. But economic non-discrimination would be the cure for that: as opportunities increased, fewer would accept servile jobs. But at present, with limited training and job opportunities (thanks to black socialism), the arrangement appears to be quite acceptable, indeed advantageous, to both blacks and whites.

Most rural blacks live much as they have lived for centuries, their tribal customs unchanged, the principal change in their lives being white medicine, modern homes, and the sale of their crops and wares to white customers. At the other extreme, a small percentage of blacks have become quite Westernized; these are the ones we see on American television. Between these extremes are the semi-urbanized blacks, with one foot in each culture—a background of tribal customs which goes with them constantly even while they are attempting to compete with white laborers in the job market. The lot of this third group is the most painful and trying—somewhat Westernized, yet unable to compete successfully in the white man's world.

Given a free enterprise economy, many of them would become able entrepreneurs. Some of them already are, in spite of the system: I met black landscapers and construction men who hired other blacks to lay tile and build swimming pools and maintain lawns and gardens, and these were affluent by any standard. These, of course, were the rare exceptions—and they had no use for political agitation. Most blacks, however, are still victims of the system, unable to make a good life for themselves. They care about their own chances of achieving a decent living much more than having a vote: When I asked "What would you rather have, the right to vote or an extra thousand rand a year?" the answer was always the same, and perfectly obvious.

The degree of tribalism, and the strength of tribal customs, are quite unfathomed in the West, and are never shown on American televi-

sion, although tribalism is the most potent force in Africa. The following are only a few examples of many (purposely diverse in character), told to me by white university professors, white missionaries and social workers, as well as by urban blacks.

- A man disappears from his home in a black settlement. The opposing tribesman who has killed him conceals his body in the refrigerator and each day he cuts off a piece and eats it. (Often he eats only the heart and the liver.) This is a common practice called "muti."

- A man comes home to find himself suddenly accused by other tribesmen of theft or adultery (whether truly or falsely). He is pummeled to death or fatally stabbed on the spot, while others dance over his corpse. Life is very cheap in Africa.

- A girl has had two sons, strong healthy children. A third son is born, but is dead within a few days. "What happened?" asks a white missionary. "He just died." The next year another son is born. "This time I will take care of him," says the missionary, and does so till the child is six months old, at which time the missionary has to leave, and places the child carefully in his mother's hands. When the missionary returns a few days later the new son is dead, again without explanation. The reason turns out to be that a third son is a liability to a family, and is killed. The first son takes over from his father; the second son is there to do so if something happens to the first son; but the third son if he later marries must present a dowry (unlike India, the dowry is contributed by the husband's family), and this often breaks the family financially. It is easier just to kill him.

- Most black education is performed by rote: a teacher simply reads out of a textbook. One geography teacher decides to explain the text instead of just reading it. But his pupils still fail the matriculation test at the end of the term. The students get together and decide that it's the teacher's fault for not going strictly by the text. They take the teacher out and kill him.

- At the home where I stayed in Johannesburg, the black caretaker was quietly reliable, like most African blacks more interested in tending the house than in the future of South

Africa. His predecessor in the job, however, had not been so fortunate: blacks from another tribe had seen him crossing a bridge one night, tied him up, lit a fire under him, and burned him to death.

White vs. Black?

Hundreds of tales like this are well known to both whites and blacks. They make many whites fear integration in the cities: with such tribal savagery so close to the surface, how could we but fear for our children going out at night? "Of course there has to be apartheid." Yet the victims of these brutalities are almost always blacks, not whites. And people with a long oral tradition do not part in a few years with the thousand-year-old habits and customs of their ancestors.

The white man's world is still strange and alien to those who live in the bush. "Let me take you to any black village," one lady said to me, "and I guarantee you will be a hero—as long as you can keep telling them stories about the world outside. They will revere you and defend you, and for years afterward they will tell tales about their great honor in having a white visitor from another land."

There is, indeed, a great reservoir of good will between the races in South Africa—much more than in the United States. I sensed this in the stories, on the streets, in endless conversations. Most blacks do not consider the white man their enemy. Some whites consider blacks to be slow and lazy—and of course some are; but a much more plausible conclusion is that the black is more deliberate, with less of a sense of urgency. He can remember incredibly detailed instructions without writing them down (the long oral tradition facilitates this).

Ten years ago all truck drivers in South Africa were white; today they are virtually all black, and doing a better job of it. There are many black trade unions, black mining engineers, black doctors and dentists. More South African blacks own cars than there are privately owned cars in the Soviet Union. Even so, the African black is still new to the technological civilization that the whites have built around him: South Africa's incomparable roads and skyscrapers, its mining and processing tech-

nology, its system of distribution and supply, are the equal of anything in the West. Blacks have been the *beneficiaries* of this civilization in the form of a higher standard of living and medical care than they would have had otherwise, but thus far they have not been sufficiently permitted to *participate* in it.

What of those who do not want to participate in it, but to remain with their tribal customs in the bush? One is surely inclined to say, "Then they should not be forced to be a part of the white man's civilization." They should not be forced to adapt to the white man's world if they choose not to. But there is one touchy problem here: what part should the white man's law, derived from Europe, play in the black man's culture? To a large extent the white man's law lets tribal custom go its way without interference. Yet in known cases of ritual murder or human sacrifice, shouldn't the perpetrators of such acts be arrested and charged with murder?

If the law does not intervene, the world will say that white law enforcers do not care about human lives as long as they are the lives of blacks. If the law does intervene, headlines will scream round the world, "White policemen molest blacks in South Africa." Whether the law takes the attitude of "let it be" to tribal customs, or whether it attempts to intervene at least in the clearest cases of tribal savagery, either way it will be the loser in world opinion.

The Solution?

Perhaps the greatest mistake in South African history was the creation of one nation, the Union of South Africa. With such deep cultural and moral divisions, how could one nation ever be generated from such a mix? Those who came to America came largely from Europe, and shared a European culture and morality. But those who came together in Africa had no such common bond.

What then is the solution? A very plausible one has been proposed by Leon Louw and his wife Frances Kendall in their book *South Africa: The Solution*, which is now the No. 1 best seller in South Africa and has been read by cabinet ministers and referred to by the Prime Minister himself, and is creating a great ferment in the entire country. Many whites who



Aerial view of Durban City, Natal.

had planned to leave South Africa have stayed because of the book. They now see hope in the book's proposed *canton* system, like the one Switzerland has had for eight centuries.

The nation would be subdivided into semi-autonomous states or provinces, divided along roughly tribal boundaries. There would be a very limited central government concerned only with a few matters such as currency and national defense, but the laws would vary from province to province. Some whites, of course, would have to move if they didn't like the laws of the largely black province they were in, and the same with blacks. But moving about is preferable to civil war.

Provinces with a free enterprise economy would soon be more prosperous than socialist provinces that might exist nearby, and would attract more people toward them. Meanwhile a national constitution would prohibit discrimination on grounds of race, color, gender, or religion, would ensure a universal franchise, would protect property rights and civil liberties, and guarantee freedom of movement and association.

"One person, one vote" is chanted by many Westerners who know little about South Africa. Those in the bush do not know what a vote is. For those who do, it means going along with what the chief says: a black lady I spoke with had been wronged by her chief, but kept insisting "You can't go against your chief," indicating that I simply did not understand. Many whites fear that with a five-to-one majority blacks will vote for anyone who promises them the advantages that white civilization has achieved, without knowing yet how to sustain

it. They fear a future of "one man, one vote, once."

What most whites fear is that, given unlimited and centralised political power of the kind that whites have held and abused, blacks will evict whites from their homes, nationalise their businesses and loot their property in an orgy of redistribution and revenge. But there is a good deal of evidence to suggest that this fear is more imagined than real.

True, there are many articulate political leaders who speak openly about the day of reckoning when AZAPO would restore the land to its "original owners," and the ANC to "those who work it" in terms of the Freedom Charter. A handful would like to see a fully-fledged Marxist dictatorship with no private property at all. But the majority of blacks seem to want no more than the removal of all barriers to black advancement and enfranchisement. . . .

None of the four independent homelands have adopted the policies whites most fear. They have all repealed all race laws, but none have espoused Marxism. Bophuthatswana and Ciskei have recently taken major steps to free their economies. . . . (Louw and Kendall, *South Africa: The Solution*, pp. 168-9.)

One advantage of Louw and Kendall's solution is that economic freedom would come first—hopefully at once; and then, when there are a number of prosperous black entrepreneurs, they will not vote to Sovietize South Africa, for by that time they will have a stake in their country and will have too much to lose.

Threats from the Outside

White South Africans have watched closely the fate of the "developing nations" of Africa. They have seen one nation after another turned into a one-party state—dictatorships in which the fruits of white civilization were promised to all, property confiscated, billions going into the dictator's Swiss bank account, the rest redistributed in a vast welfare scheme in which there was no "welfare" because without incentives there soon was nothing left to distribute.

Successive dictatorships in Uganda, Tanzania, and other central African nations have killed millions of people. Mozambique, once a prosperous nation under Portuguese rule, is now an economic basket case. In the midst of rich natural resources and good soil, hunger and starvation are now rampant, the economy totally destroyed, and hordes of starving families cross the border into South Africa to find food and sanctuary.

Zimbabwe is already in effect a one-party state, whose dictator, Mugabe, is systematically exterminating the minority tribe, the Matabeles. In Zimbabwe today there are no jobs to be had: I talked with several illegal aliens from Zimbabwe who worked as gardeners and small tradesmen in Johannesburg, sending their wages back to Zimbabwe to support a dozen or more family members and relatives.

Refugees from other nations continue to pour into South Africa; even with racial discrimination they can earn many times what they can in their home countries, when they find employment there at all. Without South Africa many of these people literally would starve.

South Africans wonder why the world has a special animosity towards them. Every time there is even a small amount of violence—often genuine but sometimes staged for the benefit of cameramen who have placed themselves in a convenient location—it is highlighted that night on the world's television screens.

When thousands are slaughtered in Uganda or Zaire, no cameramen are there to record it, and it passes almost unnoticed. "If there are no pictures, there's no news"—and thus America knows nothing of Soviet labor camps or Vietnamese "re-education centers," for no one is permitted to come close enough to photograph them.

Yet it is South Africa, still a relatively open society in spite of censorship, that comes in for selective indignation. Perhaps it is because "more is expected" of white people than of black. But is that not itself a form of racism?

Why should nations in the Soviet orbit receive preferential trading conditions while South Africa is punished? Why does Zimbabwe, a police state in which a single comment against the government can result in im-

prisonment incommunicado for six months or more (we were warned before entering Zimbabwe to think what we wished, but to say nothing), still receive American aid, while sanctions are imposed on South Africa? Racial problems in the United States took centuries to resolve, and are not entirely resolved to this day, yet South Africa is expected to solve its problems by tomorrow morning.

A professor from the Netherlands gave a series of lectures at the University of the Witwatersrand when I was also lecturing there, and was notified by his home university that because he had spoken in South Africa his academic tenure would be broken. South Africans cannot get passports to many European nations because of its "racist policies," but dignitaries from other nations which are slaughterhouses have no troubles in this regard. "If you impose sanctions," I was asked, "why don't you do it across the board, first to countries that systematically kill all dissidents?"

I spent a week in Namibia, where everyone is officially in favor of independence from South Africa. (Namibia has had no apartheid for ten years, but this has made little difference: only economic opportunity can offer advancement.) Yet more than half the Namibian economy is sustained by transfusions from South Africa.

The Namibian Minister of Transport in Windhoek showed me a huge map projecting his favorite dream: a railroad going from Walvis Bay on the west coast, east through Namibia and Botswana, ending in Zimbabwe: "then we could be independent of South Africa." Unfortunately the building costs of this project would amount to well over a billion rand, and where would such an infusion of capital come from but South Africa, whose G.N.P. is more than that of all the other nations of Africa combined? Similarly, the impressive University of Umtata in the black republic of Transkei, where I gave three lectures, was built entirely courtesy of the South African taxpayers.

Yet South Africans are well aware of international threats. Armed insurgents from Angola continue to harass the residents of northern Namibia, though the influence of SWAPO seems to be on the decline: the Ovambi



Soweto, South Africa.

tribesmen (over 60 per cent of the population of Namibia) don't want their property nationalized, and the word has finally got through that that's what SWAPO is all about. Today an Angolan infiltrator into their midst can figure on a life-expectancy of no more than a week (So I was told in a military briefing in Windhoek to which I was invited, along with French and German diplomats.)

But conditions along the border with Mozambique have not similarly improved. Soviet-financed terrorists continue to make armed raids into South Africa. In the northern province of Venda, the chief fear of native families is not from South Africa but from Mozambique: terrorists capture children in school or on the way home, kidnap them and take them back into Mozambique, and they never are seen again. When the South African army retaliates by raiding terrorist bases in Mozambique, it is excoriated in the international press for venturing outside its borders.

South Africans follow closely the progress of Soviet trouble-making in Africa—the killing of dissidents and minorities (to fan racial hatreds), the slaughter and systematic starvation of innocents, the random imprisonments, and the kidnaping of children, taking them through Dar-es-Salaam to Siberia or North Korea to give them training in terrorist tactics against South Africa.

The African National Congress (ANC) is a divided organization. Some of its members desire only racial equality in South Africa. But the majority—so believe most of those with whom I spoke—do not want any improvement of conditions in South Africa: They want things to get worse, so that the entire social fabric of South Africa will be destroyed in a civil war and a new communist nation founded on the

ashes of the present one. As for Nelson Mandela, the usual view was "if he is released he won't last a week unless he turns to Butholezi" (the moderate Zulu chief, who may be the main hope for South Africa, but is seldom mentioned on American television)—because Tambo (head of the ANC) would not tolerate any competition for his leadership.

If civil war should come, it will be instigated by outsiders bent on the destruction of the entire society (including all races), not from within—this was the verdict of virtually everyone with whom I spoke.

As one surveys the thousands of people walking the streets of Cape Town and Durban and Johannesburg, one finds it difficult to imagine how a black take-over would ever be attempted, or how it could succeed if it were. Here are thousands of black faces expressing no hatred or resentment or malevolence; these are people going about the daily business of life, under conditions which in spite of world headlines are gradually improving. Further improvements, such as deregulation and the abolition of discriminatory legislation, could be initiated tomorrow by act of Parliament. Others, such as satisfactory education for black youths, would take many years to achieve, and probably cannot be achieved at all through the public school system.

Reflecting on all this, I thought of the black shopkeeper in nearby Randburg, with whom I talked often, helpful to a fault, who bore no ill will toward anyone: ten years ago a white customer would have been unlikely to shop at a store serviced by blacks, but no more. I thought of the white plumber I spoke with, who still goes alone to Soweto every working day to install pipes and bathrooms, with no fears for his safety. I thought of the white South African soldiers on leave entering a bar in Durban, not joining other white soldiers from the Transvaal for a drink because they preferred to drink with their black Durban friends.

The world underestimates the residual good will between the races in South Africa, which makes the streets of South Africa safer than those of any large American city. The very existence of this benevolent attitude is difficult to believe by those who are the victims of selective reporting by the American media, but the

awareness of it is inescapable once one has tasted everyday life in South Africa as it is actually lived, not as it is contrived by reporters who report only the outbreaks of violence.

The Effects of Sanctions

Many nations have imposed sanctions against South Africa in a show of moral indignation against apartheid. The sanctions are an attempt to punish South African whites; in fact, however, it will punish principally South African blacks. As one foreign company after another pulls out of South Africa, there will be massive unemployment—and who will be the first to be unemployed? The unskilled laborers, of course—and at the moment these are mostly blacks. They are the ones who will suffer the brunt of the foreigners' indignation.

Many foreigners know this, of course, but they appeal to what they think is the will of their constituencies (fanned by selective media coverage). Talk is cheap, and the foreigners will be no worse off because of black poverty in South Africa which their actions will cause. They may even feel a pleasing tinge of moral righteousness for doing what they do—they have spoken their piece, and the consequences will not fall on *them*. The very persons they officially wish to help are the ones who will suffer the most. Many people will starve because of the imposition of sanctions.

Sanctions will also seal the fate of the thousands of blacks who pour into South Africa from the economically depressed nations to the north. They will be sent back to their native countries, since there will be no more jobs for them in South Africa. What will happen to the starving hordes pouring in from Mozambique, who now flee into South Africa for food and sanctuary? After sanctions, they will no longer be able to be absorbed into the South African labor force, and will be forced to return to the nations from which they have fled.

Dr. Christian Barnard of Cape Town, the originator of heart transplant surgery, recently wrote in the *Sunday Times* (Johannesburg, August 3):

Starvation means more than just pangs in the belly. It is the terrible agony of a body liter-

ally cannibalizing its own tissues as it fights off death. Perhaps you think you've seen it all on television documentaries of famine. Be assured that the reality cannot be captured on film. There is a stink to starvation that doesn't show on a television screen. It assaults the nostrils and revolts the stomach—a smell you can never forget: the stench of obscenity. Never mind all the other uses of the word. Once you see a starving child you know the real meaning of obscenity—a condition which is an affront to all humanity.

It is then that another emotion takes over—anger; a kind of white-hot fury at the conditions which allowed this to happen. There is a need to look for a target—to find something to smash, someone to blame. . . . I feel that anger when I read of churchmen who call for economic sanctions. I try to believe that, like the Roman soldiers who crucified Christ, they know not what they do.

But belief comes hard when you consider that those who ask for the bread to be taken out of the mouths of other people's children know their own will never suffer. No churchman's salary will stop when trade comes to a halt. Priests and prelates, like the lilies of the field, toil not for their cash. It comes to them on a silver plate. And it keeps coming whether the stock market rises or falls. When the sanctions bite, no one will knock on the door to repossess the furniture. The cars in the garage will be safe and the church will not call in the mortgage on the rectory, the manse or the deanery. Bishops will be safe, too. Princes of the church live in palaces where sanctions don't apply. Church walls are thick. Especially high church where they build monuments of dead stone to a living God. It's hard to hear the cries of the unfed when you're inside.

Southern Africa is home to more than 60 million people. A quarter of the population are below the age of 14. Let me spell it out. Sanctions, which is just another word for starvation, will place 15 million children under the threat of famine. Politicians throughout the world have voted for this appalling project, but nobody asked the children . . .

I can offer sanctions-loving churchmen a thought. It is a short step from being the Lord's Anointed to believing oneself God's Mouthpiece, but would the Almighty really risk the life of a single child—just to replace a white Caesar with a black one?

What is needed, of course, is an increase in the number of available jobs; but as long as sanctions are in effect, any such increase will be impossible. Without capitalism (including free trade) a nation cannot enjoy the fruits of capitalism—prosperity. "The fruits we require," wrote Barlow Rand chairman Mike Rosholt in the *Pretoria News* (July 11), "will have to be in the form of a very much larger cake than we have ever been able to produce, even in relatively good economic times, because it will have to fund the reforms already announced to produce a considerable backlog of jobs and to satisfy black demands for a more equitable distribution of national income. All this without permanently damaging the private sector and killing all individual initiative. We shall certainly not produce that larger cake in the recessionary conditions we now face."

The Prospects

What South Africa now needs is economic prosperity, a prosperity that will be impossible as long as sanctions continue. With growing prosperity, an improvement in the lot of the blacks would come, particularly in the wake of deregulation and decentralization—something the government has not proceeded with fast enough, but which the necessities of peaceful survival will increasingly force upon it.

Meanwhile, the future is clouded. With foreign backing, the ANC will be strong enough to plant bombs in the cities and create conditions of terror which will bring all improvements to a halt. With enough foreign assistance, such organizations will in time be able to make South Africa at least as uncomfortable as Northern Ireland. Then there may be enough violence to satisfy even the international media—and the billion or so dollars per year that the Soviet Union spends on the disruption of South Africa may prove to have been well worth the price they have paid to bring it about. □

Social Theorists See Groups, Not People

by Kenneth McDonald

The redistribution of income has become such a major activity of modern governments as almost to dominate the political scene. In 1986 transfer payments of one kind or another consumed nearly half of the United States' Federal spending and more than half of Canada's.

In fact the "principle of making equalization payments" is embodied in the Charter of Rights and Freedoms which now is part of Canada's Constitution.

The idea of lessening the disparity between people's incomes appeals naturally to social theorists. The "society" they study is an abstraction to which they impute properties that are both individual and personal.

The assumption is that if people are poor it is not because they are lazy, or incompetent, or lacking in marketable skills, but rather because society has failed them. Consequently it is up to society to remedy the matter; its agent the State must be called in to do the job.

If that theory were still to be tested, governments' preoccupation with applying it could perhaps be understood. Instead it has been tested, and the results are available.

In 1984 Statistics Canada published a pamphlet (*Charting Canadian Incomes, 1951-1981*) which showed that the share of income among population groups has been stable over the three decades 1951 to 1981.

"We have divided the population into five equal groups from lowest to highest income.

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Each income group represents one-fifth of all families and unattached individuals. We find that the share of income for each group is the same in 1981 as in 1951 when income (including social benefit payments) is considered. The lowest income group, for example, had 4% of income both in 1951 and 1981. This means that although each group's income has increased substantially, there's been no movement toward greater equality between groups."

No doubt social theorists will take the passage in parenthesis as evidence that had it not been for the social benefit payments, the disparity between income groups would have been greater.

They could point, for example, to other tables in the pamphlet which show that social benefits have become increasingly important for the lowest income group and for the elderly.

Between 1951 and 1981, social benefits as a percentage of income in the lowest income group rose from 29 per cent to 57 per cent. Among the unattached elderly, the percentage rose from 47 per cent to 50 per cent; among elderly couples from 26 per cent to 36 per cent. Those percentages are considerable; without the benefits it appears that the lowest group would have fallen further behind.

But wait. These are equalization payments and the object of the exercise was to produce greater equality between the groups. That didn't happen despite the fact that during the same period social benefit payments were raised substantially. In the past 20 years the proportion of Canada's federal government

spending on social programs has risen from 25 to 42 per cent.

Consequently it's hard to escape the conclusion that if the social benefits had not been there many of the individuals who make up the lowest income group would have worked harder to increase their incomes and put more aside for retirement. Some might have moved up into the next group, others would have worked hard to stay in place.

Similarly at the other levels, where social benefits make up smaller percentages of total income (e.g., increasing from 5 to 9 per cent in the middle group and from 2 to 3 at the top), the fact that they were present was a disincentive to increasing earnings or savings.

In short, government transfer benefits seem to have little effect upon the bell-shaped curve of income distribution.

However, the availability of benefits affects the behavior and attitudes of people, which in turn affect their incomes. The groups are composed of individuals, each of whom is unique, a fact that tends to be overlooked by the theorists who deal in statistics. It's the groups they are concerned with.

Nevertheless the individuals are affected. Assurance of the benefits affects behavior in two ways.

First is the material disincentive mentioned above: a lesser inclination to increase earnings or savings, compounded by a tax burden that is seen as funding the benefits. Second is the moral effect.

Frederic Bastiat wrote that "The law can be an instrument of equalization only as it takes from some persons and gives to other persons. When the law does this, it is an instrument of plunder." (*The Law*)

Recipients of the benefits are beneficiaries of plunder. Consciously or not, and regardless of the differing proportions of income they are obliged to contribute through taxes, they are accepting something that has been taken from someone else.

Sooner or later whole populations are involved. Even people whose incomes are below taxable rates are paying through consumption taxes.

This engenders a sense of entitlement to benefits that no one has any way of relating to what

they, as individuals, have contributed. Rich or poor, it is their due. It is also something, if not for nothing, then often for very little.

It is in this divorcement of effort from reward that the danger lies. It is as close to cheating as makes no difference. The cheating may be done by the State but the citizens are party to it.

To illustrate: A friend advised a major oil company about "downsizing" so as to adjust to declining business. He noticed that quite senior people who had accepted early retirement on generous terms, including capital settlements, were being inconvenienced by having to drive their Cadillacs to the local unemployment office in order to draw the benefits they were entitled to for 52 weeks after being "laid off."

The same friend took his lawnmower to the local small engine expert and asked where the expert's assistant was. "Oh! He's off for six months, drawing unemployment insurance." The assistant immigrated to Canada some years ago from Eastern Europe, examined the social security arrangements, and decided that if that was the way Canada set the rules he would be foolish not to play by them. So he uses the six months "lay-off" to work around his house and add to its value, which at the time of writing is about C\$285,000.

Now you could say that the former executives of the oil company are not cheating; they are collecting what the law provides. It is the law that is at fault. But they are already compensated, and generously, for their severance. Do they not feel a twinge of conscience? Perhaps not. The State's intrusion has blunted it.

The lesson is drawn more plainly from the former European. He had grown up behind the Iron Curtain, where the State is sole employer, and cheating it is less a moral issue than an ingredient of survival.

These examples reveal the flaw in social theories of redistribution. It rests in their separation of donor from beneficiary, of effort from reward, and in the merging of individuals into groups.

Bastiat had the sense of it when he wrote of persons, of the law taking from some and giving to others. It is when decisions are removed from persons and are made for them collectively that the trouble starts. □

The Worst Polluters

by John K. Williams

Opponents of the free economy long have asserted that environmental pollution is caused by the market system, and have claimed that any person concerned about the environment must opt for some form of statism.

Unfortunately, most defenders of the market fail to address such criticisms. In fact, many would-be defenders do more harm than good. For example, some defenders respond to environmentalist critics by claiming that the benefits of modern technology and the market "outweigh" environmental costs. Other defenders of the market respond by ridiculing a concern for the environment, implying that environmentalism is a form of human folly. Another response argues that industrial pollutants are minuscule compared to the pollutants nature releases into the environment.

Some of these responses may have limited merit. What is disturbing, however, is the tacit admission by many proponents of the market economy that environmental pollution is, alas, an undesired but somehow inevitable accompaniment of free enterprise.

Hence a simple question: Is pollution a natural result of the capitalist system?

If the free market is responsible for pollution, one might reasonably expect that socialist economies would be characterized by an absence of pollution. The reality, however, is otherwise.

Recent accounts from Poland, for example, paint a picture reminiscent of Dickensian portrayals of the Industrial Revolution. According to the Polish Ecological Club, an informal organization of environmental scientists, chemical pollution in the industrial Katowice region

of Southern Poland constitutes a problem of horrendous proportions. Garden soil samples reveal a lead content of up to five hundred times the national limit. Farms near the Lenin Steelworks have been so poisoned with heavy metals that such traditional crops as sugar beets and green vegetables have had to be abandoned. The lead content in salad greens was found to exceed the safe human limit twenty-one times.

Consider the following report on the situation in Cracow:

Acid rain dissolved so much of the 16th century Sigismund Chapel of Walwel Cathedral that it recently had to be replaced. The chemical used to dissolve gold in the chemistry laboratory is aqua regia . . . a mixture of concentrated hydrochloric and nitric acids. . . . Something not unlike aqua regia falls daily in the Cracow rains, . . . convert[ing] the chapel's original gold roof into soluble chlorides. (Lloyd Timberlake, "Poland—The Most Polluted Country In The World?" *New Scientist*, October 22, 1981)

The situation in the Soviet Union is also grim. Indeed, the lakes and seas of the U.S.S.R. are more polluted than in any capitalist nation. Lake Baikal in Siberia is all but destroyed. The salinity of the Caspian and Aral Seas has risen alarmingly, with much water having been diverted for irrigation and hydroelectric projects. The problem has been compounded by feeder rivers which have been described as "little more than open sewers." (See F. Singleton (ed.), *Environmental Misuse in the Soviet Union* [New York: Praeger Publishers, 1976] and Marshall I. Goldman, *The Spoils of Progress: Environmental Pollution in the Soviet Union* [Cambridge, Mass.: Massachusetts Institute of Technology Press, 1972.])

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Conditions are no better in communist China. Chinese leader Deng Xiaoping recently conceded that, under Chairman Mao, environmental devastation was rampant, with many forests being reduced to deserts, over eight million acres of the north Chinese plain being made alkaline and thus unproductive, and pollution of rivers so hampering fish migration that fish for a time all but disappeared from the national diet. (J. Erikson, "Candour From China," *The Australian*, March 3, 1984; compare *China News Analysis*, October 6, 1978, December 1, 1978, February 16, 1979.)

Socialist reality shatters the fantasy that environmental problems in general, and pollution in particular, are market-created phenomena.

Property Rights

The Industrial Revolution led to widespread pollution in the form of factory smoke. Common Law, however, provided a framework within which the victims of such pollution could seek redress. *All that was required was the enforcement of private property rights through, for example, the tort of nuisance.* Air pollution affecting the person or property of a given party clearly constituted a nuisance against which the victim should have been able to sue for damages.

But it was feared at the time that industrial progress would be impeded if the courts, relying on Common Law, defended the property rights of individuals, with industries paying appropriate damages. Thus, governments deliberately altered the laws relating to nuisance, negligence, and trespass. Private entitlements to clean air were transferred to the so-called "public domain" where, not surprisingly, they were effectively appropriated by industrialists. The sorry tale is told in an admirable paper by Joel F. Brenner: "Nuisance Law and the Industrial Revolution." (*Journal of Legal Studies*, 1974) and in Morton J. Horowitz's volume, *The Transformation of American Law, 1780-1860* (Cambridge, Mass.: Harvard University Press, 1977)

The effects of this dramatic change were singularly unfortunate. By declaring air a "public good" government made it possible for industrialists to impose the appalling costs of pollu-

tion upon the men, women, and children whose persons and property were invaded with impunity. Furthermore, the absolution of polluters from responsibility for the costs of their activities meant an absence of any economic incentives to develop non-polluting technologies.

The crucial point is disarmingly simple. Horror stories about pollution typically focus upon what people are doing to the air and to rivers, lakes, and oceans. It is no accident that these resources are "unowned," having been assigned by governments to the "public domain."

What to do? One might lament a lack of "social responsibility" on the part of polluters. One might fantasize that some as yet untried variant of the socialist formula will lead to the evolution of a "new humanity" regarding pollution with abhorrence. However, one *cannot* assert that the free market in a free society is responsible for pollution. Pollution exists in precisely those areas where the free market, depending as it does upon precisely defined and efficiently enforced private property rights, has not been allowed to operate. It is the absence, not the presence, of the free market that can be cited as a cause of pollution!

Conclusion

It is interesting to consider how the free market in a free society might address the problem of pollution. Clearly, a vital first step is a return to Common Law and the vigorous enforcement of private property rights. The laws of trespass, negligence, and nuisance to remedy the invasion of an individual's person or property by smoke, chemicals, noise, and so on would do much to resolve the problem. No less important would be the development of private property rights in hitherto "unowned" areas.

Yet interesting though such considerations might be, they are beyond the scope of this article. What is luminously clear, however, is that far from pollution problems being a natural result of the capitalist system, such problems can and must be ascribed to past and present statist interventions in the market. To the charge, "Capitalism pollutes!" the only informed response can be: "Not guilty!" □

The Political Economy of the U.S. Constitution

by Dwight R. Lee

During the bicentennial of the U.S. Constitution it is appropriate to reflect on the political wisdom of our Founding Fathers. No written constitution in history has established a more durable or successful democracy than has the U.S. Constitution. A full appreciation of the Founding Fathers, however, requires an understanding of the economic as well as the political consequences of our Constitution. Every economy is a political economy and the enormous success of the U.S. economy has been as dependent on our political system as on our economic system.

Indeed, many of the problems that currently plague the U.S. economy are the result of our failure to hold on to the political wisdom that guided our Founding Fathers. Economic knowledge is obviously important in the effort to promote economic growth and development. But no matter how sound our economic understanding, economic performance will continue to suffer until we once again recognize that political power is a force for progress only when tightly constrained and directed toward limited objectives.

The genesis of the political and economic wisdom of our Founding Fathers is found in the fact that they distrusted government while fully recognizing the necessity of government for a beneficent social order. The cautious embrace the Founders gave government is reflected in

their view of democracy as necessary but not sufficient for the proper control of government.

The concerns that led to the colonists' break with Great Britain were very much in the public mind when the Constitutional Convention met in Philadelphia during the summer of 1787. The well known prerevolution rallying cry, "No taxation without representation," reflected a clear understanding of the dangers that accompanied any exercise of government power not answerable to those who are governed. That the government established by the Constitution would be democratic in form was not in doubt. Unchecked democratic rule, however, was anathema to the most thoughtful of the Founding Fathers. A grievance against English rule rivaling that of "taxation without representation" concerned the sovereign authority assumed by the English Parliament in 1767. In that year Parliament decreed that, through its democratically elected members, it had the power to pass or strike down any law it desired. The colonists had brought with them the English political tradition, which dated back at least to the Magna Carta of 1215: the people have certain rights that should be immune to political trespass regardless of momentary desires of a democratic majority. The concern was not only that the colonists were unrepresented in Parliament but, more fundamentally, that Parliament assumed unlimited power to meddle in the private lives of individuals whether represented or not.

Although the Founding Fathers were determined to establish a government that was democratic in the limited sense that political decisions could not ignore citizen input, they had

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no intention of creating a government that was fully responsive to majority interests. In many ways the Constitution is designed to frustrate the desire of political majorities to work their will through the exercise of government power. The most obvious example of this is the first ten amendments to the Constitution, or the Bill of Rights. These amendments guarantee certain individual freedoms against political infringement regardless of majority will. If, for example, freedom of speech and the press was dependent on majority vote many unpopular but potentially important ideas would never be disseminated. How effectively would a university education expose students to new and controversial ideas if professors had to submit their lectures for majority approval?

Other examples exist of the undemocratic nature of the government set up by the Constitution. There is very little that can be considered democratic about the Supreme Court. Its nine members are appointed for life, and their decision can nullify a law passed by the Congress and supported by the overwhelming majority of the American public. In a five to four decision one member of the court, insulated from the democratic process, can frustrate the political will of a nearly unanimous public. The arrangement whereby the President can reverse the will of the Congress through his veto power is certainly not a very democratic one. Neither is the Senate where the vote cast by a senator from Wyoming carries weight equal to the vote by the senator from California, even though the California senator represents a population fifty times larger than does the Wyoming senator. The senators from the twenty-six least populated states can prevent a bill from clearing Congress, even though it has incontestable popular support in the country at large. Congress is actually less democratic than just indicated once it is recognized that popular bills can be prevented from ever being considered in the full House of Representatives or Senate by a few representatives who serve on key congressional committees.

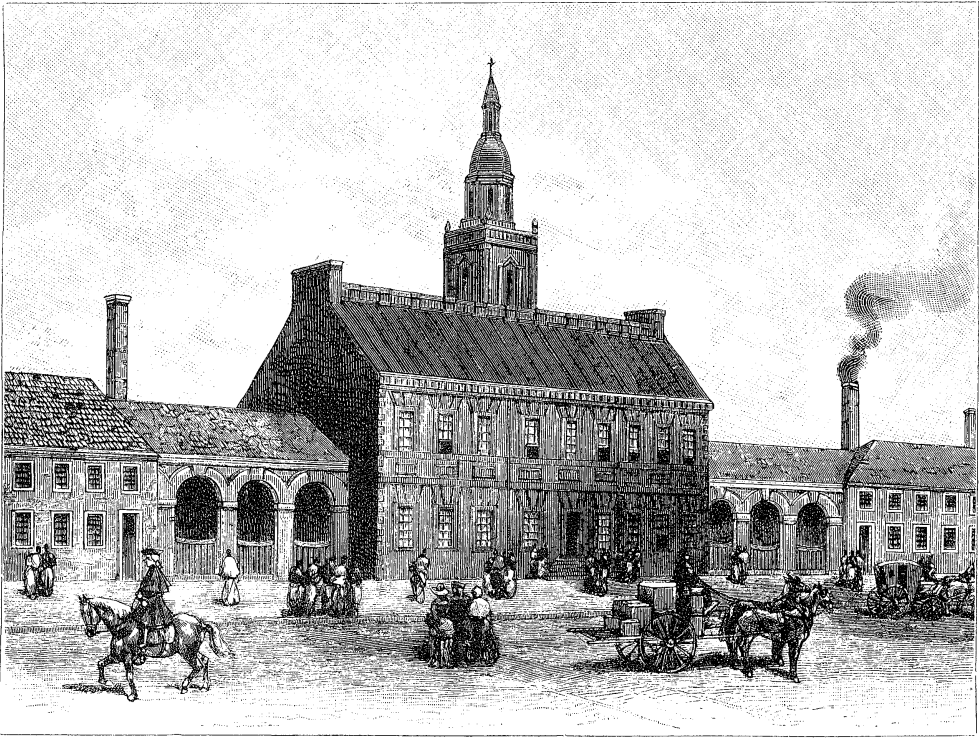
It is safe to say that the chief concern of the framers of the Constitution was not that of insuring a fully democratic political structure. Instead they were concerned with limiting government power in order to minimize the abuse

of majority rule. In the words of R. A. Humphreys, "they [the Founding Fathers] were concerned not to make America safe for democracy, but to make democracy safe for America."¹

Prelude to the Constitutional Convention

Fear of the arbitrary power that could be exercised by a strong central government, democratically controlled or otherwise, was evident from the Articles of Confederation. The Articles of Confederation established the "national government" of the thirteen colonies after they declared their independence from England. There is some exaggeration in this use of the term national government, since the Articles did little more than formalize an association (or confederation) of thirteen independent and sovereign states. While the congress created by the Articles of Confederation was free to deliberate on important issues and pass laws, it had no means of enforcing them. The Articles did not even establish an executive branch of government, and congressional resolutions were nothing more than recommendations that the states could honor if they saw fit. The taxes that states were assessed to support the Revolutionary War effort were often ignored, and raising money to outfit and pay the American army was a frustrating business.

Because of the weakness of the national government, the state governments under the Article of Confederation were strong and often misused their power. Majority coalitions motivated by special interests found it relatively easy to control state legislatures and tramp on the interests of minorities. Questionable banking schemes were promoted by debtors, with legislative assistance, in order to reduce the real value of their debt obligations. States often resorted to the simple expedient of printing money to satisfy their debts. Trade restrictions between the states were commonplace as legislators responded to the interests of organized producers while ignoring the concerns of the general consumers. There was a 1786 meeting in Annapolis, Maryland of the five middle states to discuss ways to reduce trade barriers between the states. At this meeting the call was



The State House, Philadelphia, site of the Constitutional Convention.

made for a larger meeting in Philadelphia in the following year to discuss more general problems with the Articles of Confederation. This meeting became the Constitutional Convention.

Achieving Weakness Through Strength

It was the desire of Madison, Hamilton, and other leaders at the Constitutional Convention to replace the government established by the Articles of Confederation with a central government that was more than an association of sovereign states. The new government would have to be strong enough to impose some uniformity to financial, commercial, and foreign policy and to establish some general protections for citizens against the power of state governments if the new nation was to be viable and prosperous. In the words of James Madison, we needed a “general government” sufficiently strong to protect “the rights of the minority,” which are in jeopardy “in all cases where a majority are united by a common in-

terest or passion.”² But this position was not an easy one to defend. Many opponents to a genuine national government saw little merit in the desire to strengthen government power at one level in order to prevent the abuse of government power at another level. Was there any genuine way around this apparent conflict? Many thought not, short of giving up on the hope of a union of all the states. There were those who argued that the expanse and diversity of the thirteen states, much less that of the larger continent, were simply too great to be united under one government without sacrificing the liberty that they had just fought to achieve.³

Madison, however, saw no conflict in strengthening the national government in order to control the abuses of government in general. In his view the best protection against arbitrary government authority was through centers of government power that were in effective competition with one another. The control that one interest group, or faction, could realize through a state government would be largely nullified when political decisions resulted from the inter-

action of opposing factions within many states. Again quoting Madison,

The influence of factious leaders may kindle a flame within their particular States but will be unable to spread a general conflagration through the other States. . . . A rage for paper money, for an abolition of debts, for an equal division of property, or for any other improper or wicked project, will be less apt to pervade the whole body of the Union than a particular member of it . . .⁴

A central government strong enough to unite a large and diverse set of states would weaken, rather than strengthen, the control that government in general could exercise.

To the framers of the Constitution weakening government in the sense just discussed meant making sure that government was unable to extend itself beyond a relatively limited role in the affairs of individuals. This does not imply, however, impotent government. The referees in a football game, for example, certainly are not the strongest participants on the field and have limited control over specific outcomes in the game. Yet in enforcing the general rules of the game the decisions of the referees are potent indeed. Government, in its role as referee, obviously cannot lack the authority to back up its decisions. In addition to performing its refereeing function, it is also desirable for government to provide certain public goods; goods such as national defense that will not be adequately provided by the private market. Again this is a duty which requires a measure of authority; in this case the authority to impose taxes up to the limit required to provide those public goods which are worth more than they cost.

How to Impose Control?

In granting government the power to do those things government should do, the Founding Fathers knew they were creating a power that had to be carefully controlled. But how could this control be imposed? It could not be imposed by specifying a particular list of government do's and don't's. Such a list would be impossibly detailed and even if it could be drafted it would need to be revised constantly

in response to changes in such considerations as population size, age distribution, wealth, and the state of technology. Instead, government has to be controlled by a general set of constitutional rules within which governmental decisions are made, with specific government outcomes determined through the resulting political process. It was the hope of those at the Constitutional Convention to establish a political process, through constitutional reform, that brought government power into action only when needed to serve the broad interests of the public.

This hope was not based on the naive, though tempting, notion that somehow individuals would ignore their personal advantages and concentrate on the general advantage when making political decisions. While noble motives are seldom completely absent in guiding individual behavior, whether private or public, the Founding Fathers took as a given that most people, most of the time, maintain a healthy regard for their private concerns. The only way to prevent self-seeking people from abusing government power was to structure the rules of the political game in such a way that it would be costly for them to do so. The objective of the framers was to create a government that was powerful enough to do those things that received political approval, but to establish a political process that made it exceedingly difficult to obtain political approval for any action that lacked broad public support.

There were, of course, some powers that the national government was not constitutionally permitted to exercise. The national government was created by the states, and until the Constitution all governmental power resided in the states. Through the Constitution the states relinquished some of their powers to the national government, e.g., the power to impose taxes on the citizens, establish uniform rules of naturalization, raise an army and navy, and declare war. In addition the states agreed to refrain from exercising certain powers; e.g., the power to coin money, pass laws impairing the obligation of contracts, and pass retroactive laws. Important government powers remained in the states, however, with some of them located in the local governments. Thus the powers that could be exercised by government were lim-

ited, and the powers that did exist were diffused over three levels of government. The Constitution further diffused power at the national level by spreading it horizontally over three branches of government, the power of each acting as a check and balance on the power of the others.

The intent of the Founding Fathers was to so fragment government power that it would be extremely difficult for any narrowly motivated faction to gain sufficient control to work its political will. Only those objectives widely shared and consistent with Constitutional limits would be realized through the use of government power. The beauty of the political process established by the Constitution is that it is cumbersome and inefficient. According to Forrest McDonald the process is "So cumbersome and inefficient . . . that the people, however virtuous or wicked, could not activate it. It could be activated through deals and deceit, through bargains and bribery, through logrolling and lobbying and trickery and trading, the tactics that go with man's baser attributes, most notably his greed and his love of power. And yet, in the broad range and on the average, these private tactics and motivations could operate effectively only when they were compatible with the public good, for they were braked by the massive inertia of society as a whole."⁵ Or, as Clinton Rossiter has said of the Founding Fathers' motives in creating the system of checks and balances, "Liberty rather than authority, protection rather than power, delay rather than efficiency were the concern of these constitution-makers."⁶

The Economic Success of the Constitution

It is hard to argue with the success of the U.S. Constitution. The history of the United States in the decades after the ratification of the Constitution was one of limited government and individual liberty, major increases in the size of the U.S. in terms of population and geography, and unprecedented growth in economic well-being. With the major exception of (and to a large extent, in spite of) the unfortunate legacy of slavery and the Civil War, millions of diverse people were able to pursue their

individual objectives through harmonious and productive interaction with one another. The opportunities created by the process of specialization and exchange made possible by limited and responsible government motivated an outpouring of productive effort that soon transformed a wilderness into one of the most prosperous nations in the world. The role the U.S. Constitution played in this transformation was an important one and can be explained in terms of both negative and positive incentives.

Broadly speaking there are two ways an individual can acquire wealth: 1) capture existing wealth through nonproductive transfer activities, or 2) create new wealth through productive activities. A major strength of the Constitution is that it established positive incentives for the latter activities and negative incentives for the former.

The most obvious form of nonproductive transfer activity is private theft. The thief simply takes through force or stealth something that belongs to someone else. A primary purpose for establishing government is to outlaw private theft. But the power that government necessarily possesses if it is to enforce laws against private theft is a power that affords individuals or groups the opportunity to benefit through public "theft" (legal transfer activity to phrase it more gently). The more vague and ineffective the limits on government authority, the less difficult it is to acquire legal transfers through political activity, and the larger the number of people who will find this activity offering them the greatest profit opportunity.

While those who are successful at the transfer game can increase their personal wealth, in some cases significantly, it is obvious that the country at large cannot increase its wealth through transfer activity. What one person receives is what another person, or group, loses. No net wealth is created, and for this reason transfer activity is often referred to as a zero-sum game. In fact, it is more accurately described as a negative-sum game. The attempts of some to acquire transfers, and the predictable efforts of others to protect their wealth against transfers, require the use of real resources. These resources could be productively employed creating new wealth rather than wasted in activities that do nothing more

than redistribute existing wealth. For every dollar that one person receives from a transfer activity the rest of the community sacrifices more than a dollar.

Incentives to Produce

A major virtue of the U.S. Constitution was that it discouraged people from playing the transfer game. By establishing a governmental apparatus that was very difficult to put in motion for narrowly motivated purposes, the Constitution dampened the incentive to use government as a means of acquiring the wealth of others. This is not to say that the government was not used as a vehicle for transfer in the early days of our Constitutional government. Every political decision results in some redistribution of wealth, and no governmental structure will ever completely insulate the political process against the transfer activities of some.⁷ But the opportunity for personal enrichment through political activity was limited. Most people found that the best way to increase their wealth was through wealth producing activities.

It was here that the political structure established by the Constitution created positive incentives. Not only did the Constitution establish a climate in which it was difficult to profit from transfer activities, it also created a setting in which productive effort was rewarded. By providing protection against the arbitrary taking of private property (the Fifth Article of the Bill of Rights) people were given assurance that they would not be denied the value generated by their efforts. This provided people with strong incentives to apply themselves and their property diligently. In the words of M. Bruce Johnson, "America was a place where if you were ready to sow, then by God you could reap."⁸

But the motivation to work hard is not enough for a productive economy. Also needed is information on the objectives toward which effort and resources are best directed, as well as incentives to act on this information. It is the protection of private property that provides the foundation for a system of price communication and market interaction which serves to guide effort and resources into their most valu-

able employments. To complete this system the concept of private property rights has to be expanded to include the right to transfer one's property to others at terms regulated only by the mutual consent of those who are party to the exchange. The lower the cost of entering into transactions of this type, the more effectively the resulting market prices will allow people to communicate and coordinate with each other to the advantage of all. The U.S. Constitution lowered these transaction costs by reducing government's ability to interfere with mutually acceptable exchanges and by putting the weight of the national government behind the sanctity of the contracts that resulted from these exchanges.

In what has become known as the "contract clause" of the Constitution, the states are forbidden from passing any "law impairing the obligation of contracts. . . ." In the same clause the states are also forbidden from imposing tariff duties on imports or exports (unless absolutely necessary for enforcing inspection laws). In the "commerce clause" the national government was given the power to regulate commerce "among the several states." Though the commerce clause can be interpreted (and indeed has been in recent decades) as providing the central government the authority to substitute political decisions for market decisions over interstate commerce, the U.S. Congress ignored this possibility until it passed the Interstate Commerce Act in 1887. Prior to the Civil War the commerce clause was used instead by the U.S. Supreme Court to rule unconstitutional state laws that attempted to regulate commerce. After 1868 the Supreme Court made use of the doctrine of due process as expressed in the fourteenth amendment to strike down many government attempts to violate the sanctity of contracts through their regulation of such things as prices, working hours, working conditions, and pay.

In summary, the Constitution created an environment in which private advantage was best served by engaging in productive positive-sum activities. The specialization and exchange facilitated by the Constitutional rules of the game is a system in which individuals can improve their own position only by serving the interests of others. When private property is protected

against confiscation, an individual becomes wealthy only by developing skills, creating new products, or innovating better technologies and thereby providing consumers with more attractive options than they would otherwise have. In a truly free enterprise economy, with the minimum government role envisioned by the framers of the Constitution, the rich are the benefactors of the masses, not the exploiters as commonly depicted. Wealth through exploitation becomes possible only when unrestricted government allows negative-sum transfer activity to become more profitable than positive-sum market activity.

Constitutional Erosion and the Rise of Political Piracy

The early success of the Constitution, and the economic system that developed under it, is reflected in the fact that relatively few people felt any urgency to worry about politics. Political activity offered little return as there was little chance to exploit others, and little need to prevent from being exploited by others, through political involvement. People could safely get on with their private affairs without having to worry about the machinations and intrigues of politicians and bureaucrats in far-away places. But this very success can, over time, undermine itself as a politically complacent public increases the opportunities for those who are politically involved to engage in political chicanery.

Motivating people to maintain the political vigilance necessary to protect themselves against government is always a difficult task. The individual who becomes involved in political activity incurs a direct cost. By devoting time and resources in attempting to realize political objectives he is sacrificing alternative objectives. The motivation to become politically active will be a compelling one only if the expected political outcome is worth more to the individual than the necessary personal sacrifices. This will typically not be the case when the objective is to prevent government from undermining the market process that it is government's proper role to protect. The benefits that are realized from limited government are general benefits. These benefits accrue to each in-

dividual in the community whether or not he personally works to constrain government.

Over the broad range of political issues, then, people quite rationally do not want to get involved. This is not to say, however, that everyone will be apathetic about all political issues. This clearly is not the case, and it is possible to predict the circumstances that will motivate political activism. Often a relatively small number of individuals will receive most of the benefit from a particular political decision, while the community at large bears the cost. Members of such a special interest group will find it relatively easy to organize for the purpose of exerting political influence. The number of people to organize is comparatively small; the group is probably already somewhat organized around a common interest, and the political issues that affect this common interest will be of significant importance to each member of the group.

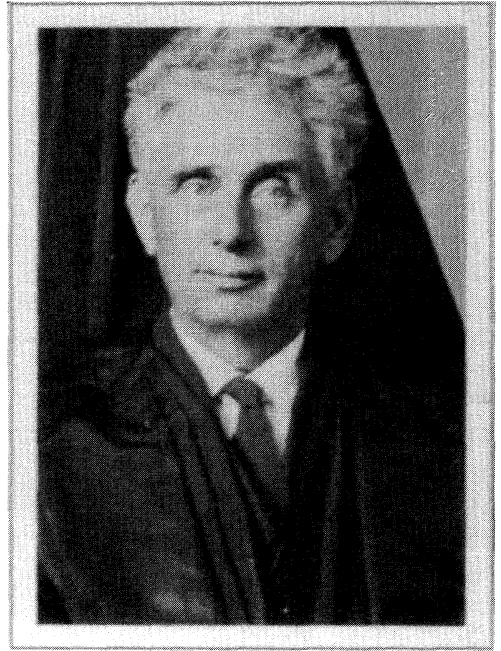
Of course, the free rider problem exists in all organizational efforts, but the smaller the group and the narrower the objective the easier it is to get everyone to contribute his share. Also, the benefits of effective effort can be so great to particular individuals in the group that they will be motivated to work for the common objective even if some members of the group do free-ride. Not surprisingly then, narrowly focused groups commonly will have the motivation and ability to organize for the purpose of pursuing political objectives.⁹ The result is political piracy in which the politically organized are able to capture ill-gotten gains from the politically unorganized.

The Constitutional limits on government imposed effective restraints on political piracy for many years after the Constitution was ratified. There are undoubtedly many explanations for this. The vast frontier rich in natural resources offered opportunities for wealth creation that, for most people, overwhelmed the opportunities for personal gain through government transfer activity. Also, it can take time for politically effective coalitions to form after the slate has been wiped clean, so to speak, by a social upheaval of the magnitude of first the Revolutionary War and then the Civil War.¹⁰ Public attitudes were also an important consideration in the control of government.

Much has been written about how the pervasive distrust of government power among the American people shaped the framing of a Constitution that worked to limit government.¹¹ What might be more important is that the Constitution worked to limit government because the public had a healthy distrust of government power. For example, in the 1860s the Baltimore and Ohio railroad had its Harpers Ferry bridge blown up many times by both the Confederate and Union armies, and each time the railroad rebuilt the bridge with its own funds without any attempt to get the government to pick up part of the tab. Or consider the fact that in 1887 President Grover Cleveland vetoed an appropriation of \$25,000 for seed corn to assist drought-stricken farmers with the statement, "It is not the duty of government to support the people."¹² There is little doubt that Cleveland's view on this matter was in keeping with broad public opinion.

The Constitutional safeguards against government transfer activity unfortunately have lost much of their effectiveness over the years. The western frontier disappeared, and a long period of relative stability in the political order provided time for factions to become entrenched in the political process. Of more direct and crucial importance, however, in the move from productive activity to transfer activity has been the weakening judicial barrier to the use of government to advance special interests. The 1877 Supreme Court decision in *Munn v. Illinois* is often considered to be a watershed case. This decision upheld a lower court ruling that the Illinois state legislature had the authority to determine the rates that could be charged for storing grain. This decision, by sanctioning an expanded role for government in the determination of prices, increased the payoff to political activity relative to market activity and established an important precedent for future increases in that payoff.

In *Chicago, Milwaukee and St. Paul Railroad Co. v. Minnesota*, decided in 1890, the Supreme Court imposed what appeared to be limits on state regulation of economic activity by ruling that such regulation must be reasonable. Unfortunately, this reasonableness doctrine put the effectiveness of judicial restraint on government at the mercy of current



Justice Louis D. Brandeis

fashion in social thought. What is considered unreasonable at one time may be considered quite reasonable at another.¹³ It was unreasonable for the Baltimore and Ohio railroad to consider requesting government funds to repair its Harpers Ferry bridge, destroyed by government forces, during the Civil War. In the 1980s it was considered reasonable for Chrysler Corporation to request and receive a federal government bailout because Chrysler was not competing successfully for the consumer's dollar.

Undermining Constitutional Law

The idea of reasonable regulation significantly undermined the concept of a higher Constitutional law that established protections needed for the long-run viability of a free and productive social order. Once the notion of reasonable regulation stuck its nose into the judicial tent it was just a matter of time before the courts began seeing their task as that of judging particular outcomes rather than overseeing the general rules of the game. Illustrative of this changing emphasis was the legal brief submitted by Louis Brandeis, then an attorney for the state of Oregon, in the 1908 case *Muller v. Oregon*. At issue was the constitutionality of an

Oregon law which regulated the working hours of women. The Brandeis brief contained only a few pages addressing constitutional considerations and well over one hundred pages of social economic data and argumentation attempting to establish the unfortunate consequences of women working long hours. It was a judgment on the reasonableness of a particular outcome, women working long hours, rather than constitutional considerations, which were considered of paramount importance and led to a Supreme Court ruling in favor of Oregon.¹⁴ When the constitutionality of legislation stands or falls on the "reasonableness" of the particular outcomes it hopes to achieve, opportunities increase for people to increase their wealth through nonproductive political activity.

In the 1911 case *United States v. Grimand*, the Supreme Court handed down a decision that significantly increased the private return to obtaining transfers through political influence. Prior to this decision, the U.S. Congress had increasingly moved toward granting administrative agencies the authority to promulgate specific rules in order to implement the general policy objectives outlined by Congress. In *United States v. Grimand* the high court empowered these administrative rulings with the full force of law. After this decision, the cost of successfully using government authority to transfer wealth decreased significantly as special interest groups seeking preferential treatment could concentrate their influence on a few key members of a particular administrative board or agency. The typical result of this has been the development of symbiotic relationships between bureaucratic agencies and their special interest clients. A special interest group can thrive on the benefits transferred to it by the ruling of a bureaucracy, and the bureaucracy's budget and prestige will depend on a thriving special interest group demanding its services.¹⁵

What we have observed over the years is a slow, somewhat erratic, but unmistakable breakdown in the protection the Constitution provides the public against arbitrary government power. Those who want to get on with the task of creating new wealth have much less assurance today than they did in the past that significant portions of the wealth they create will not be confiscated by government and trans-

ferred to those who have specialized in political influence.

Maintaining constitutional constraints on government transfer activity is a task requiring constant vigilance. Once a breakdown in these constraints begins, it can initiate a destructive dynamic of increasing government transfers that is difficult to control. Any change that makes it easier to obtain transfers through government will motivate some people to redirect their efforts away from productive enterprises and into transfer enterprises. As this is done, those who continue to create new wealth find the payoff from doing so is somewhat diminished as more of this wealth is being taken from them. This further reduction in the relative return to productive activity motivates yet more people to use government power to benefit at the expense of others. Furthermore, the burdens and inefficiencies created by one government program will be used as "justification" for yet additional government programs which will create new burdens and inefficiencies.¹⁶ This dynamic can lead to what is best characterized as a "transfer society."¹⁷

Political Piracy and the Transfer Society

Once we start down the road to the transfer society we can easily find ourselves trapped in a situation almost everyone will disapprove of, but which no one will be willing to change. The analogy of piracy is appropriate here. When all ships are productively employed shipping the goods, a large amount of wealth can be generated. But if sanctions against piracy are eased a few shippers may find it to their personal advantage to stop shipping and start pirating the merchandise being shipped by others, even though this reduces the total wealth available. This piracy by the few will reduce the return the others receive from shipping, and there will be an increase in the number finding the advantage in piracy. Eventually the point may be reached where everyone is sailing the seas looking for the booty that used to be shipped but is no longer. No one is doing well under these circumstances, and indeed, all would be much better off if everyone would return to shipping the goods. Yet who will be willing to

return to productive shipping when everyone else is a pirate?

Obviously, we have not yet arrived at the point of being a full-blown transfer society; not everyone has become a political pirate. There are plenty of people who remain productive, and they still receive a measure of protection against the confiscation of the returns to their efforts by the constitutional limitations that remain on government power. But there can be no doubt that these limitations are less effective today than they were in the past. This erosion is in large measure due to a change in the prevailing attitude toward government. The fear of unrestrained government power that guided the Founding Fathers has been largely replaced with the view that discretionary government power is a force for social good. If there is a problem, government supposedly has the obligation and ability to solve it. Such public attitudes have a decisive influence on the effectiveness of constitutional limitations.

Simply writing something down on a document called the Constitution does not by itself make it so. And, because of this fact, Alexis de Tocqueville, writing in the 1830s, predicted that the U.S. Constitution would eventually cease to exercise effective restraint on government. According to Tocqueville, "The government of the Union depends almost entirely upon legal fictions." He continued that it would be difficult to "imagine that it is possible by the aid of legal fictions to prevent men from finding out and employing those means of gratifying their passions which have been left open to them"¹⁸

But controlling our passions is what constitutional government is all about. In the absence of government we have the anarchy of the Hobbesian jungle in which those who control their passion for immediate gratification and apply their efforts toward long-run objectives only increase their vulnerability to the predation of those who exercise no control or foresight. Granting government the power to enforce general rules of social interaction is surely a necessary condition if a productive social order is to emerge from a state of anarchy. But without strict constitutional limits on the scope of government activity, the existence of government power will only increase the scope

of effective predation. The notion that government can solve all problems becomes a convenient pretense for those who would solve their problems, not in cooperation with others, but at the expense of others. Unlimited government reduces the personal advantage to the productive pursuit of long-run objectives just as surely as does anarchy. In such a case, government is little more than the means of moving from the anarchy of the Hobbesian jungle to the anarchy of the political jungle.

The American experience, however, demonstrates convincingly that with a healthy fear of government power and a realistic understanding of human nature, a constitution can be designed that, over a long period of time, will effectively constrain government to operate within the limits defined by the delicate balance between proper power and prudent restraint. All that is needed to restore the U.S. Constitution to its full effectiveness is a return to the political wisdom that guided our Founding Fathers 200 years ago.

Conclusion

The U.S. is a wealthy country today in large part because our Founding Fathers had what can be quite accurately described as a negative attitude toward government. They had little confidence in the ability of government to promote social well-being through the application of government power to achieve particular ends. In their view, the best that government can realistically hope to achieve is the establishment of a social setting in which individuals are free, within the limits of general laws, to productively pursue their own objectives.

This negative view of government contrasts sharply with the dominant view today; the view that government is the problem solver of last resort and has an obligation to provide a solution to any problem not resolved immediately in the private sector. Unfortunately, this positive view of government is less conducive to positive consequences than the negative view of the Founders. According to F. A. Hayek:

The first [positive view] gives us a sense of unlimited power to realize our wishes, while the second [negative view] leads to the insight that there are limitations to what we can

deliberately bring about, and to the recognition that some of our present hopes are delusions. Yet the effect of allowing ourselves to be deluded by the first view has always been that man has actually limited the scope of what he can achieve. For it has always been the recognition of the limits of the possible which has enabled man to make full use of his powers.¹⁹

The exercise of government can, without doubt, be used to accomplish particular ends. Neither can it be denied that many of the specific outcomes realized through government programs provide important benefits and advance worthy objectives. But, as is always the case, those accomplishments are only realized at a cost, and the pervasive truth about government accomplishments is that those who benefit from them are seldom those who pay the cost. Indeed, much of the motivation for engaging in political actions is to escape the discipline imposed by the market where individuals are accountable for the cost of their choices.

The escape from market discipline is the inevitable consequence of reducing the constitutional limits on the use of government power. The immediate and visible benefits that are generated by wide-ranging government discretion are paid for by a shift in the incentive structure that, over the long run, will reduce the amount of good that can be accomplished. More, much more, has been accomplished by the American people because our Founding Fathers had a strong sense of the limits on what can be accomplished by government. □

1. R. A. Humphreys, "The Rule of Law and the American Revolution," *Law Quarterly Review* (1937). Also quoted in F. A. Hayek, *The Constitution of Liberty* (Chicago: University of Chicago Press, 1960), p. 474.

2. *Records of the Federal Convention of 1787*, Max Farrand, ed. (New Haven: Yale University Press, 1937) Vol. 1, p. 57 and pp. 134-135.

3. See Herbert J. Storing, *What the Anti-Federalists Were for: The Political Thought of the Opponents of the Constitution* (Chicago: The University of Chicago Press, 1981).

4. Madison in Federalist 10, *The Federalist Papers* (New York: New American Library Edition, 1961).

5. Forrest McDonald, *E Pluribus Unum: The Formation of the American Republic 1776-1790* (Indianapolis: Liberty Press, 1979), p. 316.

6. Clinton Rossiter, *Seedtime of the Republic: The Origin of the American Tradition of Political Liberty* (New York: Harcourt, Brace and World, 1953), p. 425.

7. For a discussion of the use of government to transfer wealth throughout American history, see Jonathan R. T. Hughes, *The Governmental Habit: Economic Controls from Colonial Times to the Present* (New York: Basic Books, 1977).

8. M. Bruce Johnson, ed., *Resolving the Housing Crisis: Government Policy, Decontrol, and the Public Interest* (San Francisco: Pacific Institute for Public Research, 1982), p. 3.

9. According to Milton Friedman, "The most potent group in a democracy such as ours is a small minority that has a special interest which it values very highly, for which it is willing to give its vote, regardless of what happens elsewhere, and about which the rest of the community does not care very strongly." See Milton Friedman, "Special Interest and His Law," *Chicago Bar Record* (June 1970).

10. Mancur Olson, *The Rise and Decline of Nations* (New Haven: Yale University Press, 1982).

11. Gordon S. Wood, *The Creation of the American Republic: 1776-1787* (Chapel Hill: The University of North Carolina Press, 1969), especially chapter 1.

12. Quoted in A. Nevins, *Grover Cleveland: A Study in Courage* (New York: Dodd Mead, 1932).

13. In spite of the two decisions just cited, between 1897 and 1937, the Supreme Court made use of the due process clause of the Fourteenth Amendment to reach decisions that served to protect the market process against political intrusions. See Bernard Siegan, *Economic Liberties and the Constitution* (Chicago: University of Chicago Press, 1981). Unfortunately, this pattern of judicial decisions was not solid enough to prevent these decisions from being ignored or overruled when the political climate and prevailing notions of reasonableness changed.

14. For a brief but useful discussion of this case see Thomas K. McCraw, *Prophets of Regulation* (Cambridge: The Belknap Press of Harvard University Press, Cambridge, 1984), pp. 87-88.

15. The relationship between the U.S. Department of Agriculture and the farm bloc is but one of many illustrative examples that could be cited here. It is clear that those employed by the Department of Agriculture strongly support the agricultural price support and subsidy programs that transfer literally billions of dollars from the American consumer and taxpayer to the nation's farmers (most of this transfer goes to the largest and wealthiest farmers; see Bruce L. Gardner, *The Governing of Agriculture* [Lawrence: Regents Press of Kansas, 1981]). It is by expanding these programs that the Department of Agriculture can justify bigger budgets and more employees, something it has been quite successful at doing. In 1920 when the farm population was approximately 31 million, the Department of Agriculture employed 19,500 people. By 1975 the farm population had declined to less than 9 million, but the Department of Agriculture had increased its employment to 121,000 people. This trend toward fewer agricultural workers relative to agricultural bureaucrats has continued into the 1980s.

16. Our Federal farm programs are a perfect example of this process. See Gardner, *ibid.* Early on, James Madison recognized the possibility of this type of legislative chain reaction. In Federalist 44 Madison states, "that legislative interference, is but the first link of a long chain of repetitions; every subsequent interference being naturally produced by the effects of the preceding."

17. For a detailed and compelling analysis of how the breakdown in constitutional limitations on government activity has moved the U.S. away from positive-sum economic activity and toward negative-sum activity, see Terry L. Anderson and Peter J. Hill, *The Birth of a Transfer Society* (Stanford, California: Hoover Institution Press, 1980).

18. Quoted in Felix Morley, *Freedom and Federalism*, (Chicago: Regnery, 1959): pp. 138-139.

19. Friedrich A. Hayek, *Law, Legislation and Liberty*, Vol. 1 *Rules and Order* (Chicago: University of Chicago Press, 1973), p. 8.

Freedom in the Dock

by Howard Baetjer Jr.



“**W**hat you’re talking about is survival of the fittest, right? Laissez-faire capitalism—where the strong make it and the weak die; is that it?” The accusation bursts forth from a tenth-grader in an American history class. She has been listening intently to my description of the limited government, private property, unhampered market philosophy, and is visibly pained to hear so barbarous a system advocated. Have I no concern for the weak, for those who don’t have the skill or training to make it in capitalism?

Respected guest lecturer a moment ago, I have suddenly become a prisoner at the bar, accused of hard-heartedness. The jury is a classroom full of bright fifteen- and sixteen-year-olds. They appear to think my prospects bleak, but they settle back into their chairs to hear the defense.

I begin by pointing out that capitalism, in a limited sense, *is* a system in which the fittest flourish and the least fit disappear—as long as one is talking about business enterprises. A

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company prospers as long as it provides consumers some good or service they want at a price they will pay. But if its competitors should cut costs and charge less for a similar product, or offer a better product at a good price, that company must adapt or lose customers. It must improve its own product, develop cost savings of its own, or even go into a different product line. But if it doesn’t adapt, it goes out of business.

In practice, approximately half of all companies fail within the first five years; the inefficient or outdated continually give way to the newer and better. Many of yesteryear’s giants—Kaiser Steel, Sperry & Hutchinson, Cerro, Bendix, Pullman, and others—have vanished, while a few of yesteryear’s infants have risen to prominence. Economist Joseph Schumpeter aptly called this process “gales of creative destruction.” From this standpoint, the marketplace is as ruthless as nature in the wild.

But this ruthlessness applies only to business enterprises—abstractions without feelings or families. It does not apply to people. When a company fails, its workers and proprietors alike lose their employment . . . for a time. But the only thing actually to disappear is the abstraction we call the company. Its buildings and capital equipment survive, bought by other companies. The people who worked there adjust: they find new jobs or start other companies for whose products there is more demand.

This distinction between companies and people is crucial. In fact, because capitalism permits only the fittest *companies* to flourish, it dramatically assists even the least skilled *people* to prosper.

As consumers, the least skilled benefit greatly from capitalism. In a market economy, businesses compete to reach the largest possible markets. Thus they strive to produce more goods and services while cutting their costs of production. Among the biggest winners in capitalistic competition are companies that expand their markets by bringing their products within the price range of low-income people. As Schumpeter observed in *Capitalism, Socialism, and Democracy*, “Queen Elizabeth owned silk stockings. The capitalist achievement does not typically consist in providing more silk stockings for queens but in bringing them within the reach of factory girls in return for steadily decreasing amounts of effort.”

Not many years ago the chairman of IBM estimated optimistically that before long, at least a hundred companies in America would be able to afford their own computers. He underestimated capitalism: personal computers can now be purchased for under \$100, well within the range of even low-income families. Thus capitalism tends steadily to increase the buying power of the less affluent and affluent alike. The “gales of creative destruction” among producers are fair winds bringing vessels richly laden for consumers.

Capitalism Benefits All

Capitalism benefits the disadvantaged and unskilled as wage earners also. The market process lifts wage rates for all levels of ability. As businesses accumulate capital and utilize better machines, the output per worker increases. Hence the value of labor services increases, and employers, competing with one another for these services, must pay higher wages to attract the workers they need. For example, average real monthly earnings for American farm laborers increased six-fold from 1820 to 1950. Similar wage increases have occurred in non-farm employment.

Even for the severely handicapped or infirm, capitalism is the best available economic system. Such unfortunate people necessarily depend on the care of others in any system. But in controlled economies, production is meager; the able-bodied have little to spare for those who cannot work. In capitalism, production is

bountiful; there is an ever-increasing surplus with which concerned people can care for those unable to care for themselves. Americans contribute an average of \$650 a year to charities. (*U.S. News & World Report*, April 28, 1986) This figure by itself exceeds the total annual per capita income of much of the non-capitalist world. How are people in non-capitalist nations to provide wheelchairs, artificial limbs, books on tape, and Special Olympics for their unfortunate, when they have trouble feeding themselves?

This is not to imply that the United States has or ever did have a consistently capitalist economy. The point is that the relatively large degree of capitalism in America has benefited all—consumers, workers, and the dependent.

In human society the strife-filled “law of the jungle” is approximated in proportion to the amount of government intervention in economic activity. The more political power and privilege are used to seize and dispense the fruits of human labor, the more people must act like the proverbial jungle’s beasts, which vie for the limited amounts that nature provides. They struggle among themselves in an appropriation process, grasping for what the government has seized from ever fewer discouraged producers. In this shoving at the public trough, the strong prevail and the weak—the politically powerless—get pushed aside.

In the market, however, people cooperate in a production process. Not limited to nature’s bare provision, they transform natural resources and produce an abundance of new goods. Each tries to provide what others want, to exchange for a portion of what others have produced. All contribute; all gain from others’ efforts.

I turn to the young woman who asked the question and give my summation: Yes, I’m advocating laissez-faire capitalism. But capitalism is *not* a system in which only the fittest individuals survive; it is a system of growing abundance for all. It is the economic system which best provides for the disadvantaged people we all are concerned about.

She nods ever so slightly, her expression softened. The bell rings and the jury rises. They are deliberating as they leave the classroom. I never get to hear the verdict. □

The Politics of Deficit Spending

by Hans F. Sennholz

During the first 150 years of U.S. history, it was a maxim of political economy that the federal government should balance its budget. The only exception was allowed in wartime when deficits were deemed to be unavoidable. But when the war emergency had passed, the federal government was expected to repay the debt as soon as possible. It was made to run surpluses for 28 consecutive years after the Civil War, and for 11 consecutive years after World War I.

The debacle of the Great Depression together with the sway of Keynesian economics gave rise to a new belief that, in periods of economic decline and stagnation, budgetary deficits could serve to stimulate economic activity. But the deficits should be offset by surpluses in periods of prosperity so that the budget would remain in balance over the business cycle as a whole. As was to be expected, the “contracyclical budget” did not bring about stability and did not remain in balance. Instead, it invited politicians and government officials to engage in wasteful and self-interested expenditures. It not only sanctioned executive and bureaucratic profligacy but also encouraged congressional “pork barreling.” In short, it bred huge budgetary deficits not only during recessions but also at other times.

Since the coming of the Great Society even the Keynesian modicum of fiscal discipline has gradually slipped away. Budgets still are viewed as contracyclical tools, but primarily

are used as a free-for-all for special interests. In boom and recession the federal government now suffers substantial deficits. In fact, in 24 of the last 25 years it incurred deficits that grew larger nearly every year—exceeding 2.5 per cent of gross national product in all but one of the past ten years and averaging over 5 per cent in the last three years. Fourteen cents of every dollar spent by the federal government now come from lenders rather than taxpayers.

The growing deficits have left a mountain of Federal debt. By the end of World War II, it had soared to some \$245 billion and 133 per cent of gross national product. Although a substantial further increase in dollar debt occurred between 1946 and 1971, the ratio of debt to GNP fell sharply and by 1971 had fallen to prewar levels. Most of this was the result of inflation which accelerated the rise of GNP in monetary terms and depreciated the debt. By 1981 the Federal debt exceeded the one trillion dollar mark and amounted to 33.6 per cent of GNP. In 1986 it climbed above the 2 trillion mark and some 50.4 per cent of GNP.¹ At the present rate of deficit spending it will reach 3 trillion dollars and surpass 60 per cent of GNP before the end of the decade.

Ambivalent Voters

The record of deficit spending depresses and frightens most Americans. They worry that they are living on borrowed time that some day must end, or in a dream world that will crash like the stock market in 1929. They sense that something is wrong and that, in the end, the

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Federal debt will hurt their own financial situation. After all, debts need to be paid, even government debts. But this concern among voters is difficult to grasp as a tangible, solvable problem. They do not see the deficit as an immediate threat nor do they perceive a crisis that needs to be solved today. Therefore, they are unwilling to take the painful steps that are believed to be essential to reduce the deficit drastically.

The American people overwhelmingly support reduction in Federal spending, but they balk at virtually every proposal of specific cuts. A nationwide poll conducted by *The Wall Street Journal* and NBC News, for instance, found that many Americans express alarm about the Federal deficit, but resist any attempt to reduce Federal spending. The poll found that 86 per cent oppose reductions in Medicare benefits, which the President had proposed in his budget message, while 69 per cent oppose spending reductions on social programs for the poor. Half oppose the President's elimination of Federal subsidies to local mass transit systems. But they also oppose proposals to boost Federal taxation. Some 56 per cent oppose income tax boosts.²

Many Americans deny that, at the present, the deficit has a direct impact on their lives; but they are convinced that spending cuts and higher taxes would. The latter are real, but the value of balancing the budget is very abstract. Spending cuts could adversely affect some 90 million Americans who depend on government dollars for support. There are more than 35 million elderly who receive old-age social security, railroad, veterans, Federal civil service, and state and local retirement benefits, some 9 million recipients of survivor benefits, 6 million beneficiaries of supplemental income programs, 6 million unemployed individuals and their dependents, and finally, some 2 million individuals in the armed services and more than 16 million government employees who in turn support some 20 million dependents.³

Expressed in terms of Federal assistance for those deemed poor and needy, the federal government, through Medicaid and Medicare, pays for the medical care of more than 50 million aged, disabled, and needy Americans. It subsidizes approximately 95 million meals per day,



A LEGACY OF FEDERAL BUDGET DEFICITS

(in billions)

1986.....	\$220.7
1985.....	\$213.4
1984.....	\$175.3
1983.....	\$195.4

1982.....	\$110.6
1981.....	\$57.9
1980.....	\$59.6
1979.....	\$27.7

1978.....	\$48.9
1977.....	\$44.9
1976.....	\$79.4
1975.....	\$45.2

1974.....	\$ 4.7
1973.....	\$14.8
1972.....	\$23.4
1971.....	\$23.0

1970.....	\$ 2.8
1969 (surplus)	\$ 3.2
1968.....	\$25.2
1967.....	\$ 8.7

1966.....	\$ 3.8
1965.....	\$ 1.6
1964.....	\$ 5.9
1963.....	\$ 4.8

or 14 per cent of all meals served, through the food stamp program, child nutrition program, nutrition programs for the elderly, and commodity distribution programs. It provides training for almost one million low-income disadvantaged people and pays housing assistance to some 3.4 million American households. And it offers some 6.9 million post-secondary awards or loans to students and their parents through student assistance programs.

Many Americans undoubtedly would view deficit spending in a different light if its dire consequences were more clearly visible. If it were accompanied by rampant inflation or deep depression with mass unemployment, they would disapprove it immediately. Surely, they would not tolerate it as a deliberate policy if the harm it inflicts on nearly every voter, including the direct beneficiaries of the deficit largesse, were to exceed visibly the benefits of the spending.

But the harmful consequences of deficit spending are not clearly visible in the haze of popular notions and prejudices. It takes economic knowledge and logical reasoning to perceive that deficit spending consumes economic wealth and substance and mortgages the future, that it is a potent prescription for stagnation and poverty, an open invitation to monetary inflation and depreciation, and a free-for-all for social and political conflicts. Moreover, the perception tends to be clouded by the enticements of the benefit programs. Ninety million beneficiaries of spending programs are likely to question the validity of economic knowledge and the cogency of economic reasoning as long as they expect to gain from the largesse.

Congressional Profligacy

To most Americans the day of reckoning seems far off; deficit reduction may be a vaguely moral imperative that lacks financial significance. To most members of the U.S. Congress who incur the deficits and pyramid the debt, the issue is purely materialistic. Unaware of any questions of morality of deficits and debts, they are guided by political pragmatism aimed at "solving problems," especially the problem of getting re-elected and advancing their own political careers.

In June 1982, President Reagan created a commission to conduct a "private sector survey on cost control" of the executive branch of the federal government. The commission, named after its chairman, New York businessman J. Peter Grace, conducted a comprehensive study of government efficiency in order to identify—and hopefully eliminate—wasteful spending in government. It soon concluded that much of the responsibility for excessive spending lies not with the Administration but with Congress.

In a scintillating tract called *Pork Barrel*, Randall Fitzgerald and Gerald Lipson, two of Peter Grace's associates on the Commission, tell the unexpurgated Grace Commission story.⁴ In more than one hundred examples of pork barreling by members of the Congress, almost evenly divided between Democrats and Republicans, liberals and conservatives, the authors illustrate the appetite for political spending. Most politicians live by a "parochial imperative" that elevates local interests over all others. In particular, it makes the members of Congress bring new Federal spending into their districts no matter how dubious and unnecessary it may be; they are to secure subsidies to any and all economic interests in their districts and prevent changes or reductions in the size of Federal spending by Federal facilities at the local level; they are to prevent competitive bidding procedures if this benefits local interests, and bring about the cancellation of state and local liabilities to the federal government when they become burdensome.⁵

Most members of Congress living by the "parochial imperative" are guided by erroneous notions and doctrines. They act under the misconception that local interests, as they see them, coincide with the national interest. To promote trade, commerce, and industry in their district, they are convinced, is to promote economic life in all other districts. When one district is made to prosper, the prosperity of all is enhanced.

But such reasoning is rather spurious; it ignores the fact that the favors granted in one district demand material sacrifices from people in all districts. The entitlements of some individuals must ultimately be matched by tax exactions from other individuals. Parochial politicians plead the case for "special local interest"

which differs fundamentally from “local interest properly understood.” The former always necessitates government coercion to confer benefits and grant privileges to some people and withhold them from others. The “properly understood local interest” calls for no coercion by police, judges, and tax collectors; it actually reduces coercion and restraint and concurs with the national interest, even the international interest. It calls for expansion of the sphere of individual freedom to satisfy human wants and sustain human life, the freedom that embodies the right to the fruits of individual effort, which is the quintessence of private property.

To justify benefits and privileges, parochial politicians argue like the talkative highwayman who lectures his victims about the benefits of more equitable distribution that is to benefit everyone, even his victims. He ignores the fact that the highwayman principle, when practiced by everyone, would render economic production rather hazardous and, in the end, gravely jeopardize human existence.

Micromanagement

To serve the parochial imperative, legislators seek to expand the scope of their concern for administrative activities to include minute details of operations. They practice “micromanagement,” which is congressional involvement in day-to-day management decisions. Congress may direct executive branch agencies to employ more labor than the agency managers say they need, to place labor in locations where they are not needed, to prevent changes in the size or location of offices and agencies. Congress may order the Veterans Administration, with more than 200,000 employees, to seek congressional approval for any reorganization affecting as few as three employees. Individual senators and congressmen may obtain special legislation that takes funds from the public treasury to grant favors to this group or that faction, who in turn promise re-election.

Any administrative effort to streamline and modernize the government’s organizational structures is met by persistent congressional resistance, which keeps most operations obsolete, inefficient, and costly. Members of Con-

gress usually intervene to thwart or delay structural reorganization. They in turn are pressured and made to block the way by government employees directly affected by reorganization. Waxing on human and financial losses which reorganization and consolidation would inflict on them, employees and their unions exert direct pressure through protest marches, letters, and telephone calls, and generate indirect pressure enlisting the support and influence of congressional staff that often depends on them for information, advice, and help.

It is the function of boards of directors of private corporations to set basic rules and policies. To set aside or waive the rules in order to benefit friends or associates is gross nepotism and corruption that may call for indictment and punishment. The U.S. Congress writes the rules for administrative operations, but all too often turns around and makes exceptions to the rules. Influential members of Congress usually exercise the very kind of favoritism which the rules were supposed to prevent. They write program rules, and immediately make exceptions for friends.

Basic principles of sound management require executives to have the authority to use labor most effectively, to assign it in the service of customers, and change assignments to meet changing business needs. In private enterprise, this authority is a basic ingredient of efficient management. In the U.S. Government, Congress frequently negates this management authority in order to protect Federal employees against the kinds of change and challenge which employees of private corporations face all the time. Many members of Congress act like union stewards whose primary concern is the convenience of their members. But, in contrast to union stewards, legislators have the clout to turn their concerns into law.

Eugene McCarthy, long-time U.S. Senator from Minnesota, explains congressional profligacy in terms of a “double standard” of economic rationale—one standard at home, and another for the rest of the country. Members of Congress readily declare their great commitments to frugality and austerity in all matters that are of no visible account to their constituents, but unflinchingly champion the special interests in their states or districts. The local

press, radio, and television, even the Chamber of Commerce, and especially the member's political opponents adhere to the same double standard. They expect members of Congress to wax eloquent about frugality and then give tangible evidence of their effectiveness by having the federal government build a new post office, a government office building, a veterans' hospital, housing for the elderly, more roads, bridges, etc. But nothing reveals the double standard more clearly, according to Senator McCarthy, than a water project, a dam, lock, or canal, that may be named after the politician who sponsored it. Even the most frugal fiscal conservative who says "no" to many transfer programs may readily spend billions of dollars for the illusion of immortality through enduring government projects named after him.⁶

Running a close second in congressional popularity are military installations. They enjoy popular support on a variety of grounds: national security, national tradition and history, and regional economic impact. The Department of Defense is spending more than \$20 billion a year to operate some 5,000 military installations and properties, many of which have become unnecessary, inefficient, or uneconomical. Every state and more than one-half of all congressional districts contain or border on military bases and installations that bring generous payrolls and lucrative procurements. They yield income and wealth to the districts although the posts may be visible reminders of the Civil War, or even the War of 1812. They may be military anomalies, well suited for military museums, but they continue to withstand all attempts at closing them.

Executive Irresponsibility

Like Congress, the executive branch has its own pork barrel projects. After all, it consists of politicians who come to power by the same imperative that brings the members of Congress to Washington. Politicians in power broaden and extend the imperative to include the whole nation, which costs billions of dollars. A congressman may deem himself efficient and successful to land a one-million dollar government contract for his friends in the district. But the President of the United States, as the No-

vember election approaches, may propose Federal expenditures costing tens of billions of dollars.

During the 1964 election Lyndon B. Johnson introduced his Great Society by declaring "war on poverty" and promising to eradicate it within this century. When elected by a landslide, he built his particular pork barrel with government projects benefiting his followers. He sponsored the Economic Opportunity Act of 1964, established the Office of Economic Opportunity, and introduced many new antipov-erty programs. The landmarks of his Great Society are easy to identify: the Social Security Amendments of 1965, creating health insurance programs for the aged and needy through Medicare and Medicaid; the Elementary and Secondary Education Act of 1965, which constituted the first general school aid legislation, targeting money to schools with poor children; the Housing and Urban Development Act of 1968, which meant to help low- and moderate-income families buy their own homes; and the Civil Rights Acts of 1964, 1965, and 1968, prohibiting racial discrimination in schools, employment, housing, and public accommodations.

In 1972 President Nixon sought to imitate his predecessor through increases in Social Security, involving many billions of dollars. It is a clear example of both the Congress and the Executive rolling the pork barrel back and forth and claiming full credit in the end. As the November 1972 election approached, the President recommended a 5 per cent boost in Social Security benefits, which would sit well with elderly voters. Not to be outdone, the Democratic opposition demanded a 10 per cent boost, which the President threatened to veto for being fiscally irresponsible. To outmaneuver and embarrass the President, Congress finally enacted a 20 per cent raise and ordered it to commence immediately. Surely, the President was expected to veto a 20 per cent raise, having threatened to veto any increase above 5 per cent. But instead, he readily signed the ploy into law and informed all recipients, in a note accompanying Social Security checks, that he had signed the bill. Both the President and members of Congress now claimed credit for the payments.

A favorite executive stratagem designed to obtain an advantage over one's political opponents is to sponsor new spending on grounds that one is merely "heading off" a congressional move to increase the spending. The President may double and triple Federal outlays for agricultural price supports, saying that he is merely heading off a congressional move to boost the support prices even further. Congress in turn may try to head off the President. Each tries to outdo the other in currying the favors of special-interest voters.

Bureaucratic Management

The spendthrifts of Congress and the profligates in the Executive receive encouragement and support from an army of civil servants who actually do the spending. They are the regulars of the administrative organization, the bureaucracy which is ever eager to spend more money.

In business, profit-and-loss calculations limit a businessman's temptations to expand his services. Business accounting, which ascertains success or failure of an operation, reveals the desirability of capital expenditures. In particular, it discloses the return from an investment in relation to the capital outlay. When the costs of an outlay exceed its return, the businessman must retrench and restrain his ambition. Failure

to do so would invite losses, which would cast serious doubt on his managerial ability.

But a government agency or bureau faces no such limitation. Its services, no matter how valuable they may be, have no market price and, therefore, cannot be subjected to profit-and-loss accounting. They are open-ended unless they are restrained by precise rules and regulations, that is, bureaucratic directives. Lest government agents become irresponsible spenders of the taxpayers' money, they need detailed instructions about every aspect of their operations. Thus, forever restrained by rules and regulations, they are anxiously pleading for more authority and more money.⁷

The Federal budget is permeated by the notions and doctrines of "higher" moral objectives. But in workaday, prosaic terminology, it seeks to favor some people at the expense of others. It is a plan of action estimating the costs of political transfer, and a public declaration proclaiming the politics of deficit spending. As such it reveals much of both the theory and practice of public morality. □

1. *Budget of the United States Government*, Fiscal Year 1987, pp. 6e-45.

2. *The Wall Street Journal*, February 11, 1986, pp. 1, 27.

3. *Facts and Figures on Government Finance*, 23rd ed. (Washington, D.C.: Tax Foundation, Inc., 1986). p. a25.

4. Randall Fitzgerald and Gerald Lipson, *Pork Barrel*, (Washington, D.C.: Cato Institute, 1984).

5. *Ibid.*, p. xviii.

6. Foreword to *Pork Barrel*, p. viii.

7. Ludwig von Mises, *Bureaucracy*, 1944 (Cedar Falls, IA: Center for Futures Education, 1983).

Needed: A Balanced Budget

One of the privileges of a rich man is that he can afford to be foolish much longer than a poor man. And this is the situation of the United States. The financial policy of the United States is very bad and is getting worse. Perhaps the United States can afford to be foolish a bit longer than some other countries. . . .

Inflation is a policy. And a policy can be changed. Therefore, there is no reason to give in to inflation. If one regards inflation as an evil, then one has to stop inflating. One has to balance the budget of the government. Of course, public opinion must support this; the intellectuals must help the people to understand. Given the support of public opinion, it is certainly possible for the people's elected representatives to abandon the policy of inflation.

—LUDWIG VON MISES
Economic Policy

IDEAS
ON
LIBERTY



The Capitalist Revolution

by John Chamberlain

In his *The Capitalist Revolution: Fifty Propositions About Prosperity, Equality and Liberty* (New York: Basic Books, 262 pp., \$17.95), sociologist Peter Berger provides his own synoptic review in five pages of his chapter ten. Since the “fifty propositions” are in themselves often redundant, it points to a deficiency in the Berger method of presentation.

Berger has a tendency to labor his analyses. But the good things in his book are practically innumerable. So what if his Proposition One (that “industrial capitalism has generated the greatest productive power in human history”) is practically the same as his Proposition Five (that “advanced industrial capitalism has generated, and continues to generate, the highest standard of living for large masses of people in human history”)? Berger’s intention here is to link the past and future tenses of a general proposition, which is certainly helpful, even though the bit about the “large masses” is implicit in Proposition One. As Isabel Paterson once said, “Standard Oil didn’t produce kerosene to pour it down the sink.”

Berger’s method is relentlessly empirical. He claims that he has no *a priori* intention of disparaging socialism or any of its “mixed economy” variations that are more socialistic than capitalistic. What he wants to do is to study the movements of men in making their livings. If the empirical evidence is that men do better for themselves in the aggregate under conditions of freedom, then so be it.

The Berger method reminds me of my wife’s exposition of Doris Humphrey’s modern dance technique, which is to study the natural movement of people (“walking, running, jumping”) to overcome the forces of gravity. Humphrey spoke of the “arc between two deaths,”

meaning that life—and the dance—consists of avoiding total immobility at one extreme and a frenzy of unsustainable motion at the other. It was “fall and recovery” with Humphrey.

To keep the human body in condition to live in Isaac Newton’s gravity-bound world, man has to provide himself with food, clothing, and shelter. So what is more natural than to appropriate raw materials from nature to fill one’s stomach and put a roof over one’s head? The act of appropriation from nature creates private property. Freedom of exchange follows when one has appropriated more than is necessary for simple existence. This is Robinson Crusoe economics. Though men have departed from it for periods of time in which human predators intervene, insisting at spear point or gunpoint that individuals ask permission for access to the fruits of the earth, the natural tendency of human beings to revert to private ownership and free exchange reasserts itself.

Berger explains the simplicities of natural movement very well. He also does well with the complications that come with the development of modern technology. These may have introduced a sharp increase in income and wealth distribution that favored a few people at the outset of the industrial revolution, but when the Napoleonic wars were over and world trade resumed (with Scandinavian lumber moving into Britain for houses) there was a sharp decline in inequalities.

It is at this point that Berger introduces the concept of “modernization.” What the capitalist countries had developed could, with import help, be imitated by socialist and Third World societies. It could also pay, in taxes and inflationary money issues, for an increasing amount of welfare at home. (The complication

here is that welfare "transfers" dampen the willingness of the producing members of society to work.)

Berger does not deny that socialism "works" after a fashion. But it is dependent on importing the results of the "bourgeois" cultural components of "activism, rational innovativeness, and self-discipline."

British Individualism

In his byplay Berger introduces several other concepts than the one of "modernization." The English of pre- and post-Magna Carta times were feudalists, taking title to their lands from a Plantagenet king, but they were "individualists," too. They could afford to be because they were separated from continental Europe by water which made invasions difficult. (William the Conqueror, the last man to get away with an invasion of Britain, had considerable luck on his side.)

The individualism of the British set the stage for the "glorious revolution" of 1688, the year in which John Locke codified the natural rights of men to life, liberty, and property, meanwhile asserting that property originated in the "mixing" of one's labor with the offerings of nature.

Berger is especially interested in what he calls "a second case." This is the development of capitalism in East Asia after World War II. The East Asian "case," he says, "disconfirms" the old thesis that early economic growth under modern capitalism must "necessarily" increase income inequality. The East Asian case has also "falsified" the thesis that "a high degree of state intervention is incompatible with successful capitalist development." What Berger seems to be saying here is that the Japanese decided to go capitalist by edict. He gets himself out of some hot water by adding that "the values of individual autonomy are undermining East Asian communalism."

Socialism still has a mythic appeal, particularly to so-called intellectuals who want to be part of a permission-granting elite. Schumpeter thought this might do capitalism in. But it isn't working out that way. The "neo-capitalists" among the intellectuals are increasing night and day. □

Will It Liberate? Liberation Theology and The Liberal Society

by Michael Novak

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Reviewed by John K. Williams

Michael Novak's *Will It Liberate?* is a volume all men and women committed to liberty should purchase and read. The work's subtitle—*Liberation Theology and The Liberal Society*—might deter potential readers for whom theology holds little appeal, but such a reaction would be sadly shortsighted. It would deprive them of an invaluable resource in the ongoing struggle for a free market economy in a free society. Novak in this work addresses what, in both secular and religious circles, is perhaps the most strident contemporary criticism of economic and individual liberty.

The phrase "trickle-down economics" refers to a caricature of free market economics. The phrase "trickle-down mythology," however, accurately describes a familiar and important phenomenon. Ideas conceived in academic heights "trickle-down" to more earthy levels, taking simplified form in slogans scrawled upon walls and in allegedly self-evident truths assumed by journalists, television and radio commentators, and indeed by "ordinary" people.

One such idea goes back to the Austrian Marxist Rudolf Hilferding, who in 1906 penned a volume entitled *Finanzkapital*. The central thesis of this work also informs Lenin's infamous 1906 essay *Imperialism: The Highest Stage of Capitalism*, and since this volume's appearance, has been an essential component of orthodox Marxism-Leninism.

Crudely, it is claimed that the abundance enjoyed in developed nations was and is acquired by the systematic exploitation of developing nations. The so-called "North" has prospered and continues to prosper by plundering the so-called "South." "They" are the victims of exploitation; "we" are the exploiting imperialists.

This claim has permeated Western thought. It has found popular expression in countless newspaper articles and has been disseminated from innumerable pulpits. Contemporary “political theology,” represented by the writings of Jürgen Moltmann and Johannes Metz, and “liberation theology,” typified by the many volumes penned by Latin American thinkers such as Gustavo Gutierrez and Juan Luis Segundo, are characterized by an uncritical acceptance of the myth of “neo-colonialism.” Little matter that Lenin’s original statement of the theory is widely discredited in academic circles. The myth has “trickled down” to the multitude.

It is this myth which Michael Novak tackles head-on in his latest and, in this reviewer’s opinion, most cogent volume. Whether readers typically meet this myth in its nakedly secular form, or more frequently encounter it dressed in religious garb, they will be grateful to Novak for his painstaking analysis and decisive refutation of beliefs uncritically accepted by so many critics of the free society.

Chapters 7 (“What Is Dependency? Who Are The Poor?”), 8 (“What Do They Mean By Socialism?”), and 9 (“What Is The Inner Will Of Socialism?”) display the awesome factual knowledge and psychological acuity Novak brings to his writing. Succinctly but accurately, Novak summarizes the massive literature which grew up in the 1960s and 1970s dealing with the idea of “dependency theory,” a contemporary variant on the old Leninist, neo-colonial theme. He clears the tangled linguistic undergrowth characterizing much confused and confusing arguments about poverty. He documents the changing meanings ascribed to “socialism” by men and women who seem more committed to a word than to any specific economic or political objectives. And he isolates with almost embarrassing precision the drives that characterize the pro-socialist mentality. These three chapters alone are worth the price of the book.

Will It Liberate? is not without its flaws. While Novak displays in this volume a greater appreciation of classical liberalism and Austrian economics than was the case in either *The Spirit of Democratic Capitalism* or *Freedom With Justice*, he quotes with approval Pope

John Paul II’s condemnation of “unfettered capitalism.” He advocates sufficient intervention to establish a modest, welfarist “safety net” yet, although drawing on the insights of Ludwig von Mises and Israel Kirzner, does not consider the economic case against such intervention. More significantly, he does not note the *moral* considerations which lead many classical liberals to oppose any form of coerced wealth or income transfers.

Similarly, Novak carefully and correctly distinguishes a free market economy—in his terminology, a “democratic capitalist economy”—from many states popularly described as “capitalist,” such as Mexico. Yet he later seemingly ignores that distinction when discussing a case of impropriety by a major company, and justifying governmental regulation of the market by reference to that case (pages 61-62). If the facts are as Novak describes them, the company in question conspired with the means of coercion to get what it wanted the easy way—by short-circuiting the market process.

It would be singularly unfortunate, however, if what many of us would regard as lapses from a principled classical liberalism led us to ignore Novak’s volume. Novak has become a leading critic of socialist thought, meeting with and challenging quasi-Marxian theologians in Latin America and soft-socialist bishops in North America. He is imaginatively forging links between traditional Catholic social ethics and the classical liberal vision. He has provided students of liberty with valuable data which falsifies significant claims of both the secular and religious Left, and brings to his exploration of the classical liberal tradition an enthusiasm which proves infectious.

I unreservedly recommend that readers purchase this volume. Indeed, I urge those who can afford to do so to purchase a second copy and give it to a minister or priest enthused by or sympathetic to “liberation theology.” If Michael Novak is unable to sway the thinking of such theologians, I doubt if anyone can. □

(*The Reverend Dr. John K. Williams is a freelance writer and lecturer in North Melbourne, Victoria, Australia.*)

THE FREEMAN

IDEAS ON LIBERTY

84 The Home Schooling Movement

Clint Bolick

Parents have the responsibility—and the right—to direct and control the education of their children.

90 The Moral Case for a Balanced Budget

Joseph S. Fulda

A trillion dollar debt is a betrayal of our heritage.

91 Collectives, Communities, and the Individual

John K. Williams

Individualism fosters interdependence, not alienation.

96 Sweden's Empty Smörgåsbord

Eric Brodin

The economic plight of a model welfare state.

99 Latin American Economic Liberation

José Rivas-Micoud

Facilitating trade and development in Latin America.

103 Welfare States at War

Hans F. Sennholz

How interventionist policies lead to economic nationalism.

105 The Morality of Good Intentions

Robert J. Bidinotto

The free economy, unlike socialism, focuses on consequences of human action, not mere intentions.

110 The Rhetoric of Antitrust

Thomas J. DiLorenzo

A rebuttal of some current antitrust myths.

116 A Reviewer's Notebook

John Chamberlain

A review of "Wilson and His Peacemakers: American Diplomacy at the Paris Peace Conference, 1919" by Arthur Walworth.

117 Other Books

"Antitrust Policy: The Case for Repeal" by D. T. Armentano, and "A Basic History of the United States" by Clarence B. Carson.

CONTENTS

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PERSPECTIVE

The Quest for Freedom

It is man's hunger for freedom and spiritual well-being more than his hunger for material well-being that sounds the death knell for socialism and communism. The realization that human freedom is morally superior to state coercion in any form is what is changing the world.

—Terrance D. Paul, President
Best Power Technology, Inc.

The Least We Can Expect

In *Beyond Liberal and Conservative*, William S. Maddox and Stuart A. Lilie argue persuasively that "classical liberal" principles serve, to some degree, as the basic assumptions of almost all Americans. These assumptions include: individualism; "the state as an instrument to serve individuals, not as an end or value in and of itself"; limited government; individual rights; equality under the law; and representative government.

It would be difficult to find many Americans who did not at least pay lip service to such basic principles of classical liberal philosophy. Yet, of course, few Americans hold to those principles *consistently*. Most advocate substantial government intervention either in the economic or personal realms of human action, or in both.

In one respect, all principles are promises. When people espouse certain abstract principles, in effect they are making pledges about their future actions. From a social standpoint, inconsistency and hypocrisy are forms of promise-breaking which fool other people's reasonable expectations. If widespread, this renders social relationships unpredictable and chaotic.

Now, America is a nation of considerable intellectual diversity, and it is irrational for us to expect our fellow man to agree with us on everything. But we *can* reasonably hold each

other to account for the promises implied by our stated principles. And due to shared classical liberal assumptions, Americans have a right to expect of each other certain minimum standards of *political* behavior.

The whole thrust of classical liberal principles is toward a society of *self-responsibility*. If classical liberal assumptions are indeed widely shared in the United States, then they constitute implied social promises between citizens. And thus, the least we can expect of any able-bodied American is a life of self-supporting productivity—not irresponsible parasitism or aggression.

The least we can expect is that individuals support themselves—not live at the expense of others. The least we can expect is that businesses win their success in the marketplace—not in the corridors of Congress. The least we can expect is that politicians keep their oaths to uphold the Constitution—not abuse their power by making some favored constituencies “more equal than others.” The least we can expect is that voters view each other as inviolate ends—not mere means.

As Americans, our common principles pledge each other lives of self-responsibility. And the least we can expect of each other is that we keep our promises.

—Robert James Bidinotto

The Heart of the Issue

In many parts of the country, hospitals are being hindered in their attempts to provide needed services. In Fairfax, Virginia, for example, Fairfax Hospital until recently was prohibited from performing heart transplants. Who was standing in the way? Federal and local bureaucrats.

According to *The Wall Street Journal* (November 21, 1986) such disputes are becoming more frequent. Many hospitals wish to offer additional services such as transplants, but in states where government permission is required, officials often object.

Why? Sometimes, as in Fairfax, it is argued that the area’s residents are already adequately served by other centers that perform transplants. Some are concerned about the costs of

duplicating staff and resources. The main contention is that these procedures should be performed only in “centers of excellence” where chances of success are best.

The hospitals counter that close-to-home access is economically, socially, and psychologically valuable. Patients often need extensive follow-up care. Using a distant center can mean relocation, or expensive and tiring travel. A Fairfax resident, for example, would have to travel to Baltimore or Richmond, both more than an hour and a half away.

This is one of those unnecessary debates in which basic questions are ignored. Leave aside that if Fairfax residents are content with the service in other centers, Fairfax Hospital will do no transplants. Leave aside that duplicate staffs may develop money-saving improvements which could be passed on to others. Leave aside that new “centers of excellence”—surely a desirable goal—cannot develop if they are not allowed to gain experience.

Instead consider the fundamental question: Who should decide these secondary issues of availability, quality, and costs? Should patients and their physicians be free to decide what hospital services to use, and should hospitals be free to decide which to offer? Or should a political authority restrict this freedom?

If individual freedom of choice is a basic right, then despite all good intentions of local health planning boards, and notwithstanding their legal authority, these decisions are just none of their business.

—HB

Last Call: Alderbrook Seminar

FEE’s annual Northwest seminar will be held April 10-12 at the Alderbrook Inn on beautiful Hood Canal in Washington State. Dr. Stuart Pritchard is organizing the program. Speakers will include Howard Baetjer Jr. and Greg Rehmke of the FEE staff and Richard Stroup and Jane Shaw of the Political Economy Research Center (PERC), Bozeman, Montana. For more information contact Dr. Pritchard at P.O. Box 4101, Tumwater, WA 98501, (206) 352-4884, or contact us at FEE.

The Home Schooling Movement

by Clint Bolick

As “movements” go, home schooling is one of the most eclectic, coalescing an extraordinarily diverse group of individuals around a single purpose—the education of children outside the traditional schooling structure.

The growing ranks of home schoolers span the entire political spectrum, encompassing conservatives and liberals, libertarians and populists.

Many home schoolers are rigidly traditional and scrupulously law-abiding, while others are long-time practitioners of civil disobedience. Some are fervently religious and have removed their children from mainstream schools because they are too secular, while others are nonbelievers who consider public schools too religious. Still others are compelled to educate their children at home because they live in geographically isolated areas, remote from ordinary schools.

What binds this heterogeneous movement together is a deeply held devotion to a single overriding principle: that parents have the responsibility—and the *right*—to direct and control the educational development of their children. But despite the consistency of this view with the principles of liberty on which this

nation was founded, the right of home schoolers to freely exercise their choice is in serious dispute—giving rise to one of the most compelling civil rights controversies of our time.

Contrasting Styles, Impressive Results

Another characteristic unifying home schoolers is the enormous commitment—in terms of time, energy, patience, and persistence—they must invest to carry it through. And yet thousands of families across America have made this commitment. The exact number of home schoolers is difficult to determine, but a recent study places the figure as high as 260,000. And by all appearances, those numbers are increasing.

Many critics confuse home schoolers with nonschoolers, counterculturists who reject the value of any formal education. On the contrary, most home schoolers place an extremely high value on education; so much that they are unwilling to entrust that vital process to surrogates. To some extent, all parents are home schoolers, for education does not take place solely in a formal classroom. But the term accurately applies only to those parents who have taken this phenomenon a major step further, by turning their homes into formal institutions of learning—“schools” in the purest sense of the word.

Clint Bolick is an attorney with the U.S. Department of Justice, Civil Rights Division. He is working on a book entitled, Changing Course: Civil Rights at the Crossroads. The views expressed in this article are solely those of the author, and are not intended to represent the policy of the Department of Justice.

If a “typical” home school exists, it probably follows one of two widely divergent patterns. The first is the structured home schooling environment. Home schools within this category are generally extremely ordered, with set goals, characterized by rigorous schedules and “attendance” requirements, textbooks and other professional materials, extensive “homework,” and frequent tests. Many religiously motivated home schoolers embrace this approach, and infuse a great deal of religious education into the learning environment.

The other common approach is less structured. Many home schoolers eschew competition and academic pressure, and allow their children to proceed with their own interests in a positive environment designed to stimulate intellectual curiosity, similar to the approach employed in Montessori schools. Learning tools often used in less structured home schools include computers, frequent “field trips” and cultural experiences, and defined manual chores.

Either approach generally produces impressive results. Indeed, the very nature of home schooling virtually insures a high return on the investment. The teacher/student ratio is by definition quite small, providing for a highly individualized learning environment and enhanced capacity to respond to particular needs. Unlike many teachers in public schools, home school teachers are necessarily extremely motivated, and possess a direct interest in the achievements of their children. While many home schoolers are not certified teachers, neither are they encumbered by arbitrary certification requirements or the political and special-interest demands of the educational bureaucracy.

Moreover, home schoolers may draw upon plentiful resources tailored to their needs. The Calvert School and the Santa Fe Community School are just two of the national “satellite schools” that provide formal curricula, teaching materials, and tests for home schools, monitor academic progress, and award diplomas; and local private schools also frequently offer similar “out-student” services. Some public school districts allow home school students to enroll in certain courses, participate in extracurricular activities, or use their facilities. Support networks, such as Holt Associates

in Boston, founded by the late home school pioneer John Holt, and the Hewitt Research Center in Washington state, directed by Dr. Raymond Moore, share practical information via newsletters, books, and seminars; and these organizations are supplemented by active support groups at the local level.

Many critics condemn home schooling for supposedly overlooking “real world” socialization skills. But that is precisely why many home schoolers elect to teach their children at home—they object to the type of “socialization” to which their children would be subjected in the public schools. Instead, many home schoolers provide alternative socialization outlets, such as Scouting, church groups, and community athletic programs.

Home schooling is not for everyone; in fact, it’s not even for most people. It requires an extraordinary commitment that most parents cannot afford to give. But for those who do make that commitment, it can be very rewarding and fulfilling for both parents and children. Rather than rejecting it out of hand, we should acknowledge the advantages of home schooling and accept it as a viable alternative educational institution wholly consistent with American ideals.

Pioneering Spirit

The potential benefits of home schooling are exemplified by the Schneeberger family, which lives in rural Woodland Park, Colorado. The Schneebergers have four children, ages 3 through 10, and have been home schooling for three years with extraordinary success.

Peter Schneeberger is a postman with a college degree in fine arts and mathematics, while his wife Rory, who handles most of the teaching duties, is a former public school teacher and Christian school principal who earned degrees in child development and psychology. The Schneebergers are nondenominational Christians, and decided to become home schoolers because, as Rory explains, “home is where the attitudes and convictions of life are hammered out.” “My experiences in the public schools,” she adds, combined with “the militancy of some so-called Christian schools, also tugged at our hearts and contributed to our

decision to educate our children at home, under loving, caring, and firm supervision.”

The school day at the Schneeberger's "Rainbow Ranch Christian Family School" begins at 8:30 A.M. with pledges and prayers, followed by academic lessons until 11:30 A.M. Peter comes home for lunch, which provides for midday family time. During the afternoon, the smaller children nap while the older children correct their papers or participate in field trips, practical "life experiences," or Christian service. After school, the older children are active in community athletics, Christian Scouting, 4-H, and animal chores.

Rory designs her own curriculum and supplements it with professionally developed materials, such as *Rod and Staff*, American Christian Schools, Inc., and library books. When Rory needs assistance, Peter steps in or they consult other professional teachers or tutors.

The academic results produced by the Schneebergers' home school are stunning. Lucas, age nine, tests regularly and extensively. Last year, compared with other third-graders nationwide, Lucas scored between the 76th and 100th percentiles (93rd percentile overall) on every facet of the Stanford achievement test, demonstrating proficiency at fifth to college grade levels. These results were confirmed by other nationally recognized tests. He was recently accepted into an adult education class in Colorado history, one of his special interests; and his parents hope to eventually enroll Lucas in an early college admission program.

Despite the uncertain legal status of home schooling in Colorado, the Schneebergers have not been challenged by educational officials, and they maintain a "friendly working relationship" with Calvin Frazier, Colorado Commissioner of Education, and their local district. The Schneebergers are active in home schooling support organizations and consider themselves "blessed immensely" by their experience as home schoolers; and it is difficult to comprehend an educational arrangement that would be more beneficial for their children.

The Schneebergers' experience is not atypical. In recent years, leading institutions of higher learning such as Harvard University have admitted students who have been educated



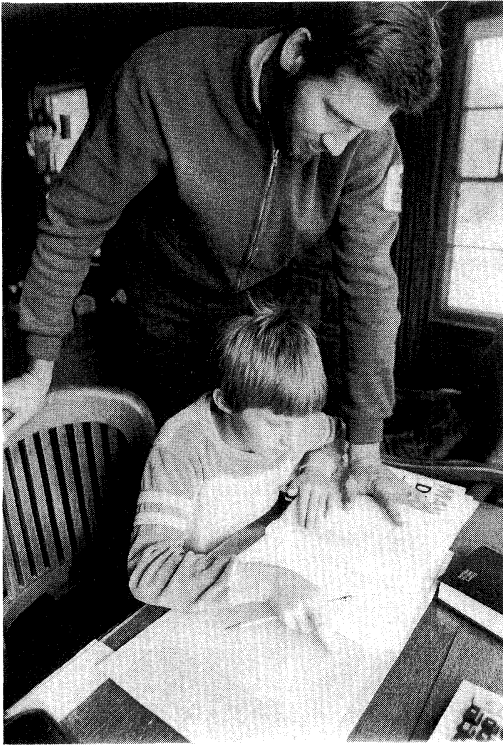
Rory Schneeberger with sons Michael and Logan

with notable success exclusively at home. With increased exposure, home schoolers may be able to overcome the apprehension and hostility purveyed by the educational establishment while adding to their ranks new families for whom home schooling is an appropriate alternative.

Legal Quagmire

Although the number of home schoolers appears to be growing, the species is constantly endangered by its most voracious predator, the State. A decision to educate children at home requires not only a commitment to undertake an enormous educational effort, but frequently also to take on a hostile public educational bureaucracy, abetted by the compulsory school attendance laws.

State laws governing home schooling are remarkable in their inconsistency. Parents who are educating their children at home with the blessing of one state can move to a neighboring jurisdiction and suddenly become outlaws. As of 1983, for instance, parents could educate their children at home relatively freely in Idaho



JAELEE BENNETT

Peter Schneeberger assists son Lucas in a lesson

or Montana, but would do so at their considerable peril in Wyoming or Washington state.

Home schooling laws generally fall into one of three categories. The most permissive are the “equivalency” laws, which generally require only some showing that the alternative education provided is comparable to that provided by the public schools. A second category is comprised of “certification” statutes, in which the “teacher” must be certified by the state or fulfill some other requirements. Finally, the most restrictive are the “prohibition” laws, which limit educational choices to traditional public or private schools. In such jurisdictions, home schoolers often attempt to circumvent the law by claiming that their homes are schools, or by incorporating as such. Most courts have rejected such arguments, even where the home schoolers demonstrate superior educational achievement. Other courts, however, have given a more sensible definition to “school,” such as the Indiana Court of Appeals, which declared in 1904 that

[a] school, in the ordinary acceptance of its meaning, is a place where instruction is imparted to the young. . . .

We do not think that the number of persons, whether one or many, make a place where education is imparted any less or more a school.

Relatively few courts have taken such an enlightened approach. Consequently, where state laws are prohibitive or restrictive, the educational bureaucracy can make life miserable for home schoolers. Its interest is typically not the educational well-being of the child, for if the debate is defined in those terms the home schooler will often prevail. Instead, the educational bureaucracy’s interest is pecuniary in nature—the local school district usually loses funding for every child removed from the school system. Accordingly, school districts resort to any means at their disposal—scare tactics, threats, criminal prosecutions—to coerce parents to return what the school districts view as their property. Moreover, by condemning home schooling as deviant behavior, the educational bureaucracy often induces intermeddling citizens to turn in their neighbors in classic police state fashion.

Those home schoolers unfortunate enough to be engaged in a legal imbroglio face overwhelming obstacles. Home schoolers are prosecuted under truancy statutes, violations of which are treated as criminal acts and prosecuted by the local district attorney and the child abuse apparatus, with its presumption of guilt and accompanying network of condescending social workers. The tragic irony is that home schooling is *not* child abuse; on the contrary, home schoolers who are subjected to this humiliating process are often among the most conscientious of parents.

Once the legal apparatus of the state is unleashed, many home schoolers are ill-equipped to resist effectively. Although most cases can be resolved by a simple phone call to the prosecuting officials from an attorney explaining the parents’ rights, this frequently doesn’t happen, for a variety of reasons. First, by definition, most home schoolers are one-income families since one parent stays home to educate the children; and for this reason many cannot afford attorneys. Second, few attorneys are experienced in home schooling cases. The issues involved are complex, combining elements of such disparate legal fields as constitutional,

family, and criminal law; and it costs money to give a lawyer time to develop his expertise. Third, many home schoolers attempt to represent themselves, using one of the numerous home schooling legal defense manuals available. Unfortunately, these manuals often ill serve the home schoolers by misstating the law, and of course they cannot teach people how to practice law. Consequently, many home schoolers are overmatched by skillful prosecutors, and thereby lose not only their cases—and sometimes their children—but also create adverse precedent by which other home schoolers may be bound.

Constitutional Precedents

Home schooling will continue to be a risky enterprise in many jurisdictions unless and until the courts definitively address the nature and extent of the rights involved. The preferred course of action is legal reform; but without judicial intervention, states may continue to enact arbitrary laws, and local school districts may continue to intimidate home schoolers with impunity, regardless of how capable and successful the home schoolers are at educating their children.

A number of constitutional arguments can be made on behalf of home schoolers, but two in particular provide the best prospects for success. For those parents whose religious beliefs impel them to teach their children at home, the First Amendment may provide a viable defense. This issue was presented to the Supreme Court in *Wisconsin v. Yoder* in 1972, but its holding of the case is extremely narrow due to the facts. In the *Yoder* decision, the Supreme Court ruled that Amish parents could remove their children from formal schooling after the eighth grade and teach Amish values and skills, notwithstanding a state statute requiring attendance in a public or private school until age sixteen. The Amish parents, who were convicted of violating this law, were precluded by their religious tenets from satisfying the “substantially equivalent education” exception to the compulsory education law, since they fundamentally objected to the nature of the high school-level schooling required by the state.

The Court determined that the parents satisfied the requirements of the First Amendment by demonstrating that their actions were a consequence of their deeply held religious beliefs. Although the Court noted that the state could permissibly impose minimum educational standards and compulsory attendance requirements, it concluded that the state’s interest in requiring additional years of formal schooling was outweighed by the parents’ religious beliefs, particularly where the parents provided adequate, if informal, vocational training at home consistent with their religious views. As Justice Stewart explained in his concurring opinion, “Wisconsin has sought to brand these parents as criminals for following their religious beliefs, and [it] cannot constitutionally do so.”

The *Yoder* decision was certainly good news for home schoolers, but its impact is limited by the narrowness of the Court’s decision. The Court relied upon the unique characteristics of the Amish beliefs and lifestyle, and addressed home schooling only at the high school level.

Moreover, the First Amendment is of little value to those home schoolers whose actions are not impelled by religious beliefs. The strongest constitutional argument on behalf of home schoolers in general rests upon the Fourteenth Amendment, under which the Supreme Court recognized in a trilogy of cases during the 1920s—cases that the Court reaffirmed in *Yoder*—that parents have a right “to direct the upbringing and education of [their] children.”

The first of these cases, *Meyer v. Nebraska*, involved the criminal conviction of a schoolteacher who violated a law prohibiting instruction in German to students below the eighth grade. The Court struck down the law, holding that the teacher’s “right . . . to teach and the right of parents to engage him to so instruct their children . . . are within the liberty of the [14th] Amendment.”

The Court invalidated an even more authoritarian enactment in *Farrington v. Tokushige* in 1927. The case involved a Hawaii law regulating the affairs of foreign-language (i.e., Japanese) schools. The law limited attendance to one hour per day; empowered the Department of Public Instruction to control curricula and textbook selection; required permits for the

Education and the State

Once the State has accepted full responsibility for the education of the whole youth of the nation, it is obliged to extend its control further and further into new fields: to the physical welfare of its pupils, to their feeding and medical care, to their amusements and the use of their spare time and, finally, to their moral welfare and their psychological guidance. Thus universal education involves the creation of an immense machinery of organization and control which must go on growing in power and influence until it covers the whole field of education and embraces every form of educational institution from the nursery school to the university.

—CHRISTOPHER DAWSON

schools and their teachers as well as disclosure of the identities of the students; and compelled the teachers to sign an oath pledging to “direct the minds and studies of pupils . . . to make them good and loyal American students.” The Court concluded that the law violated the individual liberty guaranteed by the Fourteenth Amendment since “it would deprive parents of fair opportunity to procure for their children instruction which they think important and we cannot say is harmful.”

The most pernicious deprivation of educational freedom, however, was a state statute prohibiting attendance in any non-public school whatsoever, which was struck down in the landmark *Pierce v. Society of Sisters* case in 1925. Justice McReynolds proclaimed the vital doctrine that provides the greatest hope for home schoolers today:

The fundamental theory of liberty upon which all governments in this Union repose excludes any general power of the State to standardize its children by forcing them to accept instruction from public school teachers only. The child is not the mere creature of the State; those who nurture him and direct his destiny have the right, coupled with the high duty, to recognize and prepare him for additional obligations.

The jurisprudence of the *Pierce* era represented the high-water mark for judicial protection of substantive liberty, but the courts have frequently reiterated these principles in subsequent cases. However, until the Supreme Court directly rules on the constitutionality of laws that prohibit or unreasonably restrict parents who choose in good faith to educate their chil-

dren at home, such laws will continue to flourish and to deprive parents and children of precious liberties.

A Matter of Civil Rights

The spectacle of a parent being hauled off to jail and deprived of the custody of his or her children—not because the parent is not fulfilling basic responsibilities, but because he or she is doing so, perhaps quite successfully, in a manner that offends some members of the community—is repulsive to the fundamental concept of freedom in America. As a nation, we have chosen to entrust the upbringing of children to parents rather than to the state, a choice that distinguishes ours as a free society.

Where home schooling is tolerated, meanwhile, many young people are obtaining a high-quality education while forming a bond with their parents that should constitute an ideal in a family-oriented society such as ours. And where governments do not obstruct good faith home schooling, they can devote their full resources to matters, such as child abuse, that deserve far greater attention than they presently receive. Clearly, our present quest for education reform should include a relaxation of laws that limit or prohibit the home schooling option—not only because government is failing to educate children successfully, but as a matter of right.

The persecution of home schoolers is one of the gravest deprivations of civil rights in America today. The issue can easily be resolved, however, if only we apply the basic principles on which our nation’s moral claim is staked. □

The Moral Case for a Balanced Budget

by Joseph S. Fulda

There is much talk these days about balanced budgets, but the talk is about figures when it should be about values, about the economic consequences of imbalance when it should be about its moral propriety. The compelling moral case for a balanced budget—against *both* deficits and surpluses—deserves wider attention.

The earliest American champion of fiscal integrity, Thomas Jefferson, reasoned that “every generation coming equally, by the laws of the Creator of the World, to the free possession of the earth He made for their subsistence, unencumbered by their predecessors, who, like them, were but tenants for Life,” “the principle of spending money to be paid by posterity, under the name of funding, is but swindling futurity on a large scale.”

With such a principled and honorable heritage, the several trillion dollar debt we will leave posterity is a betrayal of our origins. We Americans once boldly declared our Republic founded “to secure the blessings of liberty to ourselves and posterity,” yet today leave each other and our children for generations to come to work off our debts and labor for our continuing prodigality. We Americans who once chafed at the thought that in a land far away others taxed us without our consent, today readily tax those of a time still to come who are not here to withhold their consent and are unable to say nay. What could be plainer than that every bond issue, every deficit, and every “multiplication of the public debt,” as it used

to be called, amounts to taxation without representation, the very principle against which this nation revolted?

It is not prudence or temperance alone, always good qualities in government, that impels us to forswear deficit financing. It is a matter of right.

The case against surpluses dates to antiquity as witness the Biblical injunction against the accretion of royal wealth (Deuteronomy 17:16-17). This not only helped preserve the king’s character, it served to check depredations of his subjects. More important, though, and along with the similar injunction against an excessive cavalry, it served to limit his military adventures. The original war chest, accumulated over a long reign by an annual excess of revenues over expenditures, made possible foreign adventures which would have been quite unthinkable if financing them were to have required sudden, confiscatory taxation. As Mr. Jefferson remarked, “The present system of war renders it necessary to make exertion far beyond the annual resources of the State, and to consume in one year the efforts of many.”

Today, the adventures of state are as often social and domestic as military and foreign, but the principle remains. Governments exist, as John Locke declared, to preserve our property, not to take it from us and store it for some future, unknown mischief. That being so, government is limited to raising revenues for its constitutional purposes.

The argument against surpluses does not apply to the discharge of the public debt, nor does that against deficits apply to the diminution of public reserves. The moral imperative with which we are therefore faced today is for surpluses to gradually eliminate the national debt. But such surpluses must be generated in a manner consistent with our tradition of liberty—i.e., by still further tax rate and regulatory reductions, real fiscal restraint including the wholesale elimination of wasteful government programs, privatization of government enterprises, and the sale of unneeded government properties, not by increased government exactions and confiscatory taxation. That is the course that Mr. Jefferson pursued while in public office, and it is the road we must try to regain. □

Collectives, Communities, and the Individual

by John K. Williams

“**T**he trouble with you is that you’re an individualist! You see yourself and other people as isolated atoms moving in an empty void! You forget that human beings are, as Aristotle taught us long ago, social animals! You forget the wider truth of St. Paul’s insight that we must be ‘members one of another.’ You forget the wisdom enshrined in John Donne’s famous insistence that no man is an island! You simply don’t understand what it is to be human!”

The speaker happened to be a clergyman. Yet his criticism of an advocate of individual and economic liberty—indeed, of such liberties themselves—has today become a commonplace.

By and large, critics and opponents of the free market in a free society have conceded that socialism has failed as an economic system. During the nineteenth century socialism was but a theory to be debated; during the twentieth century, however, socialism became a reality to be observed. The bare bones of theory took on flesh, countless variants of the socialist state being established.

The result was unambiguous. Without exception, the attempt to coordinate the productive activities of men and women by the edicts of central planners proved disastrous. Dreams of increased abundance were shattered against the reality of experienced destitution. Today socialist theorists such as Peter Rutland, author of *The Myth of the Plan* (Open Court, 1985)

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have begun openly to suggest that failure in practice is indicative of a drastic error in theory. Socialist leaders have tentatively begun to move their countries in the direction of freer markets and financial incentives. Almost overnight, the advocates in Western nations of old-style socialism found themselves regarded not as daring innovators on the cutting edge of human thought, but as quaint anachronisms clinging to the discredited illusions of yesterday.

If socialism is understood as a prescription for increased material abundance, the case for socialism is in desperate straits.

The Need for Community

Today, however, socialism is frequently proffered not so much as a solution for economic problems but as an alleged remedy for “existential” problems. The problem with the free market in a free society is not any claimed economic inferiority to socialism or even any supposed tendency to widen the gap between rich and poor. Rather, the problem of capitalism is the sense of loneliness and isolation it allegedly spawns. Men and women rich in consumer goods begin to perceive one another—or so the story goes—as “things” to be possessed, used, and discarded. Individuals feel—or so it is claimed—cut off from one another. The warm bonds of human companionship allegedly are supplanted by impersonal contractual agreements. All sense of community is lost, and “the lonely crowd” is born.

Thus Marxist revisionists today frequently

point not to the developed economic theories of Marx but to the somewhat impressionistic musings of the so-called “early Marx,” the Marx known through his *Economic and Philosophical Manuscript*. The key word becomes not “value” or “labor” or “exploitation” or any of the other terms popularly associated with Marx, but the word “alienation.” That word is interpreted in terms of experienced loneliness, apartness, isolation—an understanding of the word that departs drastically from Marx’s intended meaning.

In this way the supposedly “scientific critique” of capitalism launched by Marx is supplanted by the imprecise psychological ruminations of such “New Left” thinkers as Herbert Marcuse and Jürgen Habermas. Their language is notoriously opaque and muddled—indeed, clearing away the tangled linguistic undergrowth is a daunting task. Yet when that task is completed, one discovers claims not unlike that of the cleric quoted at the beginning of this article: To be human is to be a social animal, finding joy and meaning and significance in and through relationships of interdependence. The free market in a free society, rooted and grounded in individualism, effectively denies the “social nature” of human beings and thus deprives them of life’s deepest joys and values.

What Individualism Is Not

It is folly to deny that human beings, in several significant senses, are “social animals.”

For example, reasoned thought, in the absence of language, would be at best rudimentary. Yet language, as the philosopher Ludwig Wittgenstein so powerfully argues in his *Philosophical Investigations* (translated by G. E. M. Anscombe; Oxford: Basil Blackwell, 1958) is an essentially social phenomenon. The notion of a purely “private” language generates—or so Wittgenstein argues—grotesque paradoxes.

Furthermore, substantial evidence exists that an infant deprived of “tender, loving care” is deprived of something vital for growth to maturity. In the affective as well as the cognitive domain, growth to mature humanness presupposes community.

Indeed, there is no need in this context to cite learned authorities. Everyday experience tes-

tifies that the life of the human mind and the joy of the human heart in large measure are born of creative interchange between people. The hunger of the human spirit for communion with others is universal and seemingly insatiable.

Everyday experience testifies that the life of the human mind and the joy of the human heart in large measure are born of creative interchange between people. The hunger of the human spirit for communion with others is universal and seemingly insatiable.

It also would be folly to assert that the material well-being of people is not served by interdependence. Certainly the defender of a market economy makes no such assertion. At the very heart of a market economy lies the division of labor, itself an exercise in interdependence. In fact the genius of the market is constituted by its unrivaled capacity not simply to coordinate the diverse activities of countless market participants, but to enable individual men and women to draw upon and use a totality of information no single person could consciously even begin to assimilate!

Ironically, the opponents of interdependence, and thus the advocates of a perverted “individualism,” are to be found among the opponents of the free market. Marx perceived the division of labor as itself a cause of “alienation.” His utopia is an imprecisely defined social order in which not only the state, but the division of labor itself, is no more. He dreams of a day in which he will be able “to hunt in the morning, fish in the afternoon, rear cattle in the evening, criticize after dinner, just as I have a mind, without ever becoming hunter, fisherman, shepherd or critic” (*The German Ideology*, in *Karl Marx: Selected Writings*, ed. D. McLellan [Oxford: Oxford University Press, 1977] p. 169).

Lenin elaborated this pseudo-individualism further, insisting that with the abolition of “the division of labor among people” a new hu-

manity “able to do everything” will emerge (*Left-Wing Communism: An Infantile Disorder* [New York: International Publishers, 1940] p. 34). If by “individualism” one signifies an advocacy of atomistic independence and abhorrence of the cooperative interdependence displayed by the division of labor and a free market economy, Marx and his original disciples are the “Individualists”!

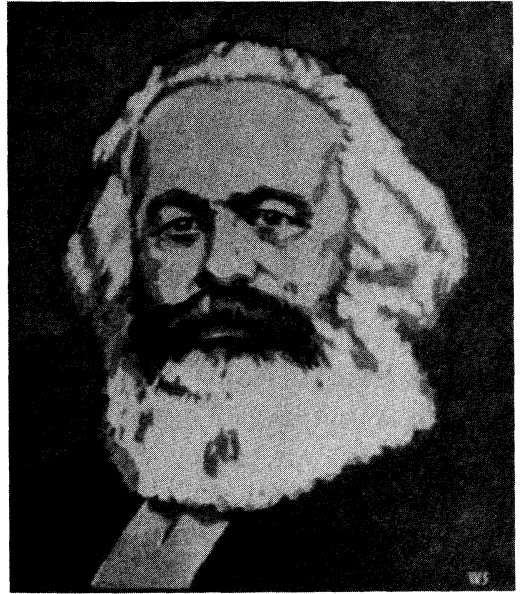
What Individualism Is

Individualism, properly understood, begins with a fact about the world: Human beings exist. What is more, each human being perceives from a unique point in space and time. Each human being experiences sensations in his or her own body for himself or herself. Each person enjoys privileged access to the contents of his or her consciousness. Each human being is capable of initiating purposive action “from within.”

It might be objected that many significant human activities involve a group. From time immemorial, for example, human beings have met together and thought things through. Yet, while human beings engage in creative interchanges of ideas, this group activity does not presuppose some single “super-thinker” above the individual thinkers making up the group. Likewise, coordinated group action—the activities of people seeking to achieve a common purpose—ultimately signifies the self-initiated and self-directed actions of each member of the group.

The individualist denies that a “community” or a “society” or a “state” is a “thing” distinct from the concrete, flesh-and-blood individuals making up that community, society, or state, certain shared characteristics of these individuals, and certain relationships obtaining between them. A “society” thus is not a mysterious “super-thing” existing independently of the members of the society, the language, traditions, patterns of behavior, and so on shared by these members. Rather, to talk of a “society” is to use a shorthand term signifying what exists: individuals sharing certain characteristics and related in specifiable ways.

To deny this is to be guilty of what the philosopher A. N. Whitehead calls “the fallacy of



Karl Marx: a theory of pseudo-individualism

misplaced concreteness” (*Process and Reality* [New York: Macmillan, 1929] p. 11; *Science and the Modern World* [New York: Macmillan, 1929] p. 75). What in truth is “concrete” are the perceiving, thinking, valuing, and acting flesh-and-blood people sharing particular characteristics and related in various ways signified by the abstract word “society.” The collectivist mistakenly holds that the single word “society” refers to a single “thing” distinct from individual people, their qualities, and their relationships, and no less mistakenly pretends that this mysterious “thing” is “concrete” and individual people the “abstractions.”

The individualist reads thinkers such as Jean Jacques Rousseau with growing astonishment. Crucial to the social and political thought of Rousseau is what he called “the general will.” According to Rousseau, a *society*, as against a mere cluster of individuals, is coordinated and unified not by the will of any individual nor by the common will of any set of individuals, be that “common will” the “will of the majority” or even a “consensual will of all.” Somehow, a “general will” distinct from and other than any individual will or set of individual wills actually exists. This somewhat eerie “general will” allegedly is informed by a wisdom and goodness far exceeding the wisdom and goodness of any individual will or set of individual

wills. Given this single “general will,” Rousseau affirms that there is a single supreme good—a single overriding goal—toward which a society strives. The Jacobins and Girondins quite correctly appealed to Rousseau when, during the reign of terror that so devastated France, they outlawed all voluntary associations.

A “society” is not a mysterious “super-thing” existing independently of the members of the society, the language, traditions, and patterns of behavior shared by these members.

Rousseau affirms that rulers, by a process he does not identify or describe, are somehow sensitive to the dictates of the “general will” of their society, encoding these dictates in the specific laws they devise. The “good citizen” thus ascribes to the laws of his society a wisdom and goodness surpassing his or her own wisdom and goodness. In the unhappy event of an experienced tension between what an individual wills and what the “general will,” known in and through specific laws, decrees, a misperception must exist. For the “general will” allegedly reflects the “real” will of each member of society. A contrast can thus obtain between what a person may think he or she wills and what a person “truly” wills.

It is a short step from this strange cluster of teachings to the insistence of the German philosopher Hegel that the “general will” is the will of an existing entity, the State, and his further claim that the State is the earthly manifestation of the Absolute or God. It is but another short step from the political philosophy of Hegel to Marx’s and Hitler’s totalitarian systems.

The individualist insists that it makes no sense to subordinate what is real and concrete to a theoretical, abstract construct. For example, the individualist views any claim that the “rights” of society somehow take precedence

over the “rights” of individuals as not so much a false claim but as a meaningless claim. “Rights” can no more be predicated of “society” than they can be predicated of triangles. Thought through, all “natural” or “moral” or “human” rights are rooted and grounded in the autonomy of the individual human being. A being incapable of self-directed behavior cannot be the subject of “rights”; inasmuch as “society” is not even a “being” at all, let alone a “being capable of self-directed behavior,” society cannot have “rights.”

Indeed, when politicians and others refer to the “aim” or “goal” or “good” of a society or a state, almost invariably they are referring to the aim or goal or good of an individual or set of individuals desirous of coercively imposing one particular vision of the “good life” upon others. The only sense the individualist can give to the notion of a “common good” is the freedom of each member of a society to be what he or she in fact is: an autonomous being able to formulate his or her own vision of the good life and to initiate behavior he or she hopes will lead to the realization of that vision.

So stated, individualism can sound like yet another abstract and even arid philosophical creed. Yet it was this creed that led to the impassioned moral cry that no person is a chattel, a means to another’s ends, a pawn on a political planner’s chessboard. It was this creed that gave institutional and “secular” expression to the ancient insight of Israel that even the humblest human being was created in the *imago Dei*—the “image of God”—and thus enjoyed a creativity and dignity no ruler could with impunity ignore. In the final analysis it was this creed that gave birth to the American Revolution and the challenging of all dominations and tyrannies, all bigotries and legally entrenched privileges, all predatory institutions debasing and enslaving the free spirit of humanity.

Interdependence

Most surprising of all, individualism unleashed an unprecedented measure of human *interdependence* and hitherto unknown forms of community.

- As the free market grew, the business firm became increasingly important. What traits

of individual character did the business firm foster? Surely the ability to work cooperatively with others as part of a team! Aristocrats admired the solitary and even eccentric individual; businessmen lauded the person capable of integrating his or her activities with those of others.

- Pre-market societies were characterized by what one might call the “ubiquitous tyranny of the economic.” Family and other relationships were valued in large part as means to an economic end. The goal of most activities was the fundamental goal of acquiring sufficient goods and services for bare survival. The abundance created through the free market liberated men and women from total preoccupation with the economic dimensions of human activity. Human relationships could be valued not as means to an economic end but for the intrinsic pleasure they involved.
- Free trade broke down barriers separating nation from nation. Bonds of interdependence between peoples who had never met and might never meet were forged. Far from denying the claim that “no man is an island,” the free market underscored that

claim’s truth—members of communities joined by the ties of peaceful trade could not rationally perceive themselves as being isolated from those distant and individually unknown people with whom their well-being was entwined.

Conclusion

Paradoxically, it is the collectivists who foster and further the divisiveness and “competitiveness” they so deplore. An economic system run by political edicts breeds warring factions locked in zero-sum games, one special interest group prospering at the expense of people less powerful or less skillful at lobbying for their own advantage. It is the individualists—those affirming and cherishing the uniqueness of each and every human person—who, “as though led by an invisible hand,” inadvertently bring into existence a socio-political order making for peaceful cooperation, harmonious integration, and radical interdependence. It is only when the uniqueness and worth of the individual is affirmed, that a true and lasting community becomes a possibility. □

IDEAS
ON
LIBERTY



A Harmony of Interests

The socialists believe that men’s interests are essentially antagonistic. The economists believe in the natural harmony, or rather in the necessary and progressive harmonization, of men’s interests. This is the whole difference. . . .

To be sure, if men’s interests are naturally antagonistic, we must trample underfoot justice, liberty, and equality before the law. We must remake the world, or, as they say, *reconstitute society*, according to one of the numerous plans that they never stop inventing. For self-interest, a disorganizing principle, there must be substituted legal, imposed, involuntary, forced *self-sacrifice*—in a word, organized plunder; and as this new principle can only arouse infinite aversion and resistance, an attempt will be made at first to get it accepted under the deceptive name of fraternity, after which the law, which is force, will be invoked.

—FREDERIC BASTIAT
Justice and Fraternity

Sweden's Empty Smörgåsbord

by Eric Brodin

When in 1976 a nonsocialist Swedish government for the first time in 44 years replaced a socialist government, the defeated premier, Olof Palme, explained that the Conservative-Centrist coalition was taking over *ett dukat bord*, a set table filled with *smörgåsbord* delicacies. The new government spokesmen, of course, pointed out that Sweden's economy was much more to be likened to "an empty table," a *smörgåsbord* bereft of even essential ingredients due to excessive demands of a cradle-to-grave welfare statism which even relatively wealthy Sweden could no longer afford.

In fact, what Sweden was experiencing is what had earlier been characterized by East German Marxist economic theorist Jürgen Habermas: "The division of labor between the state and the private sector that forms the basis for the Swedish model requires that a continually increasing share of the national product be transferred to the public sector [it is now 65 per cent]. Technical and economic changes must be accompanied by enormous public investment in order to insure the stability of society. There is a point where a dislocation in the social structure, caused by the free play of the market forces, becomes so great that people are no longer willing to pay the price for the necessary remedies. The demand for security remains, but the desire for each person to contribute to the cost of this security diminishes. The welfare state then faces a crisis of confi-

dence.'" (From *Legitimationsprobleme im Spätkapitalismus*)

The nonsocialist government lasted only six years. It was characterized by (a) internal squabbles between the three coalition partners, the Conservatives, the Liberals, and the Centrists; (b) the inability to dismantle a single major plank of the welfare state superstructure; and (c) the nationalization of more industrial complexes in one year than during the preceding 25, a natural consequence of a gradual strangling of Swedish enterprise.

The economic situation of Sweden today is one of desperate economic plights, a fact which is not associated with Sweden in international public opinion. Erik Dahmén, professor of economics and social history, recently authored a significant article in *Svensk Tidskrift* (No. 3, 1986) called "The Swedish Economy—an ignored scandal." Professor Dahmén concludes: "The Swedish model for economic policies and the Welfare State has for much too long been spoken about on very loose foundations. We ought to be ashamed of 'the Swedish Scandal' and allow this sense of shame to lead us to a reasonably intelligent conduct of our actions in the future."

Sweden's situation is well illustrated by the fact that it is alone among industrial countries in having major devaluations during 1976-1982 (totaling 45 per cent) *and* accumulating a large foreign debt at the same time. Most other countries will do one or the other, but not both. And a fairly good measure of serious economic displacement is when a nation (including its provincial and city governments) is borrowing not

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SWEDISH INFORMATION SERVICE

Swedish Foreign Ministry, Stockholm.

for future development but for *current consumption*. Household borrowings increased by 55 billion crowns in a single year, from 12 to 67 billion crowns mid-year 1985-1986. (The average value of the dollar was 7 Swedish crowns during this period.)

In short, the picture is clear:

- (1) Sweden has one of the highest inflation rates in the industrialized west.
- (2) Sweden has the highest interest rates in the industrialized world.
- (3) Sweden has the highest proportion of its Gross Domestic Product devoted to the public sector in the industrialized world.
- (4) Sweden has one of the highest per capita national debts in the western world.

What Went Wrong?

Let us now take a closer look and analyze the background to these tragic economic facts so seldom associated with Sweden's spuriously entitled Welfare State.

In an urgent attempt to stem the increase of the rate of inflation, Sweden imposed price controls in the past and has made every attempt

to restrict the wage increases negotiated between organizations representing management and labor. During 1985, *Outlook on the Swedish Economy* reported that "Inflation has not been brought down as fast as would have been necessary to maintain the competitive advantage created by the devaluations. Consumer price increases, measured as a 12-month change, persisted at around eight percent during the first half of the year . . . The 7-8 percent inflation is far above the two percent of Japan and the Federal Republic of Germany or the four percent which is the average for other industrialized countries."

The 16 per cent devaluation in 1984 failed to achieve the desired results. In the first half of 1985 exports of goods and services fell by almost two per cent in volume from the same period in 1984. To stem inflation the Swedish state has in vain appealed to labor unions to hold wage increase demands to two per cent. Instead, wages increased almost 7.5 per cent from 1984 to 1985. A realistic estimate points to an 8.5 per cent increase in 1986 and above seven per cent in 1987.

The wage increases which were reluctantly granted in 1986 to employees in the private

sector are now demanded by the public sector employees. Sweden's 1985 population was about 8,359,000. Only a little more than half of the population (4,315,000) was employed, yet of these a significant 27 per cent or 1.6 million were employed in public administration or public services. (Thus 33 per cent of Sweden's population, in effect, provides productive work with its resultant wages and taxes to support the remaining 67 per cent of the population.)

Outlook on the Swedish Economy sadly reports: "Persistently high inflation, the lack of balance in the government budget and on the current account, and the beginning of an international economic downturn will unremittably lead to weaker growth. Without export growth, a country such as Sweden, which is dependent on foreign trade, cannot grow."

The decline in Swedish exports is in no small measure because Swedish labor has priced itself out of international markets. While Sweden still has a positive balance of trade with imports in 1985 valued at 243.6 billion crowns and exports totaling 259.4 billion, due to the cost of net interest and an imbalance in tourism and services, the balance on current accounts shows a decline of nine per cent in 1985.

Borrowing Abroad, Unemployment, Deficits

Sweden has been a major borrower in international banking circles for years. In the three years after the return of the socialists to power in 1982, foreign borrowings by the Swedish central and local governments amounted to 158 billion crowns. The inflow of money has been encouraged by Sweden maintaining exceptionally high interest rates by European standards. The Swedish interest premium over three months is 6.25 percentage points higher than the Eurodollar rate, which is sufficient to provide an enticement. Short-term interest rates in the money market average 15 per cent and the rates on long-term government bonds average 13 per cent.

The remaining issues which need to be addressed are the growing unemployment problem and the total deficits in the Swedish national budgets.

The "official" unemployment figures aver-

aged 2.4 per cent of total labor force annually in 1976-1984 but increased to 3.5 per cent in 1983. However, this doesn't take into account the vast programs of retraining and make-work projects. Danne Nordling from *Ekonomifakta* says the real figures should be 4.8 per cent for 1980 and 7.2 per cent for 1983. Even this figure is challenged by some Swedish economists such as Professor Sven Rydenfelt, who says that if one includes in the unemployment figures students who really would rather find work or those in forced early retirement, the figure should be closer to 11 per cent. But even with the modest employment increase during 1984-1985 (67,000 persons), a disproportionate number have gone into the public sector, not into the private sector which would tend to generate real economic growth. During the two decades 1965-1985 the number of public sector employees increased 15.2 per cent while employment in industry declined 46 per cent.

Today Sweden's economy is practically grinding to a halt. Estimated economic growth has been put at 1.1 per cent for 1985 and .3 per cent for 1986. Sweden's national debt now amounts to 595.7 billion crowns, an increase of 11.4 per cent from the preceding year. The interest on the national debt is 20 per cent of the national budget compared to 13 per cent for the USA. The budget deficits in the 1985-1986 budget amounted to 67 billion crowns, which counted in terms of GNP and per capita is far higher than that of the United States.

The public sector's proportion of total national income (GNP) increased from 50 per cent in 1975 to 67.4 per cent in 1982. Today it is most often quoted as being 65 per cent. No nation which hopes for economic growth can exist under these conditions for very long. The empty smörgåsbord was evident already in 1976—a decade later it is a tragic reality for the 8.4 million inhabitants of Sweden's bankrupt Welfare State.

The prophetic words of Friedrich A. von Hayek are coming true: "Sweden's politicians and trade union leaders—like politicians and leaders elsewhere—never comprehended to which end-station their policy would lead. As a matter of fact, it leads to socialism, inflation, unemployment and finally to the collapse of the system." □

Latin American Economic Liberation

by José Rivas-Micoud

The social and political contrasts presented by the two arms of the American hemisphere reveal intriguing insights about the different economic directions they have hereto followed.

The United States in the north enjoys a dynamic economy within a powerful democracy.

In Latin America in the south, numerous states are divided politically, underdeveloped economically, subjected to frequent social unrest, and plagued by inflation and poverty.

Why should one branch of the continent enjoy enormous affluence and power while the other languishes in misery and weakness when both attained independence almost simultaneously, and are endowed with a comparable abundance of natural and human resources?

History gives the answer.

The 1776 North American revolution is usually presented as a political revolt of thirteen colonies against British rule. The rebellion, however, responded to fiscal and economic motives, for it principally sought trading and fiscal freedoms. The ensuing breakup of political ties was an effect rather than the cause of the revolt. And the Declaration of Independence did not mention economic rights specifically only because they were implicit in the pursuit of happiness.

This erroneous emphasis assumes that the

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political liberties gained by the rebellion gave rise to economic freedom. The truth is rather the reverse. To assure and protect the economic liberties the colonists fought for, the United States needed to be politically independent. And though some people were reluctant about it at first, political links with Britain were severed.

The present United States political structures derive from the original struggle for a free market economy, and confirm that democracy thrives only when economic restrictions are removed.

The Paradox of Liberalism

Genuine liberalism restricts government's role to the preservation of internal order and security, leaving individuals free to exercise their own initiative in society. Paradoxically, those original liberal notions reached modern America with an opposite connotation. Today, American "liberals" favor state intervention in the economy, government ownership or monopoly of numerous enterprises, and a vast state paternalism to combat poverty. But the altruistic objectives of "liberal" welfarism are often translated in practice into increased rather than decreased poverty.

Moreover, all central economic planning not only discourages private sectors, but also favors the spread of totalitarian ideologies. Whether nazism, communism, or fascism, every one-party rule from the outset demands total control of the economy. For the most ef-

fective way to control human minds and wills is through their pockets. And history has shown that without economic freedom, no political or social liberty can survive for long.

The Latin American Case

Unlike the north, the struggle for independence was essentially political in Latin America. The main objective was to break political ties with Spain and Portugal. In the process, the revolution hardly touched existing economic and social structures. The political independence in Latin America was not accompanied by a commensurate economic liberation.

Lacking the northern trading mentality, Latin American ruling elites persisted in a traditional Iberian disdain for commerce and manual labor. Privileged minorities clung instead to allegedly nobler careers in politics, the Church, and the military. Toil and manual labor were left to lower classes. Thus sharp class distinctions remained as the social mark of Latin America. On one side, privileged minorities and land-owning oligarchs thrived on wealth and power, while on the other, poor and exploited illiterate masses sank into misery.

Tied to long-held advantages, most Latin American rulers favored the colonial protectionism that shut the area off from healthy competition. These barriers made local production inefficient and costly, and remained largely unmodified by Latin American political independence.

At that juncture, the two arms of the Western hemisphere followed opposite directions.

Geared to trade and economic liberty, the United States chose political union. Shackled by commerce limitations, Latin America split itself into numerous states even though all shared racial, historic, cultural, and religious roots.

While the United States was removing obstacles to the free flow of goods, services, and people, the new Latin American countries cloistered themselves within rigid trade, customs, and exchange barriers.

The results are eloquent. Under a free economy within a huge national market, the United States has grown to unparalleled levels of affluence and power.

Largely isolated, the disunited members of the Latin American community continue to be subjected to regional conflicts, civil wars, and recurrent military rule. Rigid class distinctions have hindered the emergence of a meaningful middle class. Deprived of local markets of adequate size, Latin American industries did not attain rewarding proportions, and local production became largely confined to basic raw materials and agrarian exports.

In addition, Latin American governments claimed for themselves not only the proprietorship of natural resources but also the monopoly to exploit them. In the process, private enterprises in mining, communications, utilities, insurance, and banking were nationalized. Private sectors were thus relegated to secondary economic roles, though remaining as primary targets for taxation. The resulting and ever-growing operating deficits of state-run enterprises often forced governments to resort to the monetary printing presses that fuel inflation.

Squeezed between state bureaucracies and privileged oligarchies, private savings and investments languished, and capital flight abroad mounted. Inevitably, when unleashed inflationary pressures triggered wage and price controls, real Latin American growth became adversely affected and unemployment grew.

The evidence of the American hemisphere is conclusive.

The adoption of a free market economy not only sustains and develops political liberty, but also promotes economic growth and prosperity. Conversely, state intervention in the economy leads to bureaucracy, inefficiency, and corruption in the short term, and to poverty, social injustice, and political unrest over longer periods.

The Debt Crisis

Flooded with petrodollars in the 1970s, impulsive international bankers joined shortsighted Latin American officials to finance massive projects which often responded to nationalistic pride rather than to sound economic reasoning.

Notwithstanding past imprudence and errors of lenders and borrowers, the Latin American debt burden has grown to pose a formidable

threat. Strained Latin American financial reserves cannot meet existing payment schedules unless they are rescheduled and considerable infusions of new credits are added.

To assure, however, that new financings will not be throwing good money after bad, all new credits should be conditioned to the implementation of growth-oriented local policies that allow greater economic roles to private sectors in the borrowing countries.

The current equation in Latin America involves an economic frame built by official controls and regulations, by numerous government-owned monopolies, and by large military expenditures. This frame holds a picture of anemic savings, feeble investments, large unemployment, chronic fiscal deficits, unabated inflation, and widespread poverty.

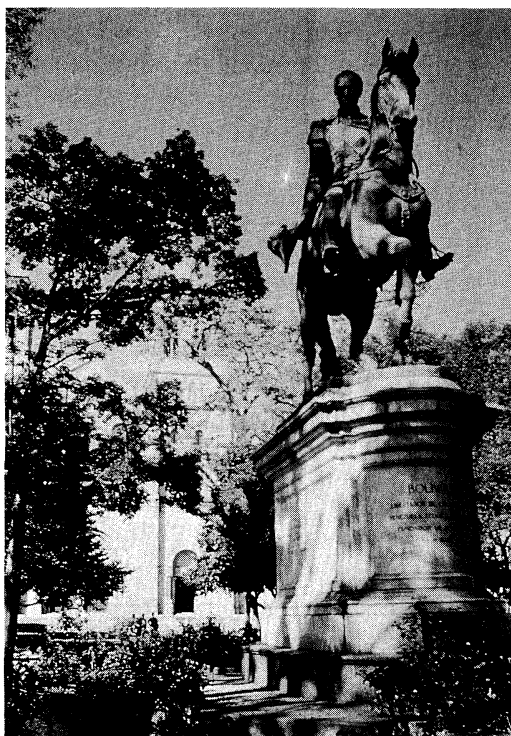
To improve the picture, something drastic must be done with the frame. For the reversal of deteriorating conditions will come only after Latin American states undertake a realistic program to attain the final Latin American economic liberation.

The treatment must comprise prescriptions that may be unpalatable to politicians and bureaucrats. It must begin with a prompt shift of Latin American government roles. From being state capitalists, they must switch to becoming mere overseers of a totally free market economy.

Latin American states should gradually but decisively transfer government-owned enterprises to the private sector as soon and as widely as possible. Such privatization should look for local sources when available or to foreign investors when necessary. The public sector should retain only what is essential to assure an orderly transition and to prevent abuses and frauds.

To promote savings and to encourage investments, sensible tax reform with realistic fiscal incentives should be enacted. And to reduce fiscal deficits, military spending should be drastically cut. The resulting savings could be diverted to eventually eradicate illiteracy in vast areas of Latin America through better education.

To expand local markets and to foster international trade, artificial exchange rates and protectionist barriers should be eliminated.



COLOMBIA TOURIST BOARD

Statue of Simon Bolivar (1783-1830) in Manizales, Colombia. Bolivar, leader of South American independence, inaugurated the first Pan-American Conference. The conference was organized in the interests of peace and for the improvement of commercial relations among the former Spanish colonies. Despite the efforts of Bolivar and other leaders since, Latin America has remained disunited.

The removal of artificial exchange rates and trade barriers would soon establish propitious conditions for the development of a free, stable, and unified Latin American currency. Additionally, the dismantling of inter-state trade and exchange barriers should soon result in a freer and wider interchange of capital, labor, and production within the whole region.

Despite past attempts such as that of Bolivar in Panama in 1824, and more recently that of the Latin American Free Trade Association and of the Andean Pact, Latin America continues disunited economically, financially, politically, and socially. But the hour for a genuine Latin American integration may be at hand.

A Private Inter-American Bank

To accelerate such integration, Latin American leaders should encourage the promotion and establishment of a privately-owned inter-

American commercial bank. This new private inter-American bank would have branches and operations in every country in the hemisphere. Its capital should be subscribed and paid by private investors of all American states. The bank's management should be under the control of its board of directors with members from the private sector freely elected by the stockholders without any official interference or pressure.

The inter-American bank would operate actively in all banking fields and in foreign exchange, would extend credits in local and foreign currencies, and perform all banking services of large banks headquartered in financial centers like New York, London, Frankfurt, Paris, and Tokyo.

The United States can play a pivotal role in such Latin American endeavors by persuading other industrial countries to liberalize trade and facilitate Latin American exports. For only when they earn sufficient foreign exchange will Latin American borrowers be able to discharge their foreign obligations and pay for needed imports.

These prescriptions may appear ambitious at

first. They will probably encounter great skepticism, when not resistance, from the vast interests that currently benefit from the existing restrictions that would be eliminated in a freer market. But common sense begins with the recognition that to share and enjoy wealth, it has to be created or produced beforehand.

The United States has convincingly proved that the best scenario to create wealth lies wherever individual self-interests are freely allowed to take risks and reap rewards in a market economy. It also shows that when free economies are firmly entrenched, political freedoms become inevitable.

Learning from this example, Latin American leaders should now move boldly to help remove all barriers and obstacles to a free market in the region. For once Latin American economies are unshackled, their rapid recovery would soon silence all critics and skeptics. And the ensuing popular support would add irresistible momentum to an irreversible historic trend; a trend toward the eventual integration of all America. □

In Future Issues . . .

April

- **"Liberty and Individual Responsibility"** by Dwight R. Lee
- **"Supply-Side Economics and Austrian Economics"** by Bruce Bartlett
- **"Women and the Market"** by Sam Staley
- **"The Ethics of Entitlement"** by Hans F. Sennholz

May

- **"How the Fed Fooled Farmers"** by Jay Habegger
- **"Laissez Faire as a Development Policy"** by John Semmens
- **"Wilderness Cathedrals and the Public Good"** by William C. Dennis
- **"Liberty and Property"** by Joseph S. Fulda

Welfare States at War

by Hans F. Sennholz

The new international crises sparked in the Middle East, and the constant danger of another world war, need not surprise the student of contemporary international relations and economic policies. The ideology of socialism and interventionism has swayed our foreign relations, and the policies of Welfare States have destroyed international peace and order. . . .

Absence of individual freedom and free enterprise makes for economic nationalism and international conflict. By fundamental nature and objective, the Welfare State controls private property and limits individual freedom in order to distribute economic spoils and privileges to pressure groups. . . .

Pressure groups of producers expect the government to increase the prices of their products or services, with utter disregard for the economic interests of the vast majority of their own countrymen and of many foreign producers. In most cases of welfare legislation the favored group's foreign competition is either eliminated entirely or severely curtailed. This is economic nationalism, the most important source of international conflict. . . .

In sharp contrast to the international conflict between socialist governments in this Middle-eastern affair is the peaceful coexistence of

laissez-faire nations, which realize the ideals of personal freedom of choice, private ownership and control of property, and peaceful exchange in a competitive market. Under this concept, the sole function of government is the protection of its own people from domestic peace-breakers and from foreign aggressors. Such a government would wage war only to defend the lives and property of its own citizens. This means that it should not participate in foreign wars that grow out of economic nationalism. For such warfare only destroys and does not protect life and property.

While an individual peacebreaker can easily be punished and isolated in a penitentiary, a collectivist nation conducting policies of economic nationalism can be disciplined and subjugated only through a full-scale war and subsequent occupation of its territory. To discipline a nation that refuses to embrace the doctrines of freedom and free enterprise is an endless and hopeless task.

A citizen of a free country who goes abroad should know that he travels at his own risk. Crossing the border of his state and entering socialist or interventionist territory is to leave law and order behind. He risks transgressions by the foreign state upon his life, liberty, and property. A businessman who invests his funds in collectivist territory must consider the risks of expropriation, foreign exchange control, confiscatory taxation, and many other "welfare" measures. He is beyond the protection of his capitalist government. He is on his own.

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The Principles of World Leadership

Despite curbs and checks on its power, and its inaction in a world of conflict, a government designed for freedom is a natural leader. The creative power of a free nation by far excels that of socialist or interventionist countries of similar size. And it is productive strength that lends the position of leadership to a country in a world that is always fighting or preparing to fight.

But leadership that exerts potent influence toward world peace and prosperity springs from a more important source than material and military might. True leadership grows out of impeccable behavior and moral conduct. . . .

Above all, such a nation must refrain from any act of economic nationalism. It must not harm any other nation through "welfare" policies of its own. It must adhere to its own design for freedom. To reprimand other nations for policies of economic nationalism while waging economic war upon its own neighbors would be hypocrisy and sanctimony. . . .

A leading nation must also reject the immoral principle that one act of economic nationalism by one government sanctions the nationalistic policies of all other governments. This is the principle that crime becomes righteousness if a previous crime has remained unpunished. But this very assumption underlies many prevailing notions concerning foreign affairs.

World leadership demands that we should openly judge world events and explain the fallacy of every act of economic nationalism. If a foreign government contemplates or embarks upon economic aggression through "welfare" legislation, we should call attention to the inevitable harm inflicted upon other nations. We need not intervene forcibly, for nations cannot be coerced to peaceful coexistence. Only a change in political and economic outlook can bring this about.

Naturally, we would sign no treaty with a government that has disregarded its own agreements and torn up its own charters. Nor would we assist any government that nationalizes private industries, for then we would be helping to promote collectivism and ultimate destruction. There could be no point in our extending diplomatic recognition to any government that indulges in economic nationalism.

Finally, world leadership requires that we constantly defend the principles of individual liberty and free enterprise. At every opportunity we should call out to the world that only competitive private enterprise can lead to peace and prosperity. We have a glorious history of individual freedom and safety of property—the absence of nationalization and confiscation by an omnipotent state. Our recent excursions toward the Welfare State endanger our record—and ourselves. But if we will correct that trend, then with pride we can demonstrate to the warring world that individual liberty is the only durable foundation for peace and prosperity. □

From Peace to War

To the extent that a society limits its government to policing functions which curb the individuals who engage in aggressive and criminal actions, and conducts its economic affairs on the basis of free and willing exchange, to that extent domestic peace prevails. When a society departs from this norm, its governing class begins, in effect, to make war upon the rest of the nation. A situation is created wherein everyone is victimized by everyone else under the fiction of each living at the expense of all. Power differentials in society are increased and aggravated, popular discontent mounts, and the ruling group seeks for a device to restore "unity." War is, of course, the time-honored national unifier.

—EDMUND A. OPITZ

IDEAS
ON
LIBERTY



The Morality of Good Intentions

by Robert James Bidinotto

Cultural commentators have long remarked on the enormous generosity and compassion of the American people. Significantly, it was the era of *laissez-faire* capitalism which saw the rise of the great philanthropies. Not only were men more inclined to feel benevolent; with the unleashing of the wealth-producing power of free markets, many men, for the first time, possessed the means to help others if they wished. Meanwhile, the capitalist system has led to an enormous increase in living standards worldwide, precisely to the extent it has been permitted to exist. It is no exaggeration to say the poorest areas on earth are those most insulated from the benefits of individualism and capitalism.

Judged by consequences alone—absolutely or comparatively—the capitalist system would have to be regarded as a magnificent historical success. Thus there has been, in recent decades, a significant retreat from anticapitalistic arguments based upon its allegedly negative consequences. This does not mean that attacks upon the free society have ceased—only that the grounds for them have been subtly shifting. As the *Encyclopaedia Britannica* (1964) put it: “Few observers are inclined to find fault with capitalism as an engine of production. Criticism usually proceeds either from moral or cultural disapproval of certain features of the capitalist system, or from the short-run vicissitudes (crises and depressions) with which long-run improvement is interspersed.”

If not consequences, then, what? What does this “moral and cultural disapproval” consist of? Before we get to the root of today’s remaining hostility to individualism and capitalism, let us consider the residual criticisms against their alleged negative consequences.

A central argument against capitalism stems from a vestigial “conflict-of-interest” doctrine, resurrected by Karl Marx as his theory of “class conflict.” Under capitalism, he wrote, “exploitation” was the rule; and the resulting class tensions would lead inevitably to a “Communist revolution.” (See *The Communist Manifesto*.)

But significantly—and contrary to his own prediction—it was not capitalistic nations which experienced communist revolutions, but anticapitalistic dictatorships. Pre-revolutionary Russia, China, Cuba, Afghanistan, Nicaragua, and the now-Marxist regimes of Africa could not remotely be described as “capitalistic”; and the nations of Eastern Europe fell, not to communist revolutions, but to invading Soviet armies.

A society of state-imposed status is vulnerable to violent revolution; a society of individual opportunity and individual rights is *not*. Free societies must first be eroded intellectually and institutionally before they are ripe for insurrection; but by then, they are no longer free societies. What Marx did not grasp was that individualism is the antithesis of exploitation. And the general benevolence and high living standards associated with capitalism largely immunize truly capitalistic nations from social instability.

Today, Marx's "exploitation" theory is dead as a plausible critique of individualism and capitalism. It owes its last gasps not to empirical evidence, nor to intellectual theory, but to a vague sense of envy of "the haves"—and to those "moral and cultural" considerations we shall address in a moment.

What Causes Crises?

How about the argument that capitalism leads to "short-term vicissitudes" such as crises and depressions? This argument held some plausibility during those periods—such as the Great Depression—when, to many, capitalism seemed to have failed. But since that time, several things have thrown that argument into disrepute. First is the wealth of literature now demonstrating that it was government intervention in the marketplace—not the marketplace itself—which brought about such crises. Second is the generally-conceded failure of government interventionism to prevent such crises, or to end the purported "chronic" problems of capitalism (e. g., unemployment, poverty, the business cycle, and so on).

The failure of welfare-state interventionism is generally, if grudgingly, acknowledged. Meanwhile, the even more disastrous failures of collectivist economies have left capitalism's critics in the position of "the pot calling the kettle black." Even if these criticisms of capitalism's inevitable "downswings" were valid, most people now realize that collectivism means economic collapse, unrelieved by any "upswings"—hardly an enticing alternative. A similar example concerns the attack on capitalism for fostering monopolies—a charge coming from those who would centralize all economic planning in a single agency in Washington.

Again, whatever following these arguments retain is rooted in the more basic "moral and cultural" concerns cited by the *Britannica*.

Then there is the argument that capitalism causes the "alienation" of the worker. This is a kind of bridge between the economic, and the moral-cultural critiques. Even if capitalism gives the worker a higher income, critics charge, it does so only by imposing upon him meaningless, uncreative tasks in mass-produc-

tion assembly lines, depriving him of any sense of identity, achievement, or control over his own life.

This, coming from advocates of central planning and individual sacrifice to the collective, is transparent hypocrisy. The rightless, voiceless workers of socialized economies remain mired in state-directed drone work—or, as in Poland, are threatened with Soviet invasion for demanding their rights. But meanwhile, American industrialists, competing for manpower in the free labor market, are exploring new methods to restore individual responsibility and creativity to the work place. And more and more repetitious tasks are being automated, leaving to people the creative tasks no machine can perform. The very market system which purportedly causes worker "alienation" is facing and resolving the problem—just as it competes to fulfill every other market demand.

Perhaps the low point in anticapitalistic critiques came during the 1970s, with the ecology crusade. From the brain-cracking abstractions of dialectical materialism, which charged capitalism with exploitation and historical irrelevancy—the collectivist argument had collapsed to shrill, apocalyptic declarations that capitalism was creating smog, dirty water, and dwindling numbers of California condors. This, coming from those who do not utter a word about mass murder in communist Cambodia, enforced starvation in communist Ethiopia, scorched-earth genocide in communist Afghanistan, or massive environmental despoliation in communist Russia.

Those who continue to reject individualism and capitalism—as the *Britannica* admits—seldom claim the superior *consequences* of socialism or even the "mixed economy" any longer. In fact, to argue the "evil" of the market economy, and the relative "good" of collectivism, one must dispense entirely with discussions of empirical consequences. This means appealing to some alleged "morality" in which *consequences are irrelevant*: an ethical premise which exonerates collectivism and condemns capitalism *in spite of the consequences*.

One might call this premise "the morality of good intentions."

Every proponent of the free society has expe-

rienced the exasperation of arguing with an adversary who seems immune to facts, evidence, logic, proof. The morality of good intentions is the immunizing agent. Facts, evidence, logic, and proof are all *irrelevant*. What matters is one's moral intuitions—his "good intentions."

Good Consequences from Good Intentions?

The morality of good intentions takes two forms. In its "soft" form, it still pays lip service to intending good consequences—but perfunctorily, and in spite of all evidence to the contrary—as if actual results were, somehow, beside the point.

For example, the die-hard interventionist proclaims his intention to raise the income of inner-city black youths via minimum wage laws—a good consequence. But does he seem excessively concerned that the minimum wage seems to exacerbate black teen-age unemployment? He advocates rent control, with the stated intention of permitting the poor to have access to affordable housing. But does he seem distraught that the stock of available housing in rent-controlled areas is curtailed? He demands economic sanctions against South Africa for its racist apartheid policies. But does he hesitate when it is argued (even by many South African blacks) that the resulting economic hardships will fall mainly on the black majority? He would ban "home work"—in-home production by garment makers—allegedly to prevent their "exploitation" by unscrupulous employers. But does he reconsider when they cry that working at home is the only viable way they can generate critically needed incomes?

In these, and scores of similar instances, the answer has frequently been a resounding "no." The "soft" form of the morality of good intentions pays lip service to good consequences—but closes its eyes to actual results.

It is important to distinguish the person holding this premise from the person who, from ignorance or confusion, honestly believes that interventionism or collectivism leads to good consequences. The point here is that, today, the ranks of the *knowledgeably* innocent advocates of statism are rapidly shrinking—

and what is left are, quite often, those to whom the effects of their proposals are only a secondary concern.

"Hard" Intentionalism

The "hard" form of this premise totally divorces moral intentions from consequences. The hard-core "intentionalist" dismisses any concern for effects, blindly and exclusively focusing on a sense of duty—a duty to follow some moral edict regardless of context, in spite of consequences. This premise leads to the psychology of the fanatic, as described in Eric Hoffer's *The True Believer*. The hard-core "intentionalist" expresses only the most remote concern for consequences—usually, some vague, distant utopia. But this is, in most cases, a rationalization. His real satisfaction comes from a sense of "doing the right thing"—even when "right" has, in his mind, no clear connection with reality.

One exponent of this "hard" intentionalism was Lenin. In *Modern Times*, Paul Johnson cites some revealing facts about Lenin's mentality. At age 22, Lenin persuaded friends against collecting money for famine victims, since their misery might help them "reflect on the fundamental facts of capitalist society." Trotsky described him as a Robespierre and his methods as Jacobin; another contemporary called him an "illegitimate child of Russian absolutism." In any case, the direct consequence of his ideas on real people meant nothing to Lenin. "We'll ask the man, where do you stand on the question of the revolution. Are you for it or against it? If he's against it, we'll stand him up against a wall." All that mattered to Lenin was the *idea* of a communist society—an abstraction to which mere humans were sacrificial offerings.

It is thus pointless to argue with proponents of "the morality of good intentions," hard or soft. Facts, reasons, evidence, logic, are all beside the point. What matters is only their sense of moral duty—an unshakeable loyalty to some moral premise severed from reality. The reward for such loyalty does not lie in the results: only in a feeling of self-righteousness, of "being right."

Consider, now, the "intentions" of many of today's anti-capitalists. Declaring their desire

for a society based on “compassion” and “benevolence,” they condemn individualism and capitalism—not for their results—but because they are not based upon such compassionate *intentions*.

“It is not from the benevolence of the butcher, the brewer, or the baker, that we expect our dinner, but from their regard to their own interest,” wrote Adam Smith. “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.” And this is precisely the problem—say the collectivist proponents of “good intentions.”

For instance, the following appeared in a letter to a newspaper: “*Webster’s* . . . defines capitalism as ‘the economic system in which the ownership and exploitation of wealth are left largely in private hands.’ *Webster’s* further defines exploitation as the way to ‘turn (something) to one’s own advantage; utilize selfishly.’ This . . . is a very good reason to question the merits of capitalism.”

Observe the nature of this all-too-typical moral criticism. There is no mention of the actual effects of capitalism—or of alternative systems. All that matters is the *intention* underlying the system . . . an intention which is not primarily “compassionate.” Remaining unasked, hence unanswered, are the questions: Why is an action which enhances one’s well-being evil? And why is compassion alone the essence of morality?

This gets to the crux of the modern assault on capitalism. Perhaps, admit collectivists, capitalism delivers the goods; perhaps it benefits the masses; *but that isn’t its intention*. Far more “moral,” they believe, to have a collectivist system which *intends* compassion and fails to deliver, than one which *intends* “selfishness” and benefits all!

Fortunately, there is no dichotomy between capitalism’s moral and practical aspects. Capitalism is not simply the only practical social system; it is the only social system based upon *moral responsibility* and *benevolence*.

The heart of the “morality of good intentions” is irresponsibility. It requires of its practitioners no more than a feeling or intention. Moral responsibility requires far more. It requires one to reject hypocrisy by acting upon

his convictions and intentions (integrity). It requires one to concern himself with the real-life truth or falsehood of his convictions (honesty). It requires one to consider and accept personal accountability for the social consequences of his actions (justice).

Self-Responsibility

The essence of the philosophy of individualism is self-responsibility. An individualist accepts full moral responsibility for forming reasoned judgments, and for living by the work of his own mind. He knows that nature, to be commanded, must be obeyed—that whatever values he seeks must have a basis in the natural requirements of human well-being. He knows that his survival and success depend ultimately on his integration of ends and means, values and virtues, practice and principle. He knows they demand his rigorous concern for facts, and entail his total personal accountability. In short, he grasps that individualism means integrity, honesty, and justice—and that to reject these natural laws is self-defeating.

Moral responsibility is the core of the capitalist system. In every aspect, capitalism requires men to live in accordance with their natures as productive, self-responsible moral agents. When socialists sniff that capitalism is only concerned with “the bottom line,” they are rebelling against the fact that capitalism—mirroring reality itself—is focused on *consequences*, not mere intentions. To survive, man cannot merely wish for his means of survival, but must produce them. Likewise, to succeed under capitalism, one must do more than simply “mean well” (who doesn’t?). One must produce and trade real goods and services others want and need. Capitalism is the only social system which takes cognizance of human nature and the requirements of reality.

Every other social system—from fascism to feudalism, from imperialism to socialism—attempts to by-pass the moral requirements of individual human life. In the place of integrity, honesty, and justice, they demand conformity, obedience, and parasitism. Yet because reality demands these virtues as the price of survival, the only option is systematic plunder of those who *do* assume their moral responsibilities.

Deep down, even die-hard “good intention-ists” know that “meaning well” will not feed, clothe, or shelter anyone. Even they know that necessities and luxuries must be produced and provided by those who *have* assumed the moral responsibility to do more than “mean well.” Hence their eagerness to concoct social systems which harness morally responsible individuals in service to *their* “good intentions.” Such a system indulges them the luxury of feeling self-righteously moral through intentions alone—while others must labor to turn those intentions into reality.

But is their motive really a compassionate desire to help—or simply the desire to feel compassionate? If it were otherwise, why do they stubbornly resist decades of evidence demonstrating the catastrophic consequences of their policies? No one can forever claim to be *benevolent in spite of the consequences*. And while it is impossible to read minds, one must wonder at the stubborn blindness of self-styled moralists to their own chronic disasters. In my opinion, “the morality of good intentions” constitutes their blinders.

What About Benevolence?

If the moral core of capitalism is self-responsibility, then what about benevolence? Adam Smith was right: Under capitalism, most people’s foremost priority is rarely “service to others.” But that does not imply that their aim is to *exploit* others. Nor does it mean that benevolence and compassion are incompatible with a self-interest rooted in self-responsibility. In fact, only a self-responsible individual can reject the notion that human interests are inherently at war—and is thus free to feel general benevolence. Moreover, only productive people who are allowed to keep what they produce have the financial means to act upon compassionate feelings for the helpless.

Today, the erosion of individualism and capitalism is bringing back the very misanthropic attitudes which they once vanquished. Under redistributionism, producers are becoming increasingly incensed over their exploitation. Many, equating today’s predatory welfare state with “capitalism,” are coming to accept that

“the system” is “dog-eat-dog.” More and more are returning to the view that there *is* an inherent “conflict of interests” among men.

Among the casualties of this trend are, of course, economic efficiency and productivity. But the less obvious casualties include honesty, integrity, and justice. Honesty—as men rationalize their parasitism. Integrity—as they abandon their principles of working for what they want. Justice—as they start to live at the expense of the shrinking number of producers.

But there are even less tangible casualties—ironically, the very qualities which government intervention was supposed to nurture in the “heartless” capitalist system: benevolence, compassion, and good will.

As human survival comes to depend less on personal responsibility, and more on political pressure-group warfare, men learn to fight for their livelihoods by joining special interest groups. Like rodents fighting for cheese, men are reduced to feuding over government “benefits.” Each resents paying more in taxes than he receives from the public troughs—and resents the unearned benefits going to others. So he comes to regard his fellow men, not as friendly competitors, but as enemies in a battle for survival.

One cannot feel benevolence under a system of “loot or be looted.” One cannot feel compassion when punitively taxed so that others may receive the plunder. One cannot feel good will toward those having a legal stranglehold on his life, liberty, and property.

The economic case for capitalism has never been refuted. But it is seldom economics that is disputed anymore. The empirical case against collectivism is now openly discussed. But it is rarely the facts that are at issue today.

Increasingly, the last remaining prop for collectivism is the creaking crutch of a splintering morality—a morality of empty intentions. It is the last impediment to a fully capitalistic society.

For the self-responsible, confronting and banishing “the morality of good intentions” is an ethical imperative. And besides its obvious benefits to ourselves, such a crusade would constitute our greatest act of true compassion for the tortured human race. □

The Rhetoric of Antitrust

by Thomas J. DiLorenzo

In theory antitrust regulation promotes competition in the marketplace but in reality its results are often anticompetitive. It is routinely used by businesses having problems competing as a tool to keep their competitors from cutting prices, expanding production, and differentiating their products. In short, the conventional view that antitrust regulation is in the "public interest" is a myth. The rhetoric of antitrust is almost always emotional, but rarely logical. And emotion all too often dominates logic in matters of public policy.

One early example of antitrust rhetoric that was clearly harmful to competition was the charge by Judge Learned Hand in the 1945 case, *United States v. Aluminum Company of America*, that Alcoa violated the antitrust laws because of its practice of "exclusion." The judge explained Alcoa's guilt as follows: "We can think of no more effective exclusion [of competitors] than progressively to embrace each new opportunity as it opened, and to face every newcomer with new capacity already geared into a great organization having the advantage of experience, trade connections, and the elite of personnel."¹ By putting together a "great organization" whose products consumers *voluntarily* chose over others, Alcoa was found guilty of "anticompetitive" behavior. There are literally hundreds of examples of this type of "reasoning," which has been called antitrust upside down.²

Although there have been some exceptions, things apparently haven't changed significantly over the past forty years. Antitrust rhetoric continues to defy logic.

As one example, in 1985 the city of Long Beach, California filed a \$350 million civil suit against six oil companies, accusing them of "conspiring to depress the price of crude oil pumped from city tidelands in violation of state antitrust laws."³ The suit accuses the companies of "posting prices at unreasonably low and noncompetitive levels below fair market value," and of engaging in "reciprocal exchanges, swaps and buy-sells . . . designed to . . . eliminate . . . price competition of the marketplace." This is par for the antitrust course: lawsuits alleging that consumers are being harmed by *lower* prices.

The reality of this suit is that consumers would be harmed by higher energy prices; but Long Beach political authorities must feel that such harm is justified if the city government can bring in more revenue (the rental fee for the tidelands is based on the market value of the oil pumped from them). Thus, the suit alleges that by dropping their prices the companies cost the city at least \$350 million in foregone revenues and seeks treble damages.

Although forty years apart, these cases have at least two things in common: 1) They contain rhetoric that is misleading, incomprehensible, or even insulting; and 2) the rhetoric is used to rationalize policies that impede competitive behavior and *raise* prices, all in the name of protecting consumers.

Such rhetoric appears to be the rule rather

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than the exception. Let us examine a few of the more common abuses that have become widely accepted and have helped establish the myth of antitrust.

Antitrust Rhetoric Versus Reality

Antitrust regulation has always been concerned with corporate mergers. An entire vocabulary has developed as a means of criticizing them.

The domino effect. Corporate mergers are often opposed on the grounds that they sometimes lead to a "domino effect." That is, a successful merger spawns other mergers with the ultimate effect being a reduction in the number of firms in an industry and weaker competition. This is one reason why "merger waves," which have occurred periodically since the late 19th century, have been so widely criticized. According to this line of reasoning, an appropriate public policy is to nip the problem in the bud—to legally prohibit the first merger from taking place—rather than allowing an industry to become monopolized and then, after the fact, seeking a remedy such as divestiture.

This is an appealing and popular theory, but upon close examination it suffers from a number of fatal problems. First, the mere number of business firms in an industry does not necessarily have anything to do with monopoly power. Research over the past two decades has shown that industrial concentration is most often caused by superior efficiency on the part of one or a few firms in an industry, not monopoly.⁴ Laws and regulations that prohibit mergers, therefore, have meant the sacrifice of efficiency and lower prices.

Big business is not necessarily bad, for substitute goods, international competition, and potential competition all limit the ability of an unregulated firm to charge monopoly prices. For example, even though the domestic automobile industry is composed of only a few firms, who would seriously accuse it of monopolizing its markets in light of fierce international competition?

A second problem with the domino theory is that the root cause of many merger waves is

efficiency: one efficiency-enhancing merger encourages others. If one merger allows the newly-restructured firm to become more efficient due to economies of scale, for instance, other firms must follow suit to remain competitive.

A third problem is that the domino theory assumes that judges, regulators, economists, or politicians know something they cannot possibly know: the most efficient organization of an industry. That is, they presume to know whether three firms, thirteen firms, or thirty firms is the most "appropriate" number and to possess knowledge of the most efficient scale of each firm.

This knowledge can only be gleaned, however, by trial and error in the marketplace. Firms are constantly changing their size, structure, and methods of operation in order to discover the most cost-effective (and therefore profitable) procedures.

To legally ban a merger on the grounds that it would lead to a "nonoptimal" organization of industry is pretentious. To make such an argument is to claim to know what can only be discovered by allowing the merger (and the entire market process) to take place. Such pretentiousness is at the heart of the U.S. Justice Department's arbitrarily-drawn "merger guidelines," whereby it threatens to legally block any merger that might result in any one firm making a certain (arbitrarily-chosen) share of market sales.

Foreclosure. One economist recently complained that by not challenging enough vertical mergers the Reagan administration was "discouraging competition" by "gutting the antitrust statutes."⁵ This view reflects the conventional wisdom regarding vertical mergers, which occur when a manufacturer merges with a raw material supplier or a distributor. Such mergers have often been banned by antitrust authorities because purchasing a raw material supplier would allegedly "foreclose" rivals (of the manufacturer) from the raw materials. To merge with a retailer is viewed as equally evil, for it purportedly cuts off competitors from channels of distribution.

The absurdity of this reasoning is the assumption that increased purchases of raw mate-

rials by one business means there is less (or none) for others. Economic activity, in other words, is a zero-sum game according to this view. But as long as there is a demand for the raw materials someone will supply them to whoever wants them. Consider the example of a steel manufacturer that purchases a coal company. It will profit by having its own easily-accessible coal supply as well as by selling coal to others, including its rivals. After all, if it doesn't sell the coal, someone else will. It is not clear why vertically-integrated steel manufacturers or other coal producers should be expected to turn their backs on profit opportunities. Whenever there is a vertical merger nothing would prevent other coal companies from doing additional business, so that no one is "foreclosed" from anything.

What about a manufacturer that merges with a distributor? This sometimes occurs because it is cheaper for some businesses to retail their goods through their own subsidiaries rather than independent distributors. It also gives the manufacturer more control over marketing strategies and procedures. This might "foreclose" other firms from using that particular distributor, but so what? Nothing is stopping them from integrating.

When a corporation runs to the antitrust authorities and requests that they block a vertical merger by a competitor it is a sure sign that the merger would permit lower prices or better product distribution. After all, if such mergers really were anticompetitive and caused higher prices one would hardly expect to observe competitors bringing antitrust suits. They would either be pleased that their competitor is raising his prices or would happily raise their own prices as well.

Squeezing. Vertical mergers between, say, a steel producer and a coal mine are sometimes objected to on the basis that nonintegrated steel producers are allegedly "squeezed" between (their own) higher coal costs and lower steel prices charged by the integrated producer. This is said to create a monopoly.

The problem with this argument is that there is nothing stopping any other steel producer from becoming vertically integrated if that is what it takes to become more efficient. More-

over, if "squeezing" causes lower costs and prices, what's wrong with that?

Antitrust complaints of squeezing are typically made by businesses who prefer not to compete by cutting costs and dropping prices. This charge is especially specious in industries where there are many firms, close substitute goods, and international competition. The steel industry is a good example.⁶

Price discrimination. Section 2 of the Clayton Antitrust Act outlaws price discrimination, or charging different prices for goods "of like grade and quality" in different geographical markets if the effect is "to substantially lessen competition." Regulated or government-owned monopolies such as public utilities have long engaged in this practice as a way of exercising their *government-sanctioned* monopoly power. The Clayton Act does not apply to these obvious monopolies but has been used to regulate the pricing practices of private businesses in markets where monopoly power is much less obvious, if not nonexistent. Even though price discrimination is, in theory, a means of *exercising* monopoly power, not obtaining it, in practice the enforcement of the doctrine is used as a regulatory tool against businesses where there is no good reason to suspect monopoly power to even exist.

The Clayton Act is a lawyer's dream, for it is left up to the courts to decide whether products are of "like grade and quality." This is inherently difficult, however, for consumers may view the quality of each item differently, depending on their own subjective preferences. For instance, even if two commodities are physically identical people may assign different quality levels to them because of the commodity's association with a popular brand name. It is not clear that such differences can legitimately be ignored. In the minds of consumers the products would not be identical. In short, deciding what constitutes "like grade and quality" is not as easy as it seems, even for items which can be graded chemically or by other physical means.

The Clayton Act does allow for price cutting in one geographical market if the price reduction occurs because of cost reductions or follows "in good faith" the price reduction of a

competitor. The problem, however, is that if one's competitor initiates the price cutting, the competitor can be sued for price discrimination if the price cut was not "in good faith." Furthermore, a seller has no sure way of knowing that his competitor's price cut was in good faith without access to the competitor's cost data. A seller does not know whether the price reduction he is about to meet is itself legal. Meeting an illegal discount has been ruled illegal.⁷

Thus, if one initiates price cutting one can be sued for violating the Clayton Act; if one raises a price in one geographical market there is also the possibility of being sued; ordinary competitive practices like quantity discounts are sometimes ruled out;⁸ and if prices are held constant in all markets it is possible a price-fixing conspiracy case can be brought. No matter what a businessman does with his pricing policies he can be dragged into court for violating the Clayton Act. In the name of competition, "good faith," and "consumer protection" this act impairs price competition. It is only because of modest enforcement levels that the law hasn't eliminated more price competition.

Predatory pricing. This is where a business is said to have a "war chest" of monopoly profits that it falls back on while pricing its product below cost temporarily in order to drive its competitors out of the market. However, economists have had a difficult time documenting such episodes,⁹ and in theory it would appear to be unwise for any businessman to try to monopolize a market in this way. Even if a gas station owner, for instance, drove the station across the street out of business there is nothing preventing consumers from avoiding "monopoly" prices by going elsewhere. Moreover, if a "local monopoly" is established the monopoly profit would quickly attract new businesses, eventually eliminating any above-normal profits. There is also the possibility that a competitor will only temporarily shut down during the price-cutting period and then go back on the market when the higher prices are charged, thereby denying the "predator" any long-term gain. In short, predatory pricing guarantees a short-term loss of money, while the prospects of ever making long-term monopoly profits are bleak at best.

Furthermore, the reasoning behind the predatory pricing theory appears logically inconsistent. It assumes a "war chest" of monopoly profits to already exist which is used to finance the practice of temporarily pricing below cost. But how are the monopoly profits generated if the monopoly is supposedly created and maintained in the first place by predatory pricing?

The notion of predatory pricing has spawned endless litigation, and many of the subsequent judgments have been arbitrary, subjective, and damaging to competition. The problem is that if company A brings an antitrust complaint against company B it is known with certainty that, up to that point, consumers have benefited from company B's price cuts (and company A's as well if it followed suit). But for a court to deem such price cutting as "predatory" requires knowledge by the court of company B's *intent*. Did it cut price just to compete, or is it acting as a predator? This is impossible to know with certainty. Despite all these problems, predatory pricing has become part of the antitrust folklore. And the problems are empirical as well as theoretical. In the first (and probably most famous) predatory pricing case, Standard Oil of Indiana, operated by John D. Rockefeller, was found guilty of monopolizing the petroleum market through predatory pricing, among other means. However, John McGee¹⁰ has shown that no evidence was ever even submitted to the courts that Rockefeller even attempted it.

Concluding Thoughts

Much of the rhetoric of antitrust cannot withstand close scrutiny. Nevertheless, it has been employed for the past 95 years to rationalize policies that are increasingly recognized as counterproductive. This should have been expected, for even the rhetoric spoken during the Congressional debates over the first Federal antitrust law, the Sherman Act of 1890, reflect specious arguments. Contrary to the standard account of the origins of antitrust, the 19th-century trusts were *cutting* prices and expanding production rapidly.¹¹ But the Act's sponsor, Senator John Sherman, attacked them because he felt that such price cutting interfered with the government's protectionist trade policies.

“The trusts have subverted the tariff system; they undermined the policy of government to protect . . . American industries by levying duties on imported goods.”¹² Congressman William Mason, who played an important part in the House debates over the Sherman Act, condemned the trusts because even though they “made products cheaper,” they “destroyed legitimate competition and have driven honest men from legitimate business enterprises.”¹³ This is classic antitrust doubletalk: cutting prices is “bad” because it “destroys competition.” Price cutting is, of course, the essence of competition and its chief benefit to consumers.

In short, we need to be more skeptical of antitrust rhetoric. A current example of the potential for emotive rhetoric to dominate discussion of the dangers of big business is the emerging public policy discussion about corporate takeovers. Just consider some of the rhetoric involved: raiders, poison pills, sharks, shark repellent, white knights, golden parachutes, greenmail, and so on. Such rhetoric tends to overshadow the real issues of consumer and stockholder welfare with arguments that often cannot be supported by either logic or factual information.

In summary, it is instructive to recall what economist Alan Greenspan said of antitrust more than twenty-five years ago:

The world of antitrust is reminiscent of Alice's Wonderland: everything seemingly is, yet apparently isn't, simultaneously. It is a world in which competition is lauded as the basic axiom and guiding principle, yet “too much” competition is condemned as “cut-throat.” It is a world in which actions de-

signed to limit competition are branded as criminal when taken by businessmen, yet praised as “enlightened” when initiated by the government. It is a world in which the law is so vague that businessmen have no way of knowing whether specific actions will be declared illegal until they hear the judge's verdict—after the fact. In view of the confusion, contradictions, and legalistic hairsplitting which characterize the realm of antitrust, I submit that the entire antitrust system must be opened for review.¹⁴

It is high time we followed this advice. □

1. *United States v. Aluminum Company of America*, 148 F.2d 416 (2nd Cir. 1945), p. 431.
2. See Dominick Armentano, *Antitrust and Monopoly: Anatomy of a Policy Failure* (New York: Wiley, 1982).
3. “California City Files Suit Against Oil Firms,” *Washington Post*, March 5, 1985, p. D-2.
4. Such evidence is contained in H. Goldschmid, H. Mann, and F. Weston, eds. *Industrial Concentration: The New Learning* (Boston: Little, Brown, 1974); and Brozen, *Concentration, Mergers and Public Policy* (New York: Macmillan, 1982).
5. Willard F. Mueller, “Toward Greater Economic Concentration,” *St. Louis Post-Dispatch*, August 5, 1986, p. 3-B.
6. For a discussion of such cases see Eugene Singer, *Antitrust Economics* (Englewood Cliffs, N.J.: Prentice Hall, 1968).
7. *Federal Trade Commission v. A. E. Staley Manufacturing Co. et al.*, 324 U.S. 746 (1945).
8. In a case in which the Federal Trade Commission accused the Morton Salt Company of price discrimination on the basis of volume discounts, the FTC argued that such practices harmed certain wholesalers (who did not receive the discounts) since they “must either sell at competitive prices and in so doing reduce their possible profits . . . or attempt to sell at higher prices. . . .” See *Federal Trade Commission v. Morton Salt Company*, 334 U.S. (1940), p. 43.
9. See John McGee, “Predatory Pricing Revisited,” *Journal of Law and Economics*, April 1981.
10. John McGee, “Predatory Pricing: The Standard Oil (N.J.) Case,” *Journal of Law and Economics*, April 1958.
11. Thomas J. DiLorenzo, “The Origins of Antitrust: An Interest-Group Perspective,” *International Review of Law and Economics*, vol. 5, 1985, pp. 73–90.
12. *Congressional Record*, 51st Congress, 1st Session, Senate, June 20, 1890, p. 4100.
13. *Congressional Record*, 51st Congress, 1st Session, House, June 20, 1890, p. 2558.
14. Alan Greenspan, “Antitrust,” in Ayn Rand, *Capitalism: The Unknown Ideal* (New York: New American Library, 1966).

The Monopoly Problem

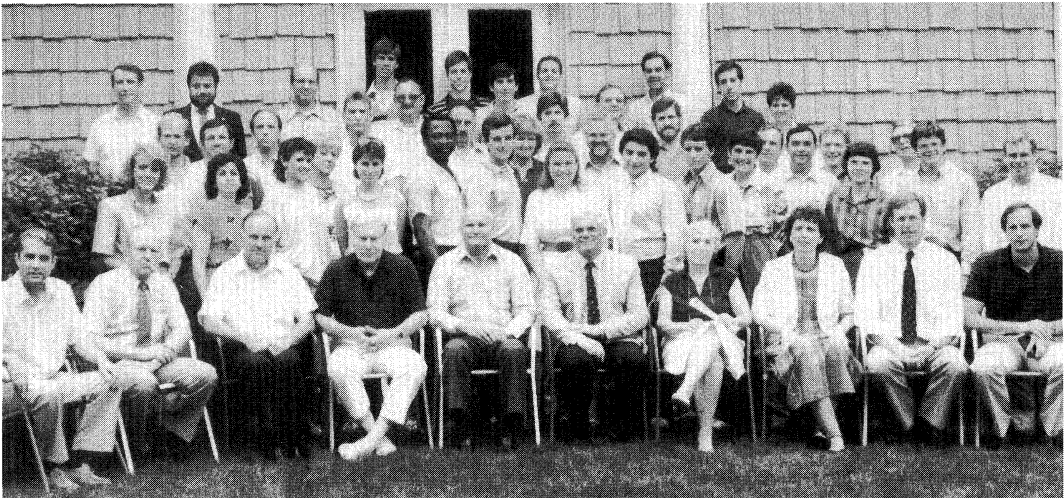
The great monopoly problem mankind has to face today is not an outgrowth of the operation of the market economy. It is a product of purposive action on the part of governments. It is not one of the evils inherent in capitalism as the demagogues trumpet. It is, on the contrary, the fruit of policies hostile to capitalism and intent upon sabotaging and destroying its operation.

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Wilson and His Peacemakers

by John Chamberlain

Arthur Walworth, who won a Pulitzer Prize for his biography of Woodrow Wilson, is not an economist by profession. But in his new book, *Wilson and His Peacemakers: American Diplomacy at the Paris Peace Conference, 1919* (New York: W. W. Norton, 618 pp., \$35.00) he leaves no doubt that the economic decisions of those who were more concerned with punishing Germany than in establishing a workable world led directly to World War II.

This conclusion, of course, was established some time ago by John Maynard Keynes, whose *Economic Consequences of the Peace* benefited from Keynes' ringside seat at Versailles. Bernard Baruch concurred with the Keynesian analysis. But it has remained for Walworth to check out the infinitely harrowing details of Woodrow Wilson's failure to make it a just peace in the first six months of 1919.

Walworth sums things up pithily by saying that "the withdrawal of the United States" in 1919 from active peacemaking decisions "left many of the expectations raised by its president unfulfilled. German Social Democrats, striving to operate a new government, were disappointed in their over-optimistic hopes. Contrary to the doctrine of self-determination, they found their population and that of Austria diminished by hundreds of thousands of people of their blood. Instead of sharing in the political reconstruction of the world's society that Wilson had advocated under economic arrangements that would make it possible to engage in productive industry and profitable trade, Germany could look forward only to inflation and bankruptcy."

Wilson went to Paris with high hopes that he



Woodrow Wilson

could put some meaning into his rhetoric about making the world safe for democracy. He had enlisted scholars to redraw the map of Europe and to indicate possible mandates for both the Middle East and the colonial preserves of Africa. Ethnic lines and language groupings would be respected. The word, stressed over and over again, was "self-determination." But there were brute facts of geography to be reckoned with, and the disposition of raw materials was not always convenient. Then there were the secret understandings among the European nations that antedated America's entry into the war.

Unable to cope with the wiliness of Britain's Lloyd George and the intense nationalism and Germanophobia of Clemenceau, the "Tiger of France," Wilson put his remaining trust in the League of Nations. The League would do what

the Treaty of Versailles had left undone. But Wilson sadly underestimated the fact that Europe remained a prey to disruptive forces that were deeply rooted in history. The Czechs were quarreling with the Poles over coal mines at Teschen. The Sudeten Germans, living on a strip of territory that had been awarded to Czechoslovakia for reasons of military safety, were hard to conciliate. In the South Tyrol hundreds of thousands of Germans and Austrians were consumed with acute distaste for the Italian government that had insisted on annexing them. Poland had to deal with Ukrainians in territory that was supposed to protect East Galicia. The Croats and the Slovenes, shoved together in the New Yugoslavia, were in a perpetual state of friction. Bulgaria and Hungary had lost large portions of their native populations. Instead of democracy, dictatorship was to be the lot of many of the small East European countries.

What was important about all this was that it set up a hundred excuses for an Adolf Hitler to build his case against Versailles. Senator Henry Cabot Lodge the Elder could not foresee Hitler. And he knew little about economics. But he knew that the American people had not really been weaned away from a traditional isolationism tempered by the continentalism of the Monroe Doctrine. It did not bother him that, when Wilson left Europe, we were tentatively committed to an active role throughout the world. Our troops were policing the eastern shores of the Adriatic. We had regiments on the Rhine. We had subsidized equipment for the White Russian armies. Herbert Hoover was committed to feeding east central Europe, and Washington had supplied the credits to move the food. All of this compounded the tremendous letdown in Europe when Lodge prevailed upon his fellow Republicans to reject the League of Nations and to refuse to sign the German peace.

It could be accounted a strange thing that Wilson, who had written on constitutional government in a federated system, missed the point that in a world of differing local traditions and languages, to say nothing of religious commitments, federalism is the only possible free unifying force. Clarence Streit, the *New York Times* correspondent at Geneva, the home of

the League, caught on to this in the twenties. The contrast between the League and its host government of Switzerland was too striking to be ignored. Beyond the question of a federalism that might have provided the Paris peacemakers with a better model for the Western democracies, Wilson underestimated the portent of Lenin's Bolsheviks. A free Germany was needed as a bulwark against the spread of Leninist doctrine.

But Wilson was right on the central issue: a vindictive peace would prove to be no peace at all. The peacemakers of 1815 did not hold a defeated France responsible for Napoleon's wars, with the result that Europe was able to live for 99 years without a major war. The history of the 19th century might have been repeated if there had been more willingness on the part of Lloyd George and Clemenceau to let Social Democratic Germany live. It was the German inflation forced on a truncated country by wholly unrealistic reparations that prepared the soil for the Nazis.

The organization of the United Nations, unfortunately, doesn't seem to be much better than the League. But at least the U.S., in making peace in 1945, had benefited by the lesson of Versailles. In letting Germany and Japan live without crippling encumbrances, the era of civil wars in the West was brought to a close. The Soviet face-off is another matter. □

ANTITRUST POLICY: THE CASE FOR REPEAL

by D. T. Armentano

Cato Institute, Washington, D.C. • 1986 • 78 pp. • \$7.95 paperback

Reviewed by Sylvester Petro

This little book covers a lot of ground, thinly, of course, for there is only so much you can do in 78 pages, but well enough to kill most of the weeds parading under the name "antitrust theory." Professor Armentano takes up one by one the main contentions of the "trustbusters" and shows them all to be mythic and wrongheaded. Since the antitrust laws thus serve no useful purpose, but

Dr. Petro is the author of The Labor Policy of the Free Society and numerous other scholarly books and articles.

on the contrary have done considerable economic and ideological harm, he concludes that they all should be repealed.

Armentano places the antitrust idea among the other accusations of "market failure" which have premised virtually all the noxious interventionist legislation of the last hundred years, beginning with the Interstate Commerce Act. This is an important perception, but it is too bad that he has not rounded out the analysis. He might have gone on, if only briefly, to spell out the deeper truth that ultimately dooms the "market failure" idea: *Human nature and the structure of the universe are such that free markets and personal freedom, properly understood, are optimizing institutions.*

Values being subjective in origin and character, however widely shared, there is no way that limiting personal freedom, as all interventionist legislation seeks to do, can avoid reducing human welfare. Policies designed to correct alleged "market failures" thus are themselves bound to fail—from the point of view of the general welfare. Armentano more than likely shares these convictions, for he says that "because individual costs and benefits are ultimately subjective and personal, they cannot be added up or subtracted to calculate net social efficiency or welfare." (p. 71)

However, his demonstrations of the errors of antitrust policy are loaded with the language and the overtones of the positivist "empiricism" of the so-called "Chicago School," which seems to have replaced Keynesianism as the obligatory dress length in that most fashion conscious of all occupations, university teaching. Armentano is better than some. He does cite Hayek, Kirzner, and even Rothbard once or twice. But there is no citation to Mises, a serious omission, since the monopoly analysis in *Human Action* is the most seminal critique of "antitrust theory" in the literature. And for Armentano, judging from his references, the "Chicagoans," Bork, Posner, Stigler, and Demsetz, are the authorities to reckon with. Surely they are worthy writers and thinkers, but it is unsound scholarship and poor form to grant them precedence over Mises. We certainly agree with Armentano that the antitrust policies are noxious and that they should be abandoned. But it is important to the future

of liberty that the grounds be established as clearly as possible. And this can be done only in the manner advanced by Mises, the Austrian a priori.

Antitrust theory holds with Karl Marx that an unhampered economy produces monopoly concentrations of "economic power" which destroy competition, exploit labor and consumers, and thus certainly also fail to allocate resources optimally. Mises has shown that there is no way to prove or disprove this proposition empirically. Even though the historical evidence has suggested time and again that the Marxian predictions are wrong, socialism springs up anew time and again, and it does so because people continue to believe that the liberty of entrepreneurs is not only dispensable, but even dangerous and noxious. It is the same with such interventionism as the antitrust policies embody. Until freedom of economic action—human action—is regarded as the essential human liberty, the optimal method of social organization, there never will be an end of efforts to correct "market failures." But only logical deduction from self-evident premises, together with a steady barrage of uncompromising exposition of the truths thus derived, can hope to achieve and to spread the necessary understanding. Statistics are inadequate, both epistemologically and rhetorically. Some day, perhaps, students of freedom will count the title of Mises' great work, *Human Action*, as the ultimate excellence of this; in the current idiom, it says it all.

Armentano's refutation of antitrust theory is at bottom logical. For example, he says that "by definition, a free market is always competitive and tends to eliminate inefficiency" (p. 59). But he is given to the funny "empiricist" jargon of such statements as "the only objective ex post test of the correctness of entrepreneurial decisions is the market process itself." I suppose that if one wants to belong to the club of current academic economists one must talk like that, but such expressions as "ex post" and "ex ante" are not helpful. They also grate on the nerves. Finally, they really do not convince anyone of anything important. . . . For all that, this is a good book, with sound and good ideas on every page, and readable for the most part, too. □

A BASIC HISTORY OF THE UNITED STATES (five volumes)

by Clarence B. Carson.

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Reviewed by Bettina Bien Greaves

These five volumes are probably the best available survey history of the United States. They cover almost four centuries—from the arrival of the first European settlers through Ronald Reagan's first administration. Dr. Carson, frequent *Freeman* author and former college history professor, has formed a richly woven tapestry of events and the ideas that spawned them.

For Carson, history is not merely a collection of facts and dates, an account of explorations, settlements, westward expansion, wars, Presidents, and elections. History is the product of the actions of countless individuals, each under the influence of certain ideas. And Carson explores those ideas, ideologies, and "isms." He shows how they were responsible for the settlement of this continent, the struggle for freedom, the westward expansion, the construction of schools, churches, factories, and the founding of new religious denominations. He explains why our ancestors fought for their beliefs, and strove to create a government, limited in scope, with checks and balances, that would not have the power to oppress the people.

As the late Ludwig von Mises wrote, "The genuine history of mankind is the history of ideas. . . . Ideas engender social institutions, political changes, technological methods of production, and all that is called economic con-

ditions. . . . New ideas . . . are the response offered by a man's mind to the ideas developed by his predecessors." (*Theory and History*, p. 187)

This is Carson's approach. He explores the ideas from which events spring, explains their complex interrelationships, and makes them understandable. He discusses at length the 19th-century authors, romanticists, utopians, and religious crusaders who sought to make society over according to their own plans. He shows how the views of some of these idealists served in time to undermine the rule of law and to limit the freedom of individuals. He deals with radicalism, Marxism, populism, and progressivism, and shows how each has contributed to the growth of government.

Volume I backtracks to discuss the intellectual climate in Europe before Columbus sailed west. Carson then reports on the influences that led the several colonies to struggle for independence from England.

Volume II carries the chronicle through the years when the colonies were becoming unified into a single nation and beginning to expand westward.

Volume III describes the development of north-south dissension, the Civil War, the devastation of the south, and its painful recovery. Carson shows how Congress violated constitutional principles during the post-Civil War reconstruction period, rode roughshod over the rights of individuals, and thus contributed to the expansion of government.

In Volume IV, which deals with the latter half of the 19th century, we begin to see the origin of the ideas and "isms" that spawned 20th-century government intervention. Here Carson explores the germs of socialism, communism, international imperialism, World War II, and the monetary manipulation that led to the artificial boom of the 1920s.

Volume V brings the narrative to times within the memory of many of us. We read here of the depression, FDR's New Deal, World War II, welfarism, the "cold war," Korea, the radical 1960s, Vietnam, and Watergate.

Carson considers the 1960s, under the Warren Court (1953-1969), to have been a second period of "reconstruction." Once more

the Constitution was ignored and the rights of individuals violated. To wipe out the remnants of racial segregation, and to assure voting rights, religious freedom, and the rights of the criminally accused, the Court altered the system of constitutional checks and balances. This contributed to the breakdown of law and order, and the attack on family values.

Carson's final chapter, "The Conservative Response," credits writers such as Ludwig von Mises, F. A. Hayek, George Orwell, Ayn Rand, Henry Hazlitt, Leonard Read, Robert Welch, Bill Buckley, Russell Kirk, and others for the recent shift toward "conservatism." He gives Reagan credit for helping to revive patriotism and confidence in America. However, the welfare state is so thoroughly entrenched that government continues to grow in both size and scope.

Carson earned his Ph.D. at Vanderbilt University. As the author of books on this nation's early years (*The American Tradition* and *The*

Rebirth of Liberty), 19th-century America (*Throttling the Railroads* and *The Fateful Turn*), the ideological turn toward socialism (*Flight from Reality* and *The World in the Grip of an Idea*), and recent government intervention (*The War on the Poor* and *Organized Against Whom?*), he is well equipped to write a survey of U.S. history. Whatever the future brings for this country, Carson's overview will help us to better understand how it came about.

These five volumes are profusely illustrated. Each contains portraits and biographical vignettes of leading figures, and is indexed and footnoted. The footnotes, which are numbered in sequence from the beginning to the end of each volume, make it easy to locate a specific reference. At the end of each volume there are "Suggestions for Additional Reading." Thus these volumes are not only "storybook history," but they can lead the reader to further exciting reading. □

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124 Entrepreneurs and Their Gifts

Jane S. Shaw

Consumers reap the rewards of entrepreneurial effort.

126 Liberty and Individual Responsibility

Dwight R. Lee

The inextricable link between responsibility and individual liberty.

134 The Ethics of Entitlement

Hans F. Sennholz

The transfer society leads to conflict and strife.

140 Morality Laws = Majority License

Robert James Bidinotto

Should the state be the guardian of moral values?

143 Women and the Market

Sam Staley

The market, not government, offers women the greatest opportunities.

147 Alternatives to Public Libraries

J. Brian Phillips

The history—and the future—of independent libraries.

151 Supply-Side Economics and Austrian Economics

Bruce Bartlett

Tracing the free-market roots of the supply-side movement.

155 Power and Peasantry: A Report from the Soviet Union

Sven Rydenfelt

The mismanagement of agriculture, from the Bolshevik Revolution to date.

159 A Reviewer's Notebook

John Chamberlain

A review of "The Harvest of Sorrow: Soviet Collectivization and the Terror-Famine" by Robert Conquest.

CONTENTS

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The Freeman considers unsolicited editorial submissions, but they must be accompanied by a stamped, self-addressed envelope. Our author's guide is available on request.

Speak for Yourself!

There are many reasons to support the free market system—a fact reflected in the divergent philosophies of the system's advocates.

For some, the rationale for capitalism is strictly utilitarian: it fulfills the economic wants of the greatest number of people. Others deny the possibility of any single standard of values for all people, arguing that a free, pluralistic society allows for diversity and competition among subjective values. Some hold that capitalism's individualist roots can be traced to Christianity, which recognizes the sacred importance of the individual soul. Still others, from a secular standpoint, contend that capitalism is the only system fully compatible with human life, creativity, and self-realization.

Most people think there is strength in numbers, and feel reassured when they can claim a host of supporters for their positions. Perhaps that is why some proponents of liberty yearn for a mass movement, an identifiable "we." They would have "us" confront the public with a united front—a coalition based on suspension of divisive premises, and focused solely on "our" common conclusions.

But such a unity has its dangers. All philosophical roads do not necessarily lead to the same political destination. Differing premises often color the kinds of conclusions people will reach on a variety of issues. The philosophical disputes among freedom's interpreters and advocates frequently have practical consequences, and should not be evaded.

Yet neither should they be feared. Fundamental debates help us clarify and strengthen our understanding. Just as importantly, debates will refine the emerging arguments for freedom and capitalism.

What is crucial is to maintain open forums for these debates—forums (such as *The Freeman*) in which *individuals* may present their insights, contentions, and understanding for public consideration. Ideas are not spread by coalitions; rather, it is only after individuals advance their own visions of the truth that coalitions can arise around their fundamental positions.

Today there remains a variety of intellectual arguments for a free society. So let us not pretend to ourselves, or to the public, that “we” are part of some unified intellectual movement. Let us not hide behind the collective “we”; but rather, let us each accept full individual responsibility for our own convictions. In short, when addressing the public, make it clear that you *speak for yourself!*

—Robert James Bidinotto

Freedom Around the World

On his 70th birthday, in 1964, Henry Hazlitt spoke of the importance of continuing the struggle for freedom. In many ways, the situation then was discouraging. But Hazlitt admonished his listeners, “Be of good heart; be of good spirit. If the battle is not yet won, it is not yet lost either.” Twenty-three years have passed. Although “the battle” is still not “won,” there is cause for cautious optimism.

Groups all over the world are now promoting the freedom philosophy. Some date from before 1964—for instance, this Foundation, as well as organizations in Argentina, England, and Guatemala. But many more have sprung up since and are publishing books, conducting seminars, and establishing educational institutions.

For instance, the Universidad Francisco Marroquin in Guatemala and the Escuela Superior de Economía y Administración de Empresas (ESEADE) in Argentina are dedicated to explaining free market principles and their application to the real world. Some of the books of the noted “Austrian” economist, Ludwig von Mises, as well as those of his Nobel Prize-winning student F. A. Hayek, once again are being published in the original German. Quite a few of them have been published in other languages, the latest being a Spanish translation of Mises’ *Planning for Freedom*. Some of the writings of Frederic Bastiat, who had been all but forgotten in his native France, are being reprinted in French by a newly-formed institute in Paris. Other organizations to promote the freedom philosophy are operating in Australia, Austria, Belgium, Brazil, Canada, Denmark,

Germany, Iceland, Mexico, Netherlands, Norway, Panama, Portugal, South Africa, Spain, and Sweden.

As Mr. Hazlitt said, the battle may not as yet have been won, but it has also not been lost.

—BBG

A Look at the Supply Side

Bruce Bartlett’s first *Freeman* article appeared in 1975. He went on to become one of the leading spokesmen for supply-side economics. Because of the increasing importance of supply-side theory, and because of Mr. Bartlett’s familiarity with FEE’s free market, limited government stance, we have called on him to explain the supply-side position to *Freeman* readers. See his article, “Supply-Side Economics and Austrian Economics” on page 151.

—BJS

Op-Ed Program Starts Second Year

April marks the first anniversary of *The Freeman’s* op-ed newspaper program, in which we send adaptations of *Freeman* articles to a select group of newspapers for use on their editorial or commentary pages.

Thus far, columns have appeared in newspapers in 23 states and the District of Columbia, including such major outlets as the *Houston Chronicle*, the *Phoenix Gazette*, the *Chicago Tribune* and *Chicago Sun-Times*, the *Orange County Register*, Long Island’s *Newsday*, the *Dayton Daily News*, and the *San Diego Union*. Combined circulation for all newspapers who have used our columns is over 8 million.

These results are encouraging. They show that FEE, without compromising our message, can readily achieve publication in the mainstream press.

As we continue with this program, we would appreciate it if you would call our attention to any of our articles you may see. □

Entrepreneurs and Their Gifts

by Jane S. Shaw

The Terrapin Station is a new restaurant in the basement of an old hotel in Bozeman, Montana. At the end of a dingy hallway you suddenly come upon a place that's spiffy and charming, where the tables glitter, as the wine glasses—gaily filled with colorful napkins—reflect the light of kerosene lamps.

What makes this place exciting and heart-rending at the same time is that the proprietors are doing something outlandishly extravagant and probably foolhardy. They are providing a gourmet seafood restaurant for the middle of southern Montana.

You may not know much about Montana, but it's nearly a thousand miles from an ocean and hundreds of miles from almost anything else. Bozeman is a town of 25,000 people. Most of them don't have a craving for seafood, since Montanans grow up on hamburger or beefsteak. And the proprietors aren't selling mere seafood—they are selling exotic preparations such as blackened red snapper and bluefin tuna!

But that's the way it is with entrepreneurs. They take unpromising locales and rough raw materials and try to fashion them in accord with an idea glowing in their minds—a new offering that will appeal to the customers that

they believe (against all odds) are there. That's why author George Gilder calls entrepreneurs "givers," people who give first and receive rewards later—and they are rewarded only if people voluntarily pay for what they've been offered. Frequently, few people choose to pay and the business doesn't last very long.

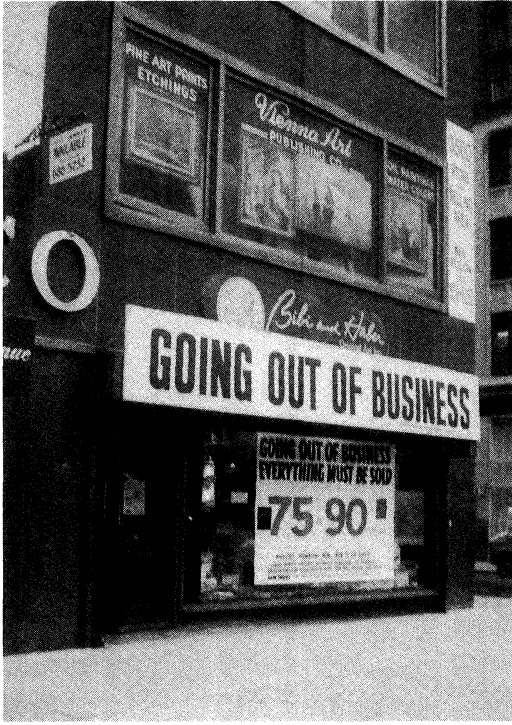
Sometimes, of course, enterprises succeed. Times change, new people move into town, tastes develop. Maybe this time it will work.

Thanks to an ever-renewing crop of such entrepreneurs, little Bozeman has riches beyond anything one could rationally expect—a store devoted exclusively to doll furniture, a nursery that supplies African violets only, two upscale kitchen boutiques, three high-toned wine shops, and a book store that carries the *New York Times Book Review* and books by Anne Tyler and Barbara Pym.

The trouble is, a lot of shops don't last very long. At any one time, the Bozeman you see is a snapshot that will never be the same again. In the past two years, I've seen restaurants, exercise clubs, food stores, clothing shops, and furniture outlets come and go.

Shops rarely go bankrupt. According to Dun and Bradstreet, all of Montana had fewer than 200 bankruptcies in 1985. But businesses change hands frequently and for little cash. A flower shop, I hear, sold for \$3700 several years ago—about what it had cost a few years before.

Statistics show that at any one time, about



Bettina Bien Greaves

one in seven of all the businesses in our county is less than a year old or has changed hands within the year. New optimists take the place of old ones, renting out empty storefronts as others close their doors. I used to worry when I saw a “going out of business” sign, anticipating a great loss, but now I know that some other expansive soul will replace the one who lost his shirt.

An economist recently observed that we get more goods and services in Bozeman than we

deserve. What he meant is that—as a result of all these eager entrepreneurs—we don’t pay the full cost of the goods and services we buy. Instead, the providers pay in the form of lost profits and lost fortunes. We, the consumers, are the beneficiaries.

I haven’t been able to determine whether the turnover in Bozeman is greater than in other places or just more visible. While Montana’s bankruptcy rate is lower than that of the majority of states, bankruptcies are a relatively rare phenomenon everywhere, and bankruptcy figures don’t begin to reflect the change of ownership that is so noticeable here.

If the turnover *is* greater here, it is because people like it here. The romance of the West and the freedom of the outdoors attract people. There isn’t much in the way of employment, so people bring their own—using up their grubstake from back East to start shops, restaurants, and businesses. They run them until their patience or their money runs out.

A business can’t operate over the long run unless it makes a profit. But Bozeman’s experience suggests 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.

Gilder says that entrepreneurs “orient their lives to the service of others.” They may not mean to do it at such great expense to themselves, but as I sip chardonnay at Terrapin Station and contemplate the blackened red snapper, I am grateful. □

In Retrospect

The entrepreneurs are neither perfect nor good in any metaphysical sense. They owe their position exclusively to the fact that they are better fit for the performance of the functions incumbent upon them than other people are. They earn profit not because they are clever in performing their tasks, but because they are more clever or less clumsy than other people are. They are not infallible and often blunder. But they are less liable to error and blunder less than other people do. Nobody has the right to take offense at the errors made by the entrepreneurs in the conduct of affairs and to stress the point that people would have been better supplied if the entrepreneurs had been more skillful and prescient. If the grumbler knew better, why did he not himself fill the gap and seize the opportunity to earn profits? It is easy indeed to display foresight after the event. In retrospect all fools become wise.

—LUDWIG VON MISES, *Profit and Loss*

IDEAS
ON
LIBERTY



Liberty and Individual Responsibility

by Dwight R. Lee

Liberty is both a highly valued outcome of a beneficent political economy, and an essential ingredient into it. In some respects a consideration of the role of liberty as both output and input is straightforward. Limited government, serving to maintain the legal environment necessary for an economic order based on private property and voluntary exchange, provides fertile ground for individual liberty. And the lifeblood of a political economy characterized by limited government, private property, and voluntary exchange, is the flow of information that can be provided only when individuals possess a full measure of political and economic liberty.

However, a careful examination of how a political economy based on classical liberal principles both nourishes, and is nourished by, individual liberty reveals a complicated interaction between the social institutions necessary for liberty and the exercise of liberty. The exercise of liberty, unless tempered by a responsibility that can never be imposed entirely by a force external to the ethical convictions of the individual, will with time undermine the social institutions upon which liberty depends. A careful study of the political economy of liberty contains within it a warning of just how fragile is the foundation upon which liberty stands.

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This essay was one of two winning entries for the North American Region in the N. Goto Essay Contest held in conjunction with the 1986 general meeting of The Mont Pelerin Society in Italy. The author would like to thank the Philip M. McKenna Foundation for financial support which helped in the preparation of this paper.

Scarcity, Rules, and Liberty

In order to examine the connections between economics, politics, and liberty, it is useful to consider first the most fundamental of economic problems. That problem is scarcity. In a world without scarcity each of us could be entirely independent of others. Each individual could exercise complete freedom in a broad range of activities and have no impact whatsoever on anyone else. Because we live in a world of scarcity, individuals must interact with one another and this interaction is shaped by rules of social conduct. Such rules impose restrictions on the activities of individuals and establish the important distinction between liberty and license. Without the restrictions imposed by such rules, scarcity itself would impose on us an even more confining set of restrictions.

Consider the fact that although scarcity makes cooperation desirable, it makes competition inevitable. Each of us wants more than he has and the only way to get more is by competing against others for control over limited resources. Competition is commonly seen as the source of a host of social ills, with the replacement of competition by cooperation suggested as necessary for social improvement. What this view fails to recognize is that competition is not the cause, but rather the consequence, of the ultimate social ill, namely scarcity. With no way to eliminate scarcity, the important question is not how to prevent competition, but how to provide rules for social conduct that motivate the type of competitive

behavior which leads to productive and cooperative outcomes. Competition can be either productive or destructive depending on the rules that define permissible limits in our dealings with one another.

Consider the possibility of no rules, or more accurately the rule of force. Everyone would be free to do whatever he wanted as long as he possessed the power to force his will on others. In this setting, people would be forced to compete through the exercise of unrestrained brute strength and there would be no freedom in the meaningful sense of "independence of the arbitrary will of another."¹

If one person had enough physical power he could force others to work for him without compensation, to be his slave. But the master today has no assurance that he will not be someone else's slave tomorrow.

Neither is the rule of force likely to motivate productive and cooperative outcomes. There would be little motivation to devote one's effort to the production of wealth since there would exist no protections against its forcible expropriation by others. Competing successfully would depend more on developing the skills needed for plundering and defending against plunder than on developing the skills needed to produce wealth. Even if one were able to survive in such a social environment, one's standard of living would be low. With resources being devoted overwhelmingly to predation and protection from the predatory activity of others, little would be produced and poverty would be the norm. Life in such a Hobbesian jungle would indeed be "solitary, poor, nasty, brutish, and short."

Freedom from rules is simply not a viable social possibility. In a society without rules there would be little prosperity and no genuine freedom.

Social Order at the Sacrifice of Liberty

Emergence from the Hobbesian jungle, which finds a "war of each against all," is necessary if we are to realize the benefits of a civil social order. Underlying any beneficent social order are rules that will impose limits on individual behavior. All rules serve to limit

freedom of action. However, when rules are applied generally they can, by limiting the actions of each in predictable ways, expand the liberty of all.²

On the other hand, when they become too numerous and detailed, rules can destroy liberty just as surely and effectively as no rules. And the tendency is in the direction of too many rules. Traditionally the obsession within societies has been the horrors of disorder. With plunder, riot, rape, mayhem, and murder the common experience, the loss of liberty has been seen as the unavoidable cost of escaping disorder. The prevalent human condition throughout history has been subjugation to rigid and brutally enforced rules that specify the type and location of one's work, travel, religious practices, and even social status. The overriding problem of society has been that of maintaining order, and only the most limited amount of liberty has been considered compatible with this objective.

While a rigid social order based on detailed rules concerning every aspect of behavior may be preferred to the chaos that would prevail in the absence of all rules, the shortcomings of such a social order are apparent. The first problem is to find leaders who can be trusted with the power that has to be exercised in a totally controlled society. Such power is subject to enormous abuse. Those who have such power are in a position to advance their interests at the expense of their subjects, and will seldom be able to resist the temptation to do so. The only possible advantage an all powerful government has over anarchy is that the exercise of government power is visible. Moving from the anarchy of no rules to the detailed control of leviathan government is to substitute one thief in the light for many thieves in the night.

The cost in terms of sacrificed liberty is much the same regardless of whether it is sacrificed to anarchy or to unlimited government. One who finds himself forced to toil for the benefit of others is not likely to care who his masters are—the physically dominant brutes in the "jungle" or the politically dominant brutes in the government.

So, traditionally, the social choice appeared to have been between some combination of two

undesirable states: the regimentation of detailed rules or the lack of social order. Society could have less of one only at the cost of having more of the other. There appeared to be no realistic hope that individuals living together in a world of scarcity could simultaneously have both more liberty and more social order. It was in the 17th and 18th centuries that philosophers began to give serious consideration to a structure of rules that offered the possibility of overcoming this social dilemma.³

The Rule of Private Property

It was the writings of John Locke, Adam Smith, Bernard Mandeville, and other 17th- and 18th-century philosophers that gave modern birth to the ideal of compatibility between individual liberty and social order. Crucial to this ideal was a fundamental conceptual shift regarding the role of rules. Social rules were traditionally seen as necessary to force particular outcomes which were required if a productive social order was to be maintained. Fields had to be tilled, cloth had to be woven, cattle had to be tended, and particular services had to be rendered. Concentrating authority in the hands of a ruler who could require these things to be done was seen as the only guarantee that they would be done. The fundamental insight of the aforementioned philosophers was that establishing general rules of social conduct, which ignored particular outcomes, could create an environment in which desirable outcomes emerged from the exercise of individual liberty.

Crucial to this liberating view of social order are rules which clearly define individual rights by providing assurances that individuals can plan and carry out their activities without the return to their activities being arbitrarily confiscated by others. Lacking such assurances, little motivation exists for people to be productive and no basis exists for them to interact with each other in a civil manner.

The rule of private property can now be seen as crucial to the goal of a productive social order that is compatible with, indeed dependent upon, individual liberty. The rule of private property requires that individual rights to property be well defined and subject to transfer

from one individual to another by mutual consent of both parties. When liberties are constrained only by the broad limits imposed by the rule of private property, then a system of social communication and cooperation is established within which the liberty of each individual is compatible with the liberty of all. Indeed, under the rule of private property the liberty exercised by one expands the options over which liberty can be exercised by all.⁴

The social cooperation facilitated by the rule of private property, though well known to all serious students of economics, is sufficiently relevant to a consideration of liberty to deserve discussion. When property is privately owned and voluntarily exchanged, market prices emerge. These prices are the means by which each market participant communicates to all other market participants the value he places on the marginal units of goods.

Property Encourages Honesty

In addition to creating a truly impressive network of communication, private property motivates an equally impressive degree of honesty. Honesty can be expected to prevail since it is in no one's interest to be dishonest about the price he is willing to pay. The self-interest of market participants insures that they will assess carefully the value they expect to realize from an incremental unit of each good, and then communicate their desire for more only if the incremental unit is worth more to them than the prevailing market price.⁵ Furthermore, each participant in this communication process is motivated to act *as if* he gives the concerns of others the same consideration he gives his own. When an individual reduces his consumption of a product in response to an increase in its price, he is in effect saying, "Others are saying to me that this product is worth more to them at the margin than it is to me, so I will consume less so they can consume more."

This system of communication and cooperation obviously does not work with perfection. However, even when full recognition is given to what has become known as "market failure," any impartial evaluation must acknowledge that the benefits derived from the rule of private property, and the derivative

market process, cannot even remotely be duplicated by any known alternative social rule, or set of rules. Because the information and incentives generated by market competition allow each of us to interact cooperatively and honestly with literally millions of people around the globe, we are able to specialize our efforts, direct resources into their most productive uses, and thus generate enormous wealth.

Surely more important than the wealth generated under a system of private property and market exchange is the individual liberty that this system permits. The rule of private property makes it possible to allow people a large measure of liberty because this rule makes people accountable for the consequences of their decisions. Every time an individual puts a resource to use, a cost is imposed; that cost being measured in terms of the value of the resource in the highest valued alternative use. When an individual owns a resource he is fully accountable for this cost, since his use of the resource requires the sacrifice of the highest amount someone else is willing to pay for it. Given this accountability there is no harm, and indeed much benefit, in giving individuals wide latitude to use resources as they choose.

In the absence of private property rights there is a constant clamoring, often with justification, for detailed restrictions on individual behavior. Consider, for example, the fact that it is difficult in the extreme to divide up and parcel out the atmosphere as private property. As a consequence, the atmosphere is a common property resource and individuals are not held accountable for the costs being generated when they use the atmosphere as a receptacle for their auto exhaust, or industrial smoke. The result is broad public acceptance of huge Federal and state bureaucracies imposing a host of detailed restrictions on our behavior in the name of forcing us to act in environmentally responsible ways.

Eliminate the accountability provided by the rule of private property and you eliminate the very basis upon which people can be tolerant of the freedom of others. A reduction in the scope of individual liberty, with detailed directives and regulations replacing general rules of social conduct, is the certain consequence of either the inability or the unwillingness to rely on pri-

vate property and voluntary exchange to order economic activity.

The Need for Government

The advantages we realize from observing the rule of private property are general advantages. The rule of private property is not designed to generate particular outcomes or to allow particular individuals to benefit at the expense of others. Rather it allows the liberty necessary to accomplish objectives that on balance benefit us all, but which no one could have predicted or programmed ahead of time. However, unless each of us refrains from attempting to infringe upon the property rights of others, the general advantages realized from an economic process which fosters both the production of wealth and a social tolerance for liberty will be diminished for everyone.

Unfortunately, even though we become collectively worse off when property rights are violated, it is possible for each individual to improve his situation by infringing on the property of others. The only parasite on a healthy organism is in an enviable position. It is true that if there is a multitude of parasites attempting to free ride on the same organism no one benefits; the organism perishes, as do the parasites. But this elementary fact provides little motivation for any one individual to cease being a parasite and turn to productive activity. Each individual recognizes that denying himself the immediate gains from plunder will do nothing to preserve the benefits derived from private property and voluntary exchange if there is a general failure to respect property rights. Indeed, in a world where everyone is engaged in plunder it would be the height of folly for an individual to confine his efforts to productive activity.

In other words, the free and productive social order based on private property and voluntary exchange is a public good; a good which when available to one is available to all. As with any public good it has to be paid for by the contributions of individuals, contributions which in this case take the form of sacrificing opportunities to infringe on the property rights of others. As is the case with all public goods, each individual faces the tempting possibility of

free riding on the contributions of others. Since individuals know that they can benefit from the free and productive social order that is being paid for by the restraint of others, whether they restrain themselves or not, when left entirely to individual choice we can expect too little respect for private property rights.

Faced with the problem of maintaining social order, each individual is generally willing to exercise restraint if, by agreeing to do so, everyone else is made to do the same. Such collective respect for private property rights has the potential for making everyone better off and, with good prospects for enforcement, will be agreed to almost universally. Enforcement of the social rules of the game is essential here, and it is the need for such enforcement that provides the rationale for the monopoly in coercion which is granted to government.

It is the legitimate role of government to exercise its power in order to serve as an impartial referee who knows the rules of the game, observes the play of the participants, and imposes penalties on those who violate the rules. Good government, as a good referee, does not strive for particular results, but is concerned solely with facilitating the interaction of individuals each of whom is free to pursue his own purposes as long as he operates within the limits established by the agreed upon set of rules.

By enforcing the rule of private property, government is both performing as a referee and requiring that those who benefit from a free and productive social order contribute their part in maintaining it. Those who persist in violating the property rights of others will, if government is doing its job, be denied their liberty through imprisonment. This has the effect of converting the public good provided by respect for private property into a price-excludable public good. That is, those who do not pay the price are excluded from the benefits.

Up to this point the discussion has been concerned primarily with the protective or rule enforcement role of government. The government has to enforce general rules if liberty and social order are to be maintained. In this capacity the government makes no choices in the sense of weighing the benefits and costs of alternatives. It has only to determine if the rules are being obeyed and to take predetermined measures if

they are not. The discussion has, however, touched on a further function of government. Public goods other than social order exist, and the government is also the institution through which members of the community decide which of these goods to finance publicly, and how extensively they should be funded. In this capacity, government is called upon to make genuine economic choices, and to engage in directly productive activities.⁶

The Need to Control Government

The government is then more than the referee in the game; it is a participating player as well. In its capacity as a player government is also subject to rules. This situation presents some rather difficult problems. The fact is that the government is necessarily exempt from certain rules that apply to all other players in the game. The government, in one sense, has the authority to violate property rights by forcing citizens to pay for certain public goods. One can argue that this is not really a violation of property rights since everyone is part of the collective process in which the decision to provide public goods is made and goods are provided in return for payments rendered. This argument notwithstanding, it remains true that government's legal power to compel people to make payments places it outside the rules that apply to private individuals and organizations.

Not only does government enter into the game under less restrictive rules than are imposed on nongovernment players, but since it is government that enforces the rules on all, it is government that enforces the rules on itself. Letting a player in any game be the judge of his own infractions creates an opportunity for abuse that few can be expected to resist. Of course, the government is not a single player but rather a collection of the members of the community. Even so, in their roles as political decision makers individuals will coalesce around certain objectives and will be tempted to take whatever action is necessary to realize their objectives. Whether acting individually or in groups, people find fewer things easier to do than justify in their minds those actions that advance their interests. As a player in the game

the government has to be called to task for violations of the rules just as other players; but how can we be sure that the government will be sufficiently diligent in calling infractions and imposing penalties against itself?

The problem here was clearly seen by James Madison when, in arguing for ratification of the United States Constitution, he wrote:

If men were angels, no government would be necessary. If angels were to govern men, neither external nor internal controls on government would be necessary. In framing a government which is to be administered by men over men, the great difficulty lies in this: You must first enable the government to control the governed; and in the next place, oblige it to control itself.⁷

Obliging government to control itself is no easy task. Government power, unless tightly circumscribed, creates opportunities for some to benefit at the expense of others through involuntary transfers. This abuse of government power tends to feed upon itself. First, government transfers reduce the private return from producing new wealth and increase the private return from acquiring or protecting existing wealth through political influence. This shift in relative returns draws more people out of productive activity and into political activity, which shifts relative returns yet further in favor of the latter. Second, government transfer activity is destructive of the accountability that characterizes an economic order operating in accordance with the rule of private property. As this accountability is reduced the very basis for individual liberty is also reduced and there will be increased pressure for yet broader government control on individual behavior. The power needed by government to maintain a free social order can easily become the force that undermines that order.

Our liberty and prosperity depend on general rules of social conduct. It is government's legitimate function to enforce those rules, as well as to provide a limited number of public goods. In order for government to perform its role properly, the conduct of government also has to be disciplined by general rules. It is important that these rules on government are obeyed. No society will long remain free unless they are.

But how do we impose the discipline on government to get it to enforce these rules on itself and ensure that government power is not used to destroy the very liberty it is supposed to protect?

Constitutional Limits and the Limits of Constitutions

The only genuine hope for controlling government is through constitutional limits on government activity and constitutionally grounded procedures for operating within those limits. It is only by elevating these limits and procedures to the constitutional level that there can be any real prospect of immunizing them against the special interest pressures of ordinary politics.

But while the constitutional approach is the only one that holds promise for limiting government power and for making this power a positive rather than a negative force for freedom, constitutions by no means provide an easy or assured route to responsible government. An effective constitution cannot be created simply by writing words on parchment. The U.S. Constitution, surely the most effective and durable written constitution in history, has served as the model constitution (sometimes being copied nearly verbatim) for numerous political regimes around the world. Few of these cloned constitutions have been particularly durable or effective. A successful constitution has to be derived from customs, beliefs, and ethical understandings that are rooted in a pre-existing social order. A constitution can serve effectively to guard against only those abuses of government power that are widely recognized as abuses. If battered by the force of public approval of particular government practices, constitutional barriers against those practices will soon be breached. As observed by Henry Simons: "Constitutional provisions are no stronger than the moral consensus that they articulate. At best, they can only check abuses of power until moral pressure is mobilized; and their check must become ineffective if often overtly used."⁸

There can be no doubt, for example, that the success of the U.S. Constitution derived from the fact that it was the product of intense and widespread public concern for individual lib-

erty. The 55 delegates to the constitutional convention who met in Philadelphia during the summer of 1787 were not operating from a clean slate. For at least two decades interest in securing liberty had been elevated to an obsession among the American people. According to a colonist writing in 1768, "Never was there a People whom it more immediately concerned to search into the Nature and Extent of their Rights and Privileges than it does the People of America at this Day."⁹

Edmund Burke noted before the House of Commons in 1775 that the colonists' intensive study of law and politics had made them acutely inquisitive and sensitive about their liberties.¹⁰ An outpouring of writing, taking the form of everything from political tracts by the unlettered to celebrated contributions to political philosophy by the intellectual luminaries of the day, were manifestations of the public concerns that found expression in the U.S. Constitution. The protection of liberty was the pre-eminent concern, a concern that saw government power as a necessary evil and discretionary government power as an unmitigated evil.

There is no way of shifting to a constitution the responsibility for protecting individual liberty against the abuse of government power. Liberty will not long survive the absence of effective constitutional limits on government, but constitutional limits on government will not long remain effective in the absence of public approval of those limits.

Individual Responsibility and Political Restraint

Public approval of constitutional limits that make liberty possible depends ultimately on individuals accepting responsibility for the consequences of exercising that liberty. Responsibility has no meaning in the absence of individual liberty, but liberty has no future in the absence of individual responsibility. In the words of Hayek, "A free society will not function or maintain itself unless its members regard it as right that each individual occupy the position that results from his action and accept it as due to his own action."¹¹

This sense of individual responsibility is not

easily maintained. As Hayek also points out, liberty "can offer to the individual only chances and . . . the outcome of his efforts will depend on innumerable accidents, . . ."¹² When an individual suffers a setback it is always possible for him to find plausible reasons for absolving himself of responsibility. The temptation is strong to petition government for relief through exemptions from the rules of the game that apply to everyone else. The individual may recognize that if such exemptions were generalized everyone would be worse off, but still feel sincerely that in his particular case special treatment is fully justified.

When politicians begin exceeding their constitutional authority in order to provide special assistance to the few, they soon find it impossible to avoid providing special assistance to the many. The sense of individual responsibility that is the only effective bulwark against the abuse of government power will quickly break down in the face of that abuse. Few people retain a strong sense of responsibility for their actions when those around them are seeking to avoid this responsibility through political influence. The destructive dynamic here is clear. An expanding government weakens the sense of individual responsibility, and results in more demands on government and yet further government expansion. And, by increasing the opportunities for people to benefit at the expense of others, an expanding government weakens the rule of private property and thus undermines the accountability upon which individual liberty depends.

There is every reason for concern that the size of government in the western democracies has reached the point of posing a threat to the long tradition of liberty that has made these democracies beacons of hope throughout the world. Underlying this development is a fundamental shift in the way the public views government. Rather than seeing government power as a threat that is socially beneficent only when tightly circumscribed, discretionary government power in pursuit of particular ends is now widely seen as the primary force for social progress.

The surface consequences of this shift in responsibility from the individual to the state are clear enough. Expanding budgets and chronic

deficits have become ubiquitous features of the modern welfare state, and have raised concern that this fiscal irresponsibility creates the potential for economic adversity. The most troubling thing about chronic budget deficits, however, is not their adverse economic consequences, but the fact that they reflect our inability to exercise political restraint. There is much discussion of the financial burdens our lack of fiscal responsibility is imposing on future generations. But our lack of fiscal responsibility derives from a general lack of political restraint that portends a far greater burden on the yet unborn than the obligation to pay our debts. That burden is the loss of the liberty that we enjoy today because of the political restraint exercised by our ancestors, but which cannot long survive our political intemperance.

Conclusion

Liberty is possible only when adherence to general rules of conduct makes the regimentation of detailed directives and restrictions unnecessary for the maintenance of social order. Liberty can never be license since the unrestrained use of liberty quickly and surely renders inoperative the general rules upon which it is based. The ideal setting for liberty is one in which individuals have internalized an ethic of responsibility and restraint that motivates voluntary compliance with society's general rules. It is because this ideal can never be fully realized, however, that government is granted the power to force compliance on those who would, in the absence of external restraint, threaten the general liberty by abusing their own liberty. Government power is necessary if liberty is to be prevented from cannibalizing itself.

Government power may be necessary to maintain liberty, but it is not sufficient. The ability of government to enforce impartially general rules *can* be sabotaged by the same lack of individual responsibility and restraint that makes government necessary in the first place. The ability of government to enforce impartially general rules *will* be sabotaged if the lack of responsibility and restraint reaches the point where government becomes the dominant

source of discipline in society. The more necessary government is to the maintenance of the general rules upon which liberty depends, the more insufficient to this task it is sure to be.

There is no avoiding the fact that liberty will perish if the exercise of liberty is not tempered by an ethic of individual responsibility. The affirmation of this fact is the ethical responsibility of those of us who cherish liberty and understand the fragile foundation upon which it stands. □

1. The usefulness of this definition of freedom is explained by F. A. Hayek in his *The Constitution of Liberty* (The University of Chicago Press, 1960). See especially chapters 1 and 2.

2. In the words of John Locke, "The end of law is not to abolish or restrain but to preserve and enlarge freedom; for in all the states of created beings capable of laws, where there is no law, there is no freedom. For liberty is to be free from the restraint and violence of others, which cannot be when there is no law; but freedom is not, as we are told, a liberty for everyman to do what he lists. For who can be free, when every other man's humor might domineer over him?" See John Locke, *The Second Treatise of Government*, ed. by Thomas P. Perdon (New York: The Liberal Arts Press, Inc., 1954), pp. 32-33.

3. The first recorded awareness that individual liberty could be expanded under a set of universally applied rules (the rule of law) comes from the ancient Greeks, particularly the Athenians during the fifth and fourth centuries B.C. The Greek ideals of liberty were kept alive by Roman writers, such as Cicero, whose work was important to the modern development of classical liberal principles.

4. As Hayek points out, "The benefits I derive from freedom are thus largely the result of the uses of freedom by others, and mostly of those uses of freedom that I could never avail myself of." F. A. Hayek, *op. cit.*: p. 32.

5. Under certain conditions it is obviously possible for sellers to benefit by misrepresenting their products. But just as obvious is the fact that this problem is mitigated by market forces. Also, specific market arrangements tend to develop that reduce the seller's potential to gain from fraud, because both buyer and seller can benefit from such arrangements. For a useful discussion of such arrangements, and the theory behind them, see Benjamin Klein and Keith Leffler, "The Role of Market Forces in Assuring Contractual Performance," *Journal of Political Economy* (August 1981), pp. 615-41.

6. Buchanan makes a clear distinction between the rule enforcement role of government and the role of government as economic decision maker in his discussion of "the protective state" and "the productive state." See James M. Buchanan, *The Limits of Liberty: Between Anarchy and Leviathan* (Chicago: The University of Chicago Press, 1975), Chapter 4.

7. Federalist 51, *The Federalist Papers*.

8. Henry C. Simons, *Economic Policy for a Free Society* (Chicago: University of Chicago Press, 1951), p. 20.

9. Quoted in Clinton Rossiter, *Seedtime of the Republic: The Origin of the American Tradition of Political Liberty* (New York: Harcourt, Brace, and World, Inc., 1953), p. 362.

10. See Gordon S. Wood, *The Creation of the American Republic, 1776-1787* (Chapel Hill: The University of North Carolina Press, 1969), pp. 4-5.

11. Hayek, *op. cit.*, p. 71.

12. Hayek, *op. cit.*, p. 71. While acknowledging here the obvious fact that no one can be in complete control of the outcomes that affect him, Hayek continues with the observation that when an individual has to accept responsibility for those outcomes, "it forcefully directs his attention to those circumstances that he can control as if they were the only ones that mattered."

The Ethics of Entitlement

by Hans F. Sennholz

Entitlement programs—government taking income and wealth from some citizens and transferring it to others—are a fairly recent development. The U.S. government assumed the task only two generations ago when Congress introduced progressive taxation and, soon thereafter, launched systems of old age insurance and unemployment compensation. Since then, social pressure, sustained by strong moral emotion, has caused all administrations to pursue the ideals of a more equal distribution of wealth.

From its very beginning many economists have strenuously opposed all political efforts at redistribution. They point not only at the tremendous rise in economic well-being of all social classes, including the poor and disabled, long before governments embarked upon income redistribution, but also at the futility of all policies of redistribution. The working and living conditions of American workers, they contend, were the best in the world long before New Deal legislators passed labor laws. In the U.S., they remind us, even individuals on public assistance always have lived better than their peers in most other countries.

American economic history clearly attests to the tremendous productivity which a system of economic freedom unleashes. Mindful of the phenomenal improvement in the living conditions of every citizen of a free society, of the reduction in human mortality rates and the

great lengthening of life expectancy, the foes of redistribution proudly conclude that unhampered economic freedom is most virtuous and moral. The system of social organization that builds on freedom is in complete harmony with the calls and imperatives of ethics.

These economists are unalterably opposed to political intervention because it springs from politics, builds on verdicts and interpretations of judges, and depends on brute enforcement by police. It runs counter to the inexorable laws of human action and, therefore, brings forth the very opposite of what it sets out to achieve. It hampers economic production, discourages individual effort, stifles economic progress, and creates social and economic classes whose self-interests are irreconcilable. Government intervention on behalf of one social class against another not only is illogical and ineffective, but also highly immoral. It defies the eighth Commandment—Thou shalt not steal—and violates the tenth—Thou shalt not covet anything that is thy neighbor's. It is bound to bring poverty, frustration, quarrel, and strife.

The advocates of redistribution remain undaunted by such rejoinders. They reinterpret and reject the evidence and cling to doctrines and theories of their own. They raise the question of goodness and desirability of redistribution for the benefit of the greatest number. Searching for fairness and brotherly love, they pursue two distinct ideals: the removal of human want and suffering through the use of economic surplus, and the abolition of the great inequality of means among the several members of society.

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The Removal of Want

Many redistributionists like to give vivid descriptions of the sad conditions of impoverished and destitute members of society. They point at the chronically unemployed and underemployed lacking money or means for an adequate existence. They wax eloquent about their fellowmen who are abjectly and conspicuously poor, and who suffering hunger and want due to misfortune, are in urgent need of assistance. After all, man has a moral obligation to help his unfortunate fellowmen. This duty rests squarely on the Judeo-Christian ideal of brotherhood that makes every man his brother's keeper. To act in accordance with the standards and precepts of Judeo-Christian codes of behavior is to be a Good Samaritan.

A helper and benefactor to the unfortunate and poor, the Good Samaritan binds the wounds, nurses the sick, and helps them get back on their feet. He does not call for government programs that make poverty a permanent social institution playing a central role in politics. He does not depend on progressive income taxation, nor on poverty administrators consuming the lion's share of the poverty budget, or poverty politicians enacting minimum wage laws, occupational licensing, and union power and privilege. To be a helper in need is to lend a friendly hand to a needy person; it is personal effort and sacrifice.

In order to pool their efforts and maximize their effectiveness, Good Samaritans may want to cooperate with each other in church congregations and other charitable organizations. But they must be ever mindful that any delegation of charitable obligations may reduce the quality of charity and, in the end, deny it altogether. To rush past a poor man who fell among thieves, and later send a few dollars to a world relief organization, is to pass by on the other side, like the priest and the Levite. The Good Samaritan does not ride on, but places the victim on his own beast, brings him to an inn, and takes care of him.

The advocates of redistribution ride on, pointing at the pitiful conditions of the laboring classes during the 18th and 19th centuries, and hailing labor legislators and labor organizers for having brought about remarkable improve-

ments. They pin their faith to politics and labor unions. Unfortunately, both are utterly incapable of improving the economic conditions of all laborers. If they could, the poverty of Africa, Asia, and Latin America could be eliminated by simply passing more laws.

Actually, neither foreign governments nor the U.S. government can improve the lot of working people. Economic conditions spring from and depend on economic production. To improve labor and living conditions is to increase labor productivity. It requires a will and courage to work, to save and invest, and respect for private property in the means of production.

The redistributionists ride on, calling for the distribution of surplus wealth and pointing at more affluent members of society. They are aware that the moral obligation to help the poor and needy rests most heavily, although not exclusively, on the wealthy. But they are grossly misinformed about the magnitude and nature of the surplus wealth that is available for redistribution. In a commercial and industrial society nearly all personal wealth consists of means of production affording jobs and providing consumer goods for the people. The great wealth of an American billionaire consists of oil wells and refineries, means of transportation and communication, founder's stock and growth stock, debenture bonds and mortgage bonds. To seize his productive assets and consume them is to reduce labor productivity, lower wage rates, and aggravate the plight of the poor. It is counterproductive no matter whether it is exacted by progressive income taxation or confiscatory estate levies.

The Equalization of Incomes

Many redistributionists nevertheless favor progressive taxation because they are more concerned about the inequalities of income and wealth than the alleviation of poverty. They are troubled about the sorry conditions of the unemployed classes; but they are even more apprehensive about the unequal distribution of wealth. It is highly improper and unjust, they argue, that some people have less than is necessary while others have so much more. Some individuals suffer hunger and want while others

dwel in idle luxury; the poor live in alleys and cellar ways while the rich frequent nightclubs, casinos, and horse races. In fact, it is scandalous that so many should live in dire need while others indulge in "silly" expenditures. This is why many redistributionists favor a floor beneath which no one should fall and a ceiling above which no one should be permitted to rise.

Redistribution is supposed to bring forth a righteous society—to overcome the evil of want by suppressing the evil of luxury.

It is a popular habit of speech to call "just" that which people desire and "unjust" that which they disapprove. They clamor for economic equality in the name of justice although justice actually demands inequality. Justice means due reward or treatment. It grants individual rewards proportionate to individual effort and assigns to every individual the fruits of his labor. It is therefore reasonable to conclude that justice is not served by compulsory equalization of incomes, and that, contrary to public opinion, our present society engaged in redistribution by political force is not a just society.

The forces of equalization do not spring from justice, but from two absolute disapprovals by public opinion makers: the unrightness of hunger and want, and the unrightness of luxury. Redistribution is supposed to bring forth a righteous society. Sacrificing nothing of value, it is to overcome the evil of want by suppressing the evil of luxury. It is to correct one bad pattern of life—poverty—by the suppression of another bad pattern—luxury.

Equalitarians are ill informed about the quantity of idle wealth that can be seized and distributed. As mentioned above, great personal wealth consists primarily of productive capital, the expropriation and consumption of which reduces labor productivity and labor income. Surpluses consisting of idle luxuries in the hands of the rich are inadequate to raise lower incomes to a desirable level. The pursuit of

equality, when conducted in earnest, therefore involves the lowering of all incomes, even those of skilled workers and lower-middle-class producers. In the end, policies of income equalization merely rearrange income horizontally; they do not, as is commonly believed, redistribute much income and wealth from the rich to the poor.

Redistributionists like to base their case on "the economics of welfare," which teaches that a loss of the last unit of income of the affluent is but a small sacrifice; but the same unit in the hands of the poor amounts to a substantial improvement. Professor Arthur Pigou states it most succinctly: "It is evident that any transference of income from a relatively rich man to a relatively poor man of similar temperament, since it enables more intense wants to be satisfied at the expense of less intense wants, must increase the aggregate sum of satisfactions."¹ Professor Abba Lerner repeats the principle in an academic garb: "Total satisfaction is maximized by that division of incomes which equalizes the marginal utilities of income of all the individuals in the society."² In the end, he and his welfare colleagues arrive at the conclusion that "the probable value of total satisfactions is maximized by dividing income evenly."³

Victims of Transfers

It is difficult to fathom the inner-direction that leads these professors to such popular though erroneous conclusions. But it can readily be seen that the utilities of income of different persons cannot be measured with a common rod. No one can measure the utility of the last dollar of income of one person and then compare it with its utility in the hands of another person. But we do know that the intensity of the dissatisfaction due to loss of income and sudden lowering of levels of living may be far greater than the satisfaction from receiving largesse. The victim of the transfer process may be more indignant about the loss than the beneficiary is cheerful and contented about his gain. Psychologists warn of the violent, socially disruptive discontent of individuals who are suddenly deprived of their customary ways of life. In fact, being victimized by unjust policies

that depress some people at the expense of others may create the emotional ingredients from which revolutions are made. The wrath of the victims may be the spark that ignites the powder keg which is the transfer system.

In democratic societies with a long tradition of majority rule, the dissatisfaction of the victims does not readily ignite the political powder keg as long as the transfer beneficiaries outnumber the victims. The minority is accustomed to living by the decisions of the majority, not because they are believed to be fair and just, but because submission safeguards the peace. To rise and rebel against it would mean conflict and violence to which the friends of democracy are unwilling to resort. However, throughout the nondemocratic world accustomed to political conflict and rule by brute force, attempts at income redistribution often lead to violence. The political minority that is to be sacrificed to majority entitlements search for ways to escape or, when all avenues of escape are barred, to strike back at the majority; acting through juntas of colonels and generals, for example, it may seize political power and establish its own transfer system.

In democratic societies the dissatisfaction caused by loss of income can be observed in the political opposition to measures of redistribution. Successful opposition denotes an excess of dissatisfaction; token opposition signals continuing support for redistribution. Successful resistance may reveal that most voters now see themselves as victims rather than beneficiaries; token opposition may signal voter belief that redistribution continues to benefit them. It should be borne in mind, however, that the relative strength of both the transfer and the anti-transfer party is affected not only by their personal gains or losses, but also by considerations of moral imperatives. Even the victim of redistribution may at times cast his vote for an entitlement if he deems it moral and righteous; similarly, the beneficiary may vote against it and refuse to accept it if he believes it to be wrong.

Unheeded Consequences

Most of the time the beneficiaries can be expected to press for redistribution in disregard of its effects on society. They blithely assume that

economic activity will continue undiminished no matter what government may do to the producer, that productive capital will be created, jobs provided, and wage rates be raised regardless of the exactions from savers and investors. Obviously, such assumptions spring from wishful thinking and economic daydreaming. Redistribution that seriously aims at equality tends to retard economic progress, brings about stagnation and recession, and, in the end, leads to universal scarcity through capital consumption.

In an unhampered market order many highly talented individuals are led to serve the economic needs and wants of others.

Redistributionists who refuse to see such basic effects also are oblivious to more subtle effects that tend to render redistribution counterproductive. Three such effects deserve immediate attention.

First, confiscatory tax levies may cause individuals with exceptional energy and ability—the entrepreneurs and captains of industry—to leave economic life and pursue other vocations. In an unhampered market order many highly talented individuals are led to serve the economic needs and wants of the people. In the service of consumers, who are the sovereign bosses of the market order, entrepreneurs are free to apply their energy and ability to try to revolutionize and reorganize every phase of production. In freedom, inventors like Eli Whitney and Thomas Edison, innovators like Andrew Carnegie and Henry Ford, and organizers like Edward Harriman and John Pierpont Morgan, are led to mobilize economic resources and direct them toward serving the public. The vital few, instead of ruling men, are led to serve men.⁴

Individual freedom reveals inequality in productivity, which brings forth inequality in income. Confiscatory tax levies designed to redistribute income and wealth not only repress individual freedom but also run counter to human nature. They are supposed to achieve an unnatural state of affairs. Moreover, they pre-

vent many gifted people from pursuing their careers in economic life, and cause them to seek self-fulfillment in the arts and sciences, in civil service or military careers, in the pursuit of national, racial, and political objectives. They may force creative people to surrender economic management to politicians and bureaucrats. The detrimental effects on economic well-being need not be elaborated.

Second, redistribution deprives society of the great variety of life styles and cultural and intellectual activities that spring from different life styles. It brings about a radical shift in demand and production. The demand for and production of popular goods and services is bound to rise; production for the affluent classes is destined to shrink. In particular, the production of artistic and intellectual goods is likely to be affected; operas, symphonies, chamber music, painting, sculpturing, and other manifestations of the fine arts face dwindling markets. In fact, man's cultural aspirations may suffer serious losses unless government provides a new superstructure of cultural activities, maintaining and promoting common interest through public libraries, theaters and opera houses, and public centers of fine arts. Government must grant scholarships and fellowships to artists and scientists, and otherwise provide generous support for creative activities normally sustained and promoted by people in higher income brackets. Government must make investments in individual talents that render services in medicine, engineering, and education. At great expense it must create and maintain a new elite that will serve the masses. It must repair the social damage inflicted by the reduction of upper- and middle-class incomes.

Government repair efforts, however, not only necessitate higher public expenditures and taxation but also run counter to the very purpose of redistribution—the maximization of individual satisfactions through income equalization. In search of the “good society” all such efforts promote the production of goods and services for which there is meager demand, and thereby bring about the very allocation of resources that generated the clamor for redistribution. If income equalization maximizes the sum of want satisfactions, all state expenditures in support of cultural and professional activities

blatantly disregard the maximization principle and openly contradict the very rationale of redistribution.

Third, the redistribution process as well as the repair efforts that may follow place politicians and government officials in the center of the economic order. To seize income and wealth from individuals with higher incomes, politicians must pass laws, judges must adjudicate them, and policemen enforce them. Having amputated the higher incomes, which provide the savings and investments for economic growth, politicians and officials must assume the saving and investment functions. When desirable social activities are declining they must provide for and preside over these activities. When personal income becomes insufficient for expensive training and education they must select the trainees and provide the necessary funds. In every case redistribution leads to an expansion of the powers of government and of the individuals who run the government—politicians and officials. Redistribution requires an apparatus of redistribution, which extends the scope of government; the consequences of redistribution in turn necessitate repair efforts that call for more government, making politicians and government officials the primary beneficiaries of redistribution.

Pure redistribution would require a simple negative income tax that hands lower-income people that which is taken from higher-income people. But this is not the redistribution that is practiced. Politicians and officials act as trustees of the “underprivileged,” assigning the burdens and doling out the benefits. And, to avoid creation of a class of unproductive wards, whose civil rights would soon be curtailed, the entitlement benefits are extended to all members of society. Social Security and Medicare benefits are extended to the rich and the poor alike, which significantly raises the expenses of redistribution. The extension of benefits to all in turn warrants an extension of tax exactions from all. In the end, low income earners along with individuals in high income brackets tend to contribute more to the system than they receive from it; after all, the legions of administrators need to be supported.

The great beneficiary of the redistribution ideology is government. It helps government to

break down the age-old resistance of taxpayers to a larger government share of economic production and income. For centuries the people had resisted successfully and, in many cases, had risen in revolution against governments seeking to increase their shares. But this resistance that gave power to parliament and brought forth political liberty, crumbled under the onslaught of the redistribution ideology. It shattered the solidarity of taxpayers through increasing inequality of treatment, deductions, allowances, credits, and positive benefits for individuals in lower-income brackets. Unfortunately, it also divided society into two social classes: the beneficiaries of transfer who are calling for ever more, and the victims who submit unwillingly. It could hardly fail to injure social peace and harmony.

Envy or Error?

The conflict society does not spring from the desire to improve the economic and social standards of its poorer members. It is the bitter fruit of egalitarian ideals that call for equalization of incomes through the agency of the redistributing state. But these ideals do not necessarily reject and condemn all economic inequality; they find fault only with the income and wealth of entrepreneurs and capitalists. Egalitarianism does not necessarily flow from envy and covetousness, but rests precariously on economic error that perceives capitalist income as exploitative.

Throughout the ages man as member of the body politic has readily accepted the pomp and splendor of his ruler. He may have opposed his king when the royal exactions became oppressive and his policies reckless and foolish. Subjects may have risen in open rebellion when the yoke became unbearable. But if we read history aright, the people were rarely, if ever, led to rise against their duly established government for reasons of envy or covetousness. The most diverse societies have tolerated economic inequality quite willingly.

Surely many people are uneasy and envious of the attainments of others. But few Americans resent the magnificent spectacle of government grandeur displayed in Washington, D.C. Every year millions of people are drawn

to the temples of politics that fill them with awe and admiration. They do not begrudge their leaders the luxuries of political offices; they cheerfully approve of the imperial conditions of their President, their senators, and their representatives. Similarly, most Americans do not covet the million-dollar incomes of their favorite artists, entertainers, singers, and athletes. They love and cherish their favorite film stars, crooners, and quarterbacks and expect them to make a gallant spectacle of their success.

The same people who so readily accept the entertainer's accomplishment and the politician's position in the body politic, may resent the capitalist's income for being "unearned" and "unjust." They may be resentful of the fortunes earned by the manufacturer of men's shoes or ladies' stockings, of toothpaste or mouthwash. In their eyes, such fortunes are dirty lucre withheld from workers and gouged from consumers. They cling to popular notions that give rise to the doctrines of egalitarianism and to policies of redistribution.

Intellectual consistency is no great concern for redistributionists. In their own economic lives they often choose and prefer essential want satisfaction over entertainment and politics, allocating more of their incomes to the consumption of shoes, stockings, toothpaste, and mouthwash than to baseball and football, and casting their economic votes for the best producers. As members of the body politic, however, they would like to negate their own economic actions and redistribute the producers' income.

Ignorance deprives man of his freedom, for he does not know what his alternatives are. He will not choose that which he has never heard of. This is why economic education is so important. It refutes all egalitarian ideas and the demand for equalization of incomes, for they do not lead to economic equality, but to ever more inequality, political power, and social strife. □

1. Arthur C. Pigou, *Economics of Welfare* (London: Macmillan, 4th ed., 1932), p. 89.
2. Abba P. Lerner, *The Economics of Control* (New York: Macmillan, 3rd ed., 1947), p. 29.
3. *Ibid.*, pp. 29-32.
4. Jonathan Hughes, *The Vital Few* (New York: Oxford University Press, 1986), p. 121 *et seq.*

Morality Laws = Majority License

by Robert James Bidinotto

One of the perennial criticisms of the free society is that, under *laissez-faire* capitalism, individuals would be allowed to engage in noncoercive, yet “immoral,” behavior.

Government is the social institution which protects individual rights by serving as the final arbiter of disputes in a given geographical area, and by holding a legal monopoly on the retaliatory use of physical force. In a free society, the government is concerned only with enforcing justice by resolving questions of *individual rights*. Concretely, this means a state limited solely to banning the initiation of force, fraud, and coercion. While there are certainly many other moral issues apart from matters of rights, these are beyond the purview of a properly limited government. The state is constrained . . . so that the people can be free.

And this limitation on the power of the state is precisely what bothers the proponents of so-called “morality legislation.” A strictly limited government would turn a blind eye to all private, noncoercive acts of “consenting adults.” People could abuse themselves with drugs or alcohol, indulge in unorthodox sexual behavior, produce or obtain objectionable books and films, waste their lives in sordid dissipation—so long as they did not force themselves upon unwilling participants.

Allowing such behavior—critics charge—would undermine the very foundations of civilized society. They point out that political institutions rest upon a base of moral and cultural

values. To permit an erosion of the ethical roots of civilized society would, eventually, cause our political institutions to rot and topple. Hence, freedom carries within itself the seeds of its own destruction. It would offer no impediments to those who would emerge from the dank recesses of society to pervert and ultimately destroy that freedom.

One need not be a prude or busybody to sympathize with the concerns of these critics. There is a direct relationship between the ethical status of a culture, and the nature and stability of its political institutions. For example, a culture of collectivists will not hesitate to sacrifice individuals for “public purposes.” A culture of pragmatists will see no purpose in restraining its government by principles. A culture of fatalists will remain apathetic in the face of injustice. A culture of hedonists will surrender its vital political institutions for the sake of short-term gratification.

Yes, the free society must have a moral base. Those concerned about the future of liberty should realize that ethics provides an integral and indispensable foundation for their persuasive and educational efforts.

But the critics of *laissez-faire* are too worried and impatient about society’s fate to employ only peaceful persuasion. They would erase the boundary line between “public” and “private” matters, bringing *all* questions of personal values into the public arena—to be resolved by government coercion. There would be no sphere of purely private moral matters—no area of values from which the state would be excluded.

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And in a democracy, where such matters are decided at the ballot box, *morality laws would actually mean: majority license.*

Before we proceed, some clarifications. Does excluding the state from the realm of personal morality imply state sanction of “moral relativism”? Not at all. Nor does “moral certainty” imply the right to impose one’s morality by law. One may acknowledge that moral “absolutes” exist—and even be personally certain of what those absolutes are—yet still recognize the need to exclude the state from private ethical matters.

Now—why should the state be limited to mere peacekeeping? Why should it be excluded from the role of being the guardian of moral values?

First of all: *whose values* are to be imposed? Which theory or standard of personal morality would be elevated to the status of public morality?

The free society must have a moral base. Those concerned about the future of liberty should realize that ethics provides an integral and indispensable foundation for their persuasive and educational efforts.

Even at the theoretical level, it is impossible to get unanimity, or even a loose consensus, concerning a standard of “the good.” When we descend to the concrete level of imposing, not just a standard, but specific *values* themselves, the exercise becomes virtually hopeless. For even if society could agree to one abstract theory or standard, there are countless potential *interpretations* of each of them.

Inevitably, to “impose values” must mean: to impose *somebody’s* values, and to exclude all others. But again—whose values? Who decides? By what method? By what right?

This brings us to the central problem. To “legislate morality” is to invert the proper

relationship between force and ethics. *To let the state govern morality, is to allow “might” to govern “right.”*

In the face of conflicting views of “the good,” those empowered to “legislate morality” would resolve all value issues, not by demonstration, but by coercion. They would not be required to prove that their views were correct. They would not be constrained by “the consent of the governed” . . . or by Constitutional checks and balances . . . or by the principle of “equality before the law”—or by the Bill of Rights. As the final, unchecked arbiters of morality, they would be certain to equate “the good” with their desires. Theirs would be government by fiat. “Might” would not simply enforce “right” behavior; “might” would, in the final analysis, *decide what “right” means.*

Legally, this would negate the very principle of the Rule of Law. Ours would become a nation not of laws, but of men . . . of men above the law.

And the final arbiters of values would be above morality, too. Who would hold *them* morally accountable? Ironically, the alleged motive of those who would legislate personal morality is that they wish to reintroduce “moral absolutes” into a decadent culture. But to advance “moral absolutes” by the arbitrary method of “might makes right” is a transparent contradiction.

The advocates of morality legislation would undoubtedly reply that this argument goes to extremes; that they are not advocating a dictatorship; that they believe in democratic principles; that a majority of citizens agree with them on such issues as outlawing drugs and banning pornography; and that all they wish to do is to codify the popular will.

But this does not solve their problem. Even if democratically (not despotically) imposed, *morality laws equal majority license.*

Let us assume that there was virtual unanimity of opinion concerning the evil of some private, noncoercive act. Were the majority to enact a law prohibiting such an act, it would not be enshrining “moral absolutes” in the legal code; quite the contrary. Rather, it would be declaring that morality is a numbers game; that “the good” was to be determined by majority vote; that mere force of numbers decides

moral questions in society; in short, that “might makes right.”

Are There Absolutes?

Voting on moral standards, purposes, virtues, values, and choices means that these are not “absolutes,” but socially relative—i.e., dependent upon the outcome of an election. (And remember that in most elections, only a small fraction of eligible voters decides the outcome.) In any event, voting on moral issues reduces “moral absolutes” to a matter of transitory public opinion, while elevating public opinion to absolute status.

But surely—replies the advocate of morality legislation—there are some issues of ethics in which it can be scientifically demonstrated that a given choice is utterly destructive of the individual’s life and values. Why could we not pass laws concerning behavior that, say, is demonstrably self-destructive?

There are two possible alternatives here. Either the “victim” knows that his behavior is self-destructive, or he does not. If he does not know, the “problem” can be presumably solved, not with a law, but by simply informing him of the facts. If he does know—that is, if he *intends* to behave self-destructively, while not jeopardizing others—that is his right. To declare otherwise is to make the curious claim that his life is not his to dispose of, but that it is the property of others.

Thus, even scientific proof of the self-destructiveness of an activity is irrelevant. For instance, the detrimental effects of drug abuse on the consumer of narcotics is an established fact. But to declare that adults should be prohibited access to such drugs, is to proclaim the prin-

ciple that some people may not make value decisions, while others may arrogate to themselves the power to make value decisions for them. That still enshrines inequality in the law, elevating some people over others, allowing the legally elevated to treat the legally subordinate as property. Hence, while the harm to the individual may be objectively demonstrable, outlawing voluntary, self-destructive activity still injects arbitrariness into the legal system.

Let us, then address an argument to those who would impose their moral codes on others. Moral principles are either demonstrable, or they are not. If they are, then they can be effectively conveyed by noncoercive persuasion. If they are not, they are arbitrary; and if enacted into law, they will only increase public contempt for the legal system, while adding chaos to the lives of law-abiding citizens.

One suspects that those who must force their values on others, do so because those values would otherwise suffer in open competition in the marketplace of ideas.

Finally, a point of clarification. I am not arguing that every moral code requires liberty for its implementation, nor that every moral code is compatible with individualism and laissez-faire capitalism. As history demonstrates, there are any number of moral systems perfectly compatible with force; some, indeed, have been little more than rationalizations for despotism.

But the relative compatibility of various ethical systems with human freedom is another subject. The point here is more narrow. It is simply that those who would use government to *impose* “moral absolutes” are deceiving themselves. In each case, they are establishing, not universal absolutes, but personal caprice. □

Coming Next Month . . .

- “How the Fed Fooled Farmers” by Jay Habegger
- “Laissez Faire as a Development Policy” by John Semmens
- “Wilderness Cathedrals and the Public Good” by William C. Dennis

Women and the Market

by Sam Staley

The U.S. economy is faced with one of the most difficult challenges of the century. A dramatic shift in the labor market has occurred during the 1960s, 1970s, and 1980s which significantly affects the direction and composition of the hi-tech, hi-touch economy of the information society. The huge influx of working women over the past two decades has created enormous economic and political pressures, pushing the issue of discrimination to the forefront of political and economic debate once again.

As a group, women are unquestionably discriminated against in the market place. Women often have fewer skills, are more inexperienced, and more likely to leave the labor market than are men. Further, men often preclude their advancement, whether consciously or unconsciously.

Faced with these impediments, what are the most effective means for women to achieve economic success? While many have chosen political solutions, legislated approaches to the problems of discrimination have failed. Laws rarely change fundamental attitudes and prejudices. At the same time, however, a growing number of women are trying a much more effective approach: entrepreneurship.

In a market economy, economic development can only occur through initiative, innovation, and, above all, risk taking. Contrary to popular belief, the market has a long and successful history of taking people of all ethnic and racial groups from "rags to riches."

The market, however, works in a subtle way

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that few people fully comprehend. A market economy is driven by entrepreneurship which thrives on providing a socially desirable product efficiently and effectively. It is only through the utilization of means compatible with the market that any person or group can succeed.

The Current Economic Challenge

Women now make up 44 per cent of the work force. The number of women re-entering the work force soon after childbirth rose to 57 per cent in 1985. This feminization of the work force has dramatically altered the scope and dynamics of the economy, and, contrary to popular belief, the economy is responding accordingly. Business increasingly realizes that it must cater to the needs of women if it is to remain competitive, and herein lies the real opportunity for economic progress.

"One of the most interesting things I see happening in the late 20th century is that the corporation is changing because women are starting to participate in it," observes economist Jennifer Roback. "Women's greater participation benefits small companies at the expense of big ones. Big companies are not willing to be flexible about child care and maternity leave and home emergencies. Small businesses can handle things like that, and, in particular, your own business can handle it."¹

Twenty-four per cent of all the businesses operating in the United States are owned by women, accounting for \$98.3 billion in receipts in 1982. While these businesses are still concentrated in low income service companies (over half earn less than \$5,000 per year), their

representation is increasing. The 1986 White House Conference on Small Business in Washington, D.C., serves as one indicator: participation by women doubled from 1980 to 35 per cent of all delegates.

More important, however, is the service orientation of these businesses. Service-oriented businesses, which are becoming increasingly important in the innovative information society, offer unique opportunities for many women. First, they often are labor intensive, requiring little capital but many hours of work to succeed. Second, they can be started on a small scale and built over time, utilizing skills that can be developed in the process. Third, they often do not require, immediately, the complete commitment of the entrepreneur. These businesses can be started relatively easily and have extraordinary possibilities for growth.

Ironically, these types of businesses have often fueled the development of other minority groups facing severe discrimination. Asian-Americans, for instance, started out in labor-intensive industries such as laundries and restaurants. Indeed, the experiences of other groups lacking suitable job skills, experience, and capital indicate that the process of entrepreneurial development applies to many sectors of the population.

The Legacy of the Market: Ethnic Enterprise

Traditionally, economic success for minority and disadvantaged groups has come through business not politics. Jews, Asians, blacks, and Hispanics have all succeeded in the American economy through employment in small businesses or entrepreneurship, whether in storefront shops or professional careers. No group has been successful in using the political system to affect significantly their relative income. In fact, "some of the most dramatic rises from poverty to affluence in the United States have been among groups who did *not* attempt to use the political route to economic advancement . . ."²

Table 1 provides statistics about various ethnic groups and their relative family incomes. Notably, the groups with the highest family incomes have faced severe discrimination based

Table 1: Family Income by Ethnic Group

Ethnic Group	Relative Income (per cent of national average)
Jewish	172
Japanese	132
Polish	115
Chinese	112
Italian	112
German	107
Irish	102
Filipino	99
West Indian	94
Mexican	76
Puerto Rican	63
Black	62
American Indian	60

Source: Sowell, p. 8.

on their ethnicity and race. However, racism has not prevented the Jews, Japanese, or Chinese from becoming economically successful in the United States. Furthermore, these groups have not been favored by government intervention.

The key element of economic success for these ethnic groups has been their relative concentration in business and enterprise. Indeed, aside from the well-known position of Jews in business, the Chinese and Japanese have a long history of entrepreneurship stemming from their immigrant background in the United States. "[T]he social histories of Americans of Chinese and Japanese descent," writes sociologist Ivan H. Light, "offer empirical illustration of the manner in which poverty, discrimination, and ethnic visibility stimulated business proprietorship among some disadvantaged immigrants."³ For example, almost 12 per cent of Koreans are self-employed, while 7.9 per cent of all Japanese and 7.6 per cent of all Chinese are self-employed. These percentages are well above the national average of 6.8 per cent.⁴ Despite extreme discrimination against Asian-Americans in the past, they remain one of the most upwardly mobile income groups in the United States.

The recent experience of Korean immigrants most dramatically illustrates this phenomenon. Ethnic and immigrant businesses provide an essential alternative to the general labor market.



Suzanne Boughton, owner-operator of PSG Typesetters, Ltd.

Table 2: Ranking of Women-Owned Businesses

Personal services	419,113
Real estate agencies	225,551
Health services	128,389
Restaurants	66,811
Special trade contractors	47,219
Food stores	37,635
Apparel and accessory stores	29,130
Wholesale trade, non-durable	22,231
Total Women-Owned Businesses:	2,884,450

Source: 1982 U.S. Economic Census¹³

Self-employment helped Korean immigrants overcome tremendous disadvantages in the work place and attain more secure work at higher incomes, accelerating the pace of social mobility.⁵ Immigrants face many of the same disadvantages as native born minorities (including women), and, in many cases, the discrimination is more severe: "Immigrant doctors, pharmacists, engineers, or attorneys may pump gasoline in service stations, but they are looking for escape from this level of employment. Hence, their labor force disadvantages (poor English, unrecognized professional degrees, under- and unemployment) confer on educated immigrants a motive to open their own businesses."⁶ Further, these groups maintain a propensity toward self-employment through successive generations.⁷

For minorities, especially immigrants, the market has allowed them to take advantage of their undervalued human capital. Instead of attempting to overcome institutional barriers to social mobility, many minority groups have chosen the entrepreneurial route to success. Asian-Americans in particular have much higher rates of self-employment than other groups.⁸

Women and Economic Change

The market provides a remarkable opportunity for women as well. When people shop for services in the Yellow Pages, or buy a product on the supermarket shelves, they do not check the ethnic background or sex of the producer.⁹

Sexual discrimination, like racism, cannot be legislated away.¹⁰ By participating in the market, and taking advantage of the renewed trend toward small companies and entrepreneurship, women will make more headway against discrimination than at any other time in their history.

The problem, however, is much more complex than getting more women into business. Corporations, with their hierarchy of power-brinksmanship, allow men to exercise their prejudices to the detriment of women. While some have made progress in hiring women, large corporations often institutionalize impediments to progress. Furthermore, men may not realize that they are discriminating. In a recent *Woman's Day* survey 81 per cent of the women polled felt that men underestimate them in the work place.¹¹ Since men often dominate decision-making in larger corporations, women are often fighting the perceptions of their male supervisors.

Yet, with the current trend toward an economy driven by smaller corporations, the prospects for women are looking better. The 1980s is hailed as the decade of entrepreneurship, and companies such as Federal Express and Apple Computer successfully challenge corporate giants. Deregulation has sparked entrepreneurship in many sectors of the economy, and this trend has clear implications for the role of women.

Jennifer Roback notes that "We are starting to observe a strengthening of the smaller firm as opposed to the larger firm *because* the small

firm can accommodate the other needs that women have in their lives."¹² Women are beginning to dominate the labor supply, and newer and smaller firms have the managerial flexibility to more effectively utilize female workers. As Table 2 illustrates, women are currently concentrated in flexible, service-oriented firms. Many, such as personal services, allow for future growth, building from the ground floor up.

Despite their large numbers, however, women are still relative newcomers to the economy. In the past, significant economic progress has not occurred for a generation or two. While this may seem slow, no other system has permitted faster change or growth for any particular group. In fact, the free market is often derided for the pace of economic and cultural change inherent in it as a social system.

Implications

The influx of women, like immigrants in the late nineteenth century, has created an imbalance of resources in human capital. This condition, however, merely sets the creative and innovative forces of the market in motion. As long as it is free to change, the economy will adjust. In effect, the market economy is driven by a "causal loop" between resources and human wants.¹⁴ The evolution of the market society has created institutions which distribute natural resources (including people, human capital) so that the most valued wants of society are met.

In achieving this, the market has developed an amazingly diverse, decentralized economic system unparalleled in the modern world. "This diversity in the forms of economic life . . . is important not for its own sake but because it is an earmark of successful adaptation and full utilization of the resources available. The thematic terms are thus *autonomy*, *experiment*, and *diversity*."¹⁵

Women, like various minority groups, may find that their talents, skills, and needs are best met outside the corporate world and in the realm of small business. By moving into entrepreneurial enterprises, they are more likely to expand their own opportunities and open up the

road to economic progress. The ultimate result of this challenge is a more competitive and more productive society.

Rather than attempting to find political solutions, then, women should be moving into the market through their own business ventures. Instead of regulating policies and practices of existing businesses, women should be setting the standards for future generations by providing more efficient and effective alternatives in the market. Instead of mandating the approval of men in existing corporations, they should be maximizing their effectiveness by providing a better product cheaper within an economic climate suitable to their needs and wants.

Thus, the needs of women in the market may be better served by deregulating the economy —by allowing people to provide capital to new and "risky" businesses without the burdensome rules of the Securities and Exchange Commission or potential regulation of the Federal Trade Commission. The key to the success of women and minorities is access: protecting the ability of all people to enter the market and provide products that consumers desire without paternalistic and counterproductive restraints perpetuated by the state. □

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3. Ivan H. Light, *Ethnic Enterprise in America: Business and Welfare Among Chinese, Japanese, and Blacks* (Los Angeles: University of California Press, 1972), p. 5.
4. Ivan H. Light, "Immigrant Entrepreneurs in America: Koreans in Los Angeles," in *Clamor at the Gates* (San Francisco: Institute for Contemporary Studies, 1985), p. 170.
5. Light, 1985, pp. 172-178.
6. Light, 1985, p. 175.
7. Light, 1985, p. 169.
8. See Table 1 in Light, 1985, p. 170 for a breakdown of statistics on self-employment by ethnic groups.
9. For a readable explanation of the relationship between the market and economic discrimination see Walter Williams, *The State Against Blacks* (New York: McGraw-Hill Book Company, 1982), chapters 1, 2 and 11.
10. For a clear, concise discussion and analysis of the relationship between government, law, and discrimination see Thomas Sowell, *Civil Rights: Rhetoric or Reality?* (New York: William Morrow and Company, Inc., 1984), chapters 1, 2, 5 and 6.
11. Reported in the Dayton, Ohio *Journal Herald*, June 26, 1986, p. 25.
12. *Cato Policy Report*, p. 9.
13. Reported in Dayton, Ohio *Journal Herald*, August 7, 1986, p. 30.
14. Nathan Rosenberg and L. E. Birdzell, Jr., *How the West Grew Rich: The Economic Transformation of the Industrial World* (New York: Basic Books, Inc., 1986), p. 33.
15. Rosenberg and Birdzell, p. 33.

Alternatives to Public Libraries

by J. Brian Phillips

Proponents of government programs often contend that the services provided by government could not be furnished by the private sector. It is in the public interest, they argue, that the government compel individuals to support these programs with their tax dollars. Among the most sacred of these programs are public schools and public libraries, supposedly the bastions of democracy.

However, such arguments ignore the lessons of history, for America's past is replete with examples of voluntary, cooperative associations which provided for the many needs of the citizenry. One of the most striking examples is the evolution of libraries in pre-Civil War America. Even today, alternatives to tax-supported libraries exist.

Early Libraries

The first settlers in America had little time for reading. Their lives were spent in a near-constant struggle for survival. Because many of the first colonists had fled religious persecution in Europe, the Bible was often the only book in the home. The first ministers and theologians to arrive in the New World brought larger collections of religious works with them.

The first private library in America probably belonged to Elder William Brewster, who brought his large private collection to Plymouth. The 400 books in his collection at the time of his death were primarily religious. The Massachusetts Bay Company sent 54 religious works to Salem to aid in the conversion of Indians. One of the most impressive early li-

braries belonged to the first governor of Connecticut, John Winthrop, Jr., who brought his collection of over 1,000 titles to Boston in 1631. Winthrop was a major figure in the birth of science in America, and his collection was one of the largest and most influential scientific libraries in 17th-century America.

As life in America became more secure and education improved, the range of reading interests quickly expanded. Philosophy, political science, natural science, and modern literature became popular topics. By the 1650s most estates contained at least several books. The first bookseller appeared in Boston in 1641, and booksellers thrived in that city in the last quarter of the 17th century. But in the other colonies, citizens had to resort to ordering books from Great Britain. Indeed, when Benjamin Franklin arrived in Philadelphia in 1723, he lamented the city's lack of booksellers.

Many of the large collections were bequeathed to towns and schools. But a lack of funds, proper storage facilities, and often a lack of interest, caused many of these collections to deteriorate. One notable exception was the collection of John Harvard, which became the foundation of Harvard College's library in 1638. As early as 1665, the use of taxes was proposed as a means of providing library services for the town of Dorchester, Massachusetts.

In the 1720s, Benjamin Franklin formed a group in Philadelphia called the Junto. The primary purpose of the Junto was to meet for intellectual discussion, with members presenting papers on various topics. Because of the nature of this group, references were made to a wide

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variety of books. However, the members were not always familiar with these books. In time, Franklin suggested that the members pool their collections, storing them at the Junto's meeting place. Franklin believed that "by thus clubbing our books to a common library, we should, while we lik'd to keep them together, have each of us the advantage of using the books of all the other members, which would be nearly as beneficial as if each owned the whole."¹ However, a year later, due to a lack of care, the books were separated and returned to their owners. But this experiment gave Franklin another idea.

The Rise of the Subscription Library

On July 1, 1731, Franklin drew up a proposal for what became the Library Company of Philadelphia. The Library Company soon attracted fifty subscribers paying a forty-shilling initiation fee and ten shillings per year. Chartered in 1742, the Library Company of Philadelphia became America's first subscription library, and was the model for numerous similar libraries throughout the colonies.

But the cost of joining the Library Company prohibited many from doing so. As always happens in a free market, competition arose. In 1747 the Union Library Company was formed. By the 1760s, the Amicable Company and the Association Library were also in operation. When the Library Company reduced its prices in response to the competition, the Union Library merged with the Amicable Company. In early 1769, the Association Library also merged into the Union Library. Shortly thereafter, the Union Library Company joined the Library Company, once again leaving Philadelphia with one library. However, the competition made membership more affordable and improved the library's range of works.

The subscription library concept quickly spread through the colonies. In 1733 the Book Company of Durham, Connecticut, was established. In the spirit of these libraries, the Articles of Subscription stated that:

being desirous to improve our leisure hours, in enriching our minds in useful and profit-

able knowledge by reading, [we] do find ourselves unable so to do for the want of suitable and proper books. Therefore that we may be the better able to furnish ourselves with a suitable and proper collection of books, . . . do each of us unite together, and agree to be copartners in company together . . . to buy books.²

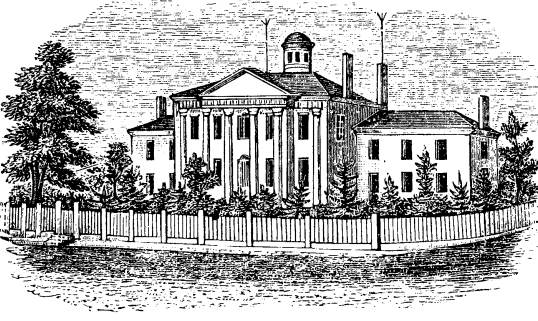
Because of the voluntary nature of these associations, each library varied in the conditions of subscription. Most had a yearly fee of less than one dollar. The more expensive libraries often resembled social clubs. While most libraries contained fewer than 1,000 titles, and consisted mainly of books of general interest, many were suited to particular interests, e.g., mechanics, theology, history, agriculture, science, law, medicine, or music. Essentially, the subscription library offered its materials to those who paid a fee, i.e., subscribed to the service.

In Charleston, South Carolina, a group of young men pooled their funds so that they might purchase materials printed in England. Within two years, there were 160 members, as well as an endowment. In New York City, 140 well-to-do citizens pledged five pounds each, plus ten shillings per year, to form the New York Society Library. Within twenty years the library had collected nearly 1,300 titles.

When a fire destroyed the Providence Library Company in 1758, a lottery was held to replace the burned books. Similarly, the social library of Portsmouth, New Hampshire, used a lottery to provide supplemental income.

One of the most amazing success stories is that of the Young Men's Association, founded in Chicago in 1841. Within a month nearly 10 per cent of all males in the city between the ages of 15 and 35 had joined. Subscribers were offered a choice of memberships, ranging from a one-time life membership fee of \$25 to a regular membership costing \$1.50 initiation fee and \$2 per year. Nonmembers could use the reading room for 50 cents per month.

To satisfy the public's appetite for romance and popular fiction, many printshops and booksellers rented books for a small fee. One of the first of these rental "libraries" was established in Annapolis in 1762. That venture soon failed,



Antiquarian Hall, Worcester, Massachusetts, c. 1834.
Original home of the American Antiquarian Society.

In 1812 Isaiah Thomas established the American Antiquarian Society. Thomas gave 8,000 books, \$2,000, an acre of land, and 150,000 bricks to build a library for "collecting and preserving every variety of book, pamphlet, and manuscript that might be valuable in illustrating any and all parts of American history." Today, its library collections (still in Worcester) include more than 600,000 volumes, 3,000,000 issues of American newspapers, and more than 1,000,000 manuscripts and broadsides. It remains a privately endowed, independent research library.

but the idea caught on and spread to the larger cities in the colonies. This form of library, often called a circulating library, had its greatest popularity in the 50 years after the Revolution.

One of the more interesting examples of the circulating library was the "Book Boat" which traveled along the Erie Canal from about 1830 to 1850. Traveling between Albany and Buffalo, the boat would dock at towns along the way, renting its literature for two cents per hour or ten cents per day. While the circulating library certainly catered to the less serious reader, it did provide an important service.

Demise of Voluntary Association

The voluntary nature of commercial libraries made them susceptible to economic downturns, during which many citizens had to withdraw support. In turn, libraries closed their doors, leaving communities without library services.

By the mid-19th century, amid growing clamor for tax-supported schools, the idea of tax-supported libraries gained increasing support. "If a man has the right to an education," the statist argued, "then why doesn't he also have a right to the books which make that education meaningful?" It wasn't long before they had their way.

The advocates of public libraries presented, and continue to offer, a variety of arguments supporting their cause. In an attempt to gain Constitutional legitimacy, statist assert that public libraries protect our rights and liberties,

as well as promote happiness. Because of the number of books purchased by libraries, they argue, more books can be published, thus insuring freedom of speech. Libraries also provide information on hobbies, travel, and the arts, which encourages knowledge of culture, and therefore promotes happiness.

However, freedom of speech is possible only in a free society, in which the initiation of force has been abolished. Freedom of speech results in ideological competition—a marketplace of ideas, in which individuals are free to support those ideas they voluntarily choose. Extorting funds from individuals to purchase books effectively makes them supporters of ideas to which they may be diametrically opposed. The result is the publication of many books of dubious quality, at taxpayer expense, which few read.

The assertion that public libraries promote happiness is, at best, ludicrous. Whose happiness? And at whose expense? And even if this claim were true, it is irrelevant. A thief could argue that robbing my house would promote his happiness, but his action is still theft and still immoral. The principle does not change if government is doing the taking.

The avowed purpose of the public library is "to serve the public. Not *some* of the public. *All* of the public."³ This, of course, is impossible. It would require volumes of information on every imaginable topic, regardless of how small the number of potential users. Libraries, like restaurants, must specialize in order to appeal to the particular tastes of their clientele. Those who try to be everything to everyone eventually are nothing to anyone.



Andrew Carnegie

In his later years, industrialist Andrew Carnegie became one of America's most prolific philanthropists. From 1897 to 1919, Carnegie donated nearly \$50 million to communities across the United States, Canada, and Great Britain. Carnegie once remarked:

I choose free libraries as the best agencies for improving the masses of the people, because they give nothing for nothing. They only help those who help themselves. They never pauperize. They reach the aspiring, and open to those the chief treasures of the world—those stored up in books.⁴

This spirit of self-improvement is the same spirit which led the early colonists to establish libraries voluntarily.

An unfortunate aspect of Carnegie's philanthropy was his insistence that communities tax themselves to support the libraries he established. Rather ironically, Carnegie was promoting self-help, while insisting on compulsory taxation. But the essential point here is that Carnegie's voluntary donations were used to provide library services to millions of people.

Enoch Pratt, who founded the public library

in Baltimore with his donation, established an endowment of over \$800,000 to provide funds for upkeep of the library. Carnegie also established endowments for four Pennsylvania libraries, before he turned to the use of tax dollars.

Even without philanthropic efforts of the wealthy, the poor need not be without library services. The elimination of public libraries would create a vacuum which the free market would quickly fill. This was demonstrated throughout the 18th and 19th centuries.

New Age of Information

With the proliferation of home and office computers, the market has developed an electronic alternative to the traditional library. Data bases are available for nearly every topic, from business and health to philosophy and sociology. Undoubtedly, more will develop as a need presents itself.

One of the advantages of data bases is that they provide the user with round the clock access, enabling information to be gathered when it is needed. And of course, the user—not the taxpayer—pays for the service. Just as the first libraries evolved out of mutual needs and voluntary associations among individuals, these electronic libraries are providing non-coercive means of resolving common problems. As technology improves, and competition increases, the cost, availability, and range of these services will also improve.

We live in an age of information. As our economy moves away from manufacturing, the needs for information will continue to grow. Because the public library is essentially divorced from market factors, it is unable to keep pace with an ever-changing world. This gap will continue to expand as private businesses assume a greater role in the distribution of information. □

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Supply-Side Economics and Austrian Economics

by Bruce Bartlett

The term “supply-side economics” was coined in 1976 by Professor Herbert Stein of the University of Virginia to describe some of the arguments being put forward at that time, primarily by policymakers, to deal with the twin problems of inflation and stagnation, often called “stagflation.” Supply-side economics, therefore, was not and is not a separate school of economic thought, such as Austrian economics or Keynesian economics. Rather, it is a shorthand description for a body of economic policies firmly rooted in the free-market tradition of classical economics, Austrian economics, and other schools. It draws upon such resources to support policies aimed at reducing the size of government and government control over the economy. Thus it has far more in common with Austrian economics than it has in conflict.

The origins of supply-side economics explain much of the confusion about what it is about. It is often identified exclusively as a theory of taxation which says that tax cuts pay for themselves. This is a vast oversimplification. Supply-siders never believed that an overall reduction in taxation would increase the government’s revenue, through increased economic activity, nor did they confine themselves exclusively to tax issues. They were and are

concerned as well with the level of government spending, government regulation, and monetary issues. However, they did achieve their greatest success in pointing out the evils of high progressive tax rates, which led to passage of legislation to reduce marginal income tax rates in 1981 and again in 1986.

Even so, the idea that marginal tax rates (the tax rate on the last dollar earned) might be so high that government revenue is depressed is by no means an original concept. Adam Smith, for example, wrote in *The Wealth of Nations*: “High taxes, sometimes by diminishing the consumption of the taxed commodities, and sometimes by encouraging smuggling, frequently afford a smaller revenue to government than what might be drawn from more moderate taxes.”¹ The idea is also well grounded in Austrian economics. In *Human Action*, Ludwig von Mises wrote:

Businessmen complain about the oppressive-ness of heavy taxes. Statesmen are alarmed about the danger of “eating the seedcorn.” Yet, the 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.²

It is also worth mentioning that another Austrian, Henry Hazlitt, often argued against high marginal income tax rates on the grounds that a reduction in such rates would increase government revenue.³ But as noted earlier, this narrow concept of raising revenue from lower tax rates is really only a sideline. The real essence of supply-side economics is its effort to reduce government intervention in the economy.

In order to reduce government intervention, however, supply-siders found it necessary to confront the prevailing Keynesian orthodoxy on such issues as taxation and the budget deficit. In the mid-1970s, when supply-side economics first appeared, the Keynesian model

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was firmly entrenched in economic policy-making. It was conventional wisdom among both Republicans and Democrats that the government could stabilize the economy through demand management; increasing the budget deficit through increased spending or lower taxes when the economy slowed down, and raising taxes and lowering the deficit when inflation arose.

In the Keynesian framework, only aggregates mattered and demand was the lever which moved the economy. Turning Say's Law on its head, policymakers behaved as though demand created supply. All they had to do was ensure that people had sufficient purchasing power and producers would automatically produce what was needed. But by the mid-seventies, when inflation began to reach dangerously high levels even with high unemployment, this thesis could no longer be sustained.

Reaffirming Say's Law

Thus a central aim of the supply-side movement was simply to restore the idea that the supply side of the economy mattered; that policymakers could not continue to blithely ignore incentives, profit margins, rates of return, and other factors of production. In fact, one aim was nothing less than the re-establishment of the truth of Say's Law. Indeed, one might argue that Jean Baptiste Say was the first supply-sider. As he wrote in his *Treatise on Political Economy*, "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. . . . Thus, it is the aim of good government to stimulate production, of bad government to encourage consumption."⁴

Say's Law, of course, is central not only to supply-side economics, but Austrian economics as well.⁵ And as the Keynesians themselves have pointed out, if one accepts the validity of Say's Law—which simply states that commodities are ultimately paid for with other commodities—then the whole Keynesian system collapses. As Keynesian Paul Sweezy put it: "The Keynesian attacks . . . all fall to the ground if the validity of Say's Law is assumed."⁶

In classical political economy there was no distinction between what is called macroeconomics—the economics of the economy as a whole—and microeconomics—the theory of prices and the firm. The distinction was created by John Maynard Keynes, who argued that there are laws of economics which operate differently in the macroeconomy than they do in the microeconomy. For example, price theory indicates that when there is an oversupply of goods, prices must fall to meet demand. Hence, there can never be a general oversupply of goods so long as prices are free to adjust.

Keynes, however, argued that while this may be true for particular goods, it is not true for the economy as a whole. In the case of labor, in particular, he said that wage cuts would not be a satisfactory solution to the problem of unemployment, because as wages decline workers would lose income, thereby reducing their ability to purchase goods and services, leading to a further decline in economic activity. Thus the solution to the problem of oversupply lies in increasing demand, rather than lower prices. This led him to propose budget deficits as the key to stimulating growth.

In Keynes's defense, he never intended for deficits to go on indefinitely, nor was he an advocate of inflation, except under the deflationary conditions of the Great Depression. Even Hayek believes that had Keynes lived longer—he died in 1946—that he would have been a determined fighter against the inflationary policies pursued by governments in the name of Keynesian economics.⁷

By the mid-1970s the failure of Keynesian economics was too obvious to be ignored any longer. Inflation was escalating at ever faster rates and the Keynesians had no satisfactory explanation of the problem or a cure for it, because money plays little role in Keynesian theory. At the same time, budget deficits seemed to lose their stimulative power. As deficits increased, so did unemployment. Thus the Keynesians were left with no policies to offer against the twin problems of rising inflation and rising unemployment. Indeed, in the Keynesian system one should always be able to trade inflation for unemployment, as the so-called Phillips Curve indicates. You weren't supposed to have both at the same time.

In this environment, the supply-siders attempted to resurrect the forgotten truths of classical economics—elevating, in a sense, micro-economics to the macro economy. To the problem of inflation, they argued for tight money and a return to the gold standard. To the problems of unemployment and slow growth they insisted that high marginal tax rates had to be reduced and government regulations dismantled.

The Effects of Taxes on Employment

Supply-siders believed that inflation had sharply raised tax rates, as people were pushed into higher tax brackets. High tax rates, in turn, altered key relative prices: the price between saving and consumption and the price of work versus leisure. As tax rates rise one will get less saving, more consumption, less work, and more unemployment. Moreover, supply-siders argued, taxes imposed a “wedge” between effort and reward, which explained the rise of unemployment. If a worker finds that higher wages only push him into a higher tax bracket, then he is forced to ask for even higher wages in order to achieve a real, after-tax increase in pay. Hence, higher taxes raise the cost of labor and, consequently, employers demand less of it.

Thus taxes may produce the same kind of malinvestment usually associated with inflation. Investment naturally moves out of heavily taxed sectors into less heavily taxed sectors; if necessary, into the so-called underground economy. During the 1970s one of the hottest businesses was tax shelters, in which paper losses are generated by uneconomic enterprises solely for the purpose of reducing taxes. We found an increasing portion of the nation’s capital going into such tax-favored sectors as housing, starving the nation’s industrial sector of capital and explaining much of the decline in America’s industrial competitiveness.

These negative tax effects are exacerbated by inflation. Inflation increases nominal (money) incomes, pushing people into higher tax brackets when tax schedules are steeply graduated. Consider a family with an income of \$19,380 in 1965. This family paid 15.6 per

cent of its income in Federal income taxes and a 25 per cent tax rate on each additional dollar earned. By 1980, had this family’s income kept pace with inflation, its income would have risen to \$45,000 per year. Obviously, its real income has not risen at all, in terms of the goods or services it could purchase with that income. However, because the tax system did not take inflation into account, this family faced a steep increase in taxation. By 1980 it was paying 22.6 per cent of its income to the federal government and paid a 43 per cent tax on each additional dollar earned—its marginal tax rate.⁸

Supply-siders emphasize the economic effects of the marginal tax rate because they believe this is the key tax rate affecting economic decision making. If an individual has a choice between saving or spending his income, the choice will be largely determined by the after-tax rate of return on saving and that return will be determined by the marginal tax rate.

Consider an individual with \$100,000. Until 1981 this person could have paid a Federal income tax rate as high as 70 per cent. If the rate of interest is 10 per cent, then his after-tax return might be only \$3,000 per year on an investment of \$100,000. Thus the cost to him of spending that \$100,000 on consumption or the purchase of some good, such as a fine painting, which gives him untaxed income in the form of psychic pleasure, is only \$3,000 per year. In this way, high marginal tax rates discourage productive investment and encourage consumption. Since increasing capital formation is the principal means by which the standard of living is raised, the effect of high marginal tax rates is to reduce well-being.

Mises clearly understood this and also emphasized another key point made by supply-siders: The greatest impact of high marginal tax rates is on the entrepreneur. The discouragement of entrepreneurship, in turn, deprives society of its dynamism and will lead to stagnation.⁹

It is worth remembering that the greatest impetus to entrepreneurship in many years took place in 1978 when, under the leadership of supply-siders, Congress cut the maximum tax rate on capital gains in half. Supply-siders argued that the capital gains tax was especially

harmful to entrepreneurs because their profits—if there are any—usually come in the form of large capital gains rather than income. It is now widely recognized that the 1978 and 1981 cuts in the capital gains tax unleashed an avalanche of entrepreneurship, innovation, risk-taking, and inventiveness which have already benefited our country in countless ways in the form of new products, processes, and businesses which simply would not have resulted without this critical tax change.¹⁰

Interestingly, the data from both the capital gains tax cut and the reduction in the top personal income tax rate indicate that revenues did in fact rise.¹¹ They did not rise sufficiently, however, to prevent a large increase in the budget deficit. This is one area where Austrians have been particularly critical of supply-siders.

The problem is that many people forget that if government revenues increase, then spending can also rise without increasing the deficit. During the 1970s, government spending ballooned without a proportionate rise in the deficit because inflation was leading to a sharp rise in taxes, as people were pushed into higher tax brackets. As much as one might be concerned about the financial effects of deficits, no believer in a free society and a free economy can support tax increases solely to reduce deficits. It would be self-defeating because governments will always spend all the money they can get and because the negative economic effects of higher taxes would be greater than whatever negative effects arise from deficits.

This is why some economists, like Milton Friedman, always advocate tax cuts even without corresponding spending cuts, though a deficit would be the result. "I would far rather have total federal spending at \$200 billion with a deficit of \$100 billion," he says, "than a balanced budget at \$500 billion."¹² The key, of course, is to lower government spending and taxation whenever and wherever possible, because they are the true burden of government, regardless of what the deficit is.

The main problem supply-siders have always had with those who voice concern about deficits is that they lend support to those whose true goal is to raise taxes, not cut spending. The correct goal is and should be to reduce government's share of the private economy any way

possible. On this, supply-siders and Austrians have no disagreement.

In conclusion, one might usefully think of supply-side economics as a way of rephrasing and repackaging the great truths of Austrian economics in a way to make them more easily understood and appreciated by policymakers. It should be remembered that the great Austrian economist Böhm-Bawerk served as Minister of Finance of Austria and that even Mises spent much of his life as a quasi-government economist for the Lower Austrian Chamber of Commerce, Handicrafts and Industry.¹³ They understood well the barriers to adoption of sound economic policies by governments and the value of recasting one's argument to appeal to current concerns and interests. This is not compromise, merely the exercise of political skill.

Ultimately, it must be recognized that the supporters of a free society are few and weak. Their ranks should not be further weakened by misunderstood differences in approaches to political questions when there is no fundamental disagreement on ends. □

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Power and Peasantry: A Report from the Soviet Union

by Sven Rydenfelt

During the first few years after the 1917 Bolshevik Revolution, Russian manufacturing production fell to a fraction of its pre-World War I level. Even worse was the steep decline in food deliveries to the cities. The Lenin government tried to support the townspeople by sending armed patrols to search the farms, confiscating everything edible they could find, including livestock, seed grain, and the peasant families' own food.

By gradually slaughtering and eating the stock of domestic animals and by increasing the proportion of grain and vegetables in the diet, the basic needs of the population were met during the first three years. But in 1921 the oppression and exploitation of the peasants ripened into famine.

The Lenin regime blamed the famine on poor harvests in the Ukraine and other Russian granaries caused by droughts and bad weather. Here Lenin established a precedent for his successors who have consistently blamed crop failures on natural disasters. The Lenin myth was generally believed, and the 1921 famine was interpreted as an unavoidable catastrophe.

Relief expeditions on a massive scale were sent from countries in the West, including the United States. The most important was organized by the League of Nations under the leadership of the Norwegian polar explorer Fridtjof Nansen (awarded the Nobel Peace Prize for this and other achievements in 1922). The lives of

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This article is adapted from a chapter in Dr. Rydenfelt's book, A Pattern for Failure: Socialist Economies in Crisis (Harcourt Brace Jovanovich, 1984).

12 to 13 million people were saved, but several millions, most of them peasants, perished. Not only did the relief efforts save tens of millions of lives, but in all probability the Communist regime was saved as well. Without massive relief the famine would have reached such proportions that no regime would have been able to survive.

Stalin's Legacy

In 1929, Stalin felt sufficiently secure to start a massive offensive to socialize the peasants and their private production apparatus. The attack on the private farms, which had increased in number to 25 million as a result of the confiscation and division of the large estates, was not solely ideologically motivated. There was also an economy of scale motive: 25 million "ineffective" small family farms were to be replaced by larger, more effective state farms and collectives.

In addition, there was an administrative motive: it would be easier to manage and control a limited number of big enterprises than millions of small enterprises.

The collectivization of Russian agriculture was carried out with ruthless brutality and terrorism. A catastrophic crop reduction quickly followed. According to the best available estimates—official reports were never published—between 1929 and 1933 five million people died of starvation and five million more were liquidated by the Communists. Special targets for the terror were the owners of large farms—kulaks—accused of being leaders of the

peasants' resistance against the collectivization campaign. The number of victims in the Communist "war" against the private peasants exceeded the total number of casualties, civilian and military, in all the countries in World War I.

Eventually a socialist agriculture, with large collective and state farms, was erected on the ruins of private agriculture. After a few years of intense suffering, socialist production developed and from the mid-1930s was able to meet the subsistence needs of the population.

Due to economies of scale, new technology, and modern machinery, the road to success in socialist agriculture appeared to lie open. Annual official reports, in fact, boasted about triumphs in food production.

Eventually, however, it was demonstrated that the production of imposing statistical reports is an easier task than the production of sufficient quantities of food. Not even a totalitarian dictator can change the relentless decree of natural law—only food can satisfy hunger and prevent starvation.

Truths about Soviet Agriculture

One year after Stalin's death in 1953, his successor, Nikita Khrushchev, revealed that Russia had fewer livestock than it had had in 1913, and this in a society with 60 million more people to feed than it had before World War I.

Khrushchev blamed the failure on Stalin. Full of optimism, he started to work toward curing the grave ills of Soviet agriculture. Despite some initial success, however, he could not prevent a crop disaster in 1963, which necessitated massive imports of grain from the West. The failure was interpreted as a personal defeat for Khrushchev and strongly contributed to his fall in 1964.

During the following years both the Russians and the rest of the world believed that the troubles were temporary and that with a new and more adequate policy the situation would improve. A new agricultural policy with more chemical fertilizers, more machines, and higher wages for the underpaid agricultural workers was introduced by Khrushchev's successor, Leonid Brezhnev.

New agricultural policies had been introduced so many times in the past, however, that few people believed in them. This time, too, the doubts proved well-founded. The setback in 1963 was followed by new crop failures in 1965, 1972, 1975, 1979, 1980, 1981, 1982, 1983, 1984, and 1985, and substantial increases in the volume of imports became necessary.

A study of crop figures for the 17 years from 1970 to 1986 (see table) reveals not merely a stagnation of production but a decline. The disastrous grain harvest of 165 million tons in 1981 occurred simultaneously with a record harvest of 331 million tons in the United States. For the first time in history, American output was twice that of Russia.

Grain Supply of the Soviet Union
(in millions of tons)

Years	Amount Harvested	Goal	Amount Imported
1970	187 (record)	185	10
1971	181	190	8
1972	150	200	21
1973	220 (record)	205	22
1974	196	205	17
1975	140	215	30
1976	223 (record)	220	20
1977	194	225	12
1978	237 (record)	230	18
1979	179	230	32
1980	181	235	33
1981	165	238	37
1982	170	238	42
1983	190	238	29
1984	183	239	55
1985	192	239	37
1986	210	250	32

Sources: Harvest and goal quantities from official Russian statistics. The harvest figures from 1981, 1982, 1983, and 1984 were not published in the statistics but were indirectly confirmed in a speech on November 6, 1986 by the Politbureau member Yegor Ligachev—number two in the Kremlin hierarchy—where he revealed the figure for 1986 and the average for the five preceding years (180 million tons). The figure from 1983 from a speech by Konstantin Chernenko on March 2, 1984. The import volume has been calculated as a sum of figures from the exporting countries.

The imports have been so massive that as early as 1975 the capacity of the Russian ports was exceeded, with ships backed up in long waiting lines. Although the ports were greatly

expanded, new difficulties arose in 1984 as a result of the record imports of 55 million tons.

Agriculture is one of the few industries in which clear comparisons of productivity between different countries can be made. The percentage of the total labor force allocated to agriculture by each country is a good indicator.

The structure of Soviet agriculture reflects the Soviet leaders' obsession with size. In 1985 the Soviet Union contained 22,000 state farms with an average area of 19,000 hectares—6,500 under cultivation—and 26,000 collective farms with an average area of 6,400 hectares—3,400 under cultivation. From all evidence these areas are far above the optimal size.

At the same time the United States contained 2,200,000 farms with an average area of 190 hectares—75 under cultivation.

In the beginning, agriculture in the Soviet Union was treated as a stepchild, deprived of investments and resources. But since the Stalin era, Soviet governments have tried to cure the chronic ills of socialist agriculture with massive investments—more fertilizers, more machines, and so on. Despite these efforts, agriculture has remained a stagnating industry. During the 1980s more than 30 per cent of total Soviet investment has been allocated to agriculture, a share unsurpassed among industrial countries. The only logical conclusion is that the roots of the trouble must lie deeper, in the socialist system itself.

The gigantic Soviet farms up to now have been able to provide only two-thirds of the nation's needs. The remainder has been made up by production on 35 million private plots and by imports. To fully meet domestic needs, the Soviets would have to allocate at least 30 per cent of their labor force to socialist agriculture rather than the 20 per cent now employed.

Throughout the world it has been demonstrated that small private family farms, once so despised by the founders of socialism, are vastly more productive than gigantic socialist farms.

In the United States, for example, three per cent of the labor force on private farms is producing enough food to satisfy domestic needs and to generate substantial surpluses for export. Before similar performances in the Soviet

Union could be achieved, at least 30 per cent of the labor force would have to be allocated to socialist agriculture. By this measure, private agriculture in the United States is approximately ten times more efficient than socialist agriculture in the Soviet Union.

Soviet Peasants—Modern Serfs

For many years, Soviet farmers were drawn to urban areas by higher incomes, better housing, and better working conditions. But since food was chronically in short supply, such migration had to be stopped. So in 1932 Stalin introduced a system of domestic passports. No one was to leave his place of residence for more than 48 hours without a written permit from the police. To get a permit, one needed a passport, but the peasants were denied passports and thus deprived of any legal right to leave their home areas. Serfdom, which had been abolished in 1861 by Czar Alexander II, in effect was reintroduced by Stalin in 1932.

Since Khrushchev's revelations concerning Stalin at the 20th Party Congress in 1956, the serfdom of the peasants under Stalin has been known to the outside world. Less known is the fact that the serfdom system was retained for decades by his successors. Not until the mid-1970s was a decision taken gradually to issue passports to peasants in the period 1976-1981.

Czar Alexander's reform liberated 23 million serfs from their bonds, while Brezhnev's reform granted—not liberation—but greater freedom to 32 million Russian serfs. The freedom of all Russians is limited by the system of domestic passports still in effect—a system similar to that in South Africa.

The roots of the inefficiency of Soviet agriculture lie in the oppression and exploitation of the serfs. Serfs are very seldom inventive. All important productive advances, either in machinery or in the arrangement and distribution of work, have been the discoveries of free men. Despite Soviet promises to redeem the world from oppression and exploitation and to give the weakest and poorest members of society special assistance, their people remain in chains.

In all socialist countries the peasants consti-



In one of the kolkhoze markets of Moscow. These so-called free markets are operated by farmers from the provinces of the South who come to sell the produce of their little plots of ground at free prices.

tute the poorest and weakest group. Study of agricultural policies in a large number of socialist countries proves that a gulf exists between theory and practice, between promise and fulfillment.

Socialists in power systematically have favored the strong, well-situated urban groups— industrial workers, police, soldiers, and bureaucrats, the political supporters of the regime— while just as systematically they have oppressed and plundered the weakest and poorest—the peasants.

The Serf's Secret Weapon

When the founders of the Soviet Union set out in 1917 to build a socialist state, they started with an unlimited belief in the powers of force and terror. The state coercive apparatus was their primary instrument of policy, and they assumed that the multitude of peasants could be frightened and forced to work as feudal serfs in the service of the socialist state.

Experience soon proved, however, that their faith in force was unjustified. The story of So-

viet agricultural policy is not only the story of numerous assaults by the regime on the peasants, but also the story of as many retreats.

The struggle between the peasant masses and the socialist rulers has been going on since 1917. On the one side are the Red masters, armed with the power to set low prices on agricultural products and the power to compel deliveries. They also are armed with a frightening terror apparatus: well-equipped police forces and soldiers, prisons, slave camps, execution platoons.

On the other side are the peasant serfs, poor and seemingly unarmed: In reality, however, they possess a secret weapon. If the peasants do not produce enough food, if shortages and famines arise, the existence of the regime is at stake.

The men in power can oppress, exploit, mistreat, terrorize, and murder the peasants. But always, when pursuing such coercive policies, they have to take into account severe reprisals from the peasants, reprisals in the form of bad harvests, reprisals threatening their own regime. □

A REVIEWER'S
NOTEBOOK

Harvest of Sorrow

by John Chamberlain

Robert Conquest's *The Harvest of Sorrow: Soviet Collectivization and the Terror-Famine* (New York: Oxford University Press, 412 pp. \$19.95) vividly recalls for me the episode that first turned me against the so-called Russian experiment.

I think I was one of the first persons in the United States to learn about the big man-made terror famine that starved seven million people in 1932 and 1933 and sent many more to the gulag in the Siberian taiga. It was Walter Duranty, the *New York Times* Moscow correspondent, who made a casual remark in the *Times* elevator to editorial writer Simeon Strunsky and myself that three million (he was short by four million) peasants had perished at Stalin's whim. When I slipped Duranty's figure into a book review of Tatiana Tchernavina's now-forgotten *Escape From the Soviets* it got Duranty into trouble. To protect his visa he denied having said anything. If Strunsky hadn't been in the elevator with me I would have been in trouble myself.

Subsequently William Henry Chamberlin and Gene Lyons did expose the genesis and extent of the famine. But they had to quit their Moscow posts to do it.

Cut off from Russian research sources, neither Chamberlin nor Lyons could do thorough follow-ups in their accounts of what had happened in Russia's grain-growing regions. It is only now, after more than fifty years, that we have the full story of the famine in Conquest's incredibly detailed book.

The overwhelming conclusion to be drawn



Robert Conquest is a Senior Research Fellow and Scholar-Curator of the East European Collection at the Hoover Institution, Stanford University. Among his numerous books on Soviet studies and foreign policy is *The Great Terror*, which recounts the Soviet mass purges of the 1930s.

from Conquest's complicated interweaving of harrowing deportation stories and starvation-to-death statistics, garnered in good part from the anti-Stalin revelations of Khrushchev's time, is that Communism lives as a system by cheating. Lenin, more of a pragmatist than Stalin, was appalled by what had happened in the Russian countryside when, prematurely, he tried to herd the peasants into collectives just after the Bolsheviks had taken power. Backtracking, Lenin proclaimed his New Economic Policy, or NEP.

“The question whether the present leaders of the U.S.S.R. would be willing to kill tens of millions of foreigners, or suffer a loss of millions of their own subjects, in a war is sometimes canvassed nowadays. That fact that the older leaders were direct accomplices in the actual killing of millions of Ukrainians and others, in order to establish the political and social order prescribed by their doctrine, and that the young leaders still justify the procedure, may perhaps be regarded as not without some relevance. Thus, . . . the events described in this book cannot be shrugged off as part of the dead past, too remote to be of any current significance.”

—ROBERT CONQUEST, *The Harvest of Sorrow*

The peasants, who had accepted the Revolution with a promise that they would get land, were told to enrich themselves. Nobody was to be forced into state farms (sovkhozes) or cooperatives (kolkhozes). The factory farm idea was not abandoned by Lenin, but it was put off to the far future.

What happened was a seven-year period of peace and prosperity throughout the countryside. The more competent peasant farmers who in 1919 had been derided as kulaks (the word comes from “fist”) became comparatively wealthy. They had their own horses and cattle, and could afford hired help. Steel plows were just coming into use along with tractors, but the kulaks made do with wooden plows and hoes where it was necessary. In time they would have had their own tractors if the NEP promises had been kept.

The Ukraine, Russia’s breadbasket in Czarist times, was the biggest benefactor of NEP. Ukrainian nationalists who had been imprisoned or exiled just after the revolution were pardoned. And cultural nationalism among the Ukrainians was allowed to flourish (the Ukrainians have their own language.)

NEP pleased at least eighty per cent of the Russian people. But it didn’t sit well with the ideologues. Lenin’s death was followed by a power struggle in which Stalin, siding at first with rightists who wanted socialism in one country, eliminated Trotsky from the leadership. Then, shifting to the left, Stalin took over Trotsky’s policy of world revolution.

At the end of the Twenties Stalin decided that the time had come to move against the kulaks who had taken Lenin at his word. Quotas were established for forced grain collections. Ten million peasants who happened to

own up to twelve acres were deported in 1929 to the sub-Arctic and told to reproduce conditions of Ukrainian or North Caucasus plenty in a climate where such hopes were a mockery. Naturally the young perished in the bitter cold of the taiga and the tundra.

The poorer peasants who had been left on Ukrainian and North Caucasus farms, threatened with immediate collectivization, killed their cows, horses, and sheep and left their grain to rot in the fields. Millions died—in all, the death toll in the forced 1929-33 famines exceeded the number who had died in World War I. Conquest estimates that fifteen million died either directly or indirectly.

Stalin, a Georgian, had a particular animus against the Ukraine. He closed the borders between the Ukraine and Russia proper. Moscow and Leningrad had food, but the country around Kiev had nothing.

The Kazakhs of inner Asia were another special problem for Stalin. In 1930 a Stalinist minority on the Kazakh Central Committee decreed that 544,000 semi-nomadic Kazakh households out of 566,000 should be “settled” (i.e., collectivized) by the end of the Five-Year Plan. Since Kazakhstan is mainly fit only for grazing, the Kazakhs resisted. They killed their cattle, hid the meat in cold ravines, and died by the thousands when the meat had been used up.

The Kazakhs are in the news once again. They have been demonstrating against Gorbachev’s attempt to put non-Moslem Russians in positions of local authority.

Gorbachev, in comparison to Stalin, is trying to run a “nice” reform program to eliminate industrial and agricultural deficiencies. It won’t work without a new NEP. Is Gorbachev prepared for that? □

THE FREEMAN

IDEAS ON LIBERTY

CONTENTS
MAY
1987
VOL. 37
NO. 5

164 How the Fed Fooled Farmers

Jay Habegger

Government intervention in the money supply is responsible for many of the financial woes of agriculture.

168 Wilderness Cathedrals and the Public Good

William C. Dennis

The role of government in preserving—and destroying—wilderness areas.

175 Liberty and Property

Joseph S. Fulda

Who shall have control over what is produced and what is consumed?

179 The Private Property System and the Decent Society

Tibor R. Machan

A society built on the principles of private property makes it possible for people to be morally responsible.

182 Laissez Faire as a Development Policy

John Semmens

A policy of planned development may sound good in theory, but reality is quite a bit different.

188 Black Marx

Edward Theberton

How socialism has utterly destroyed the economy of the African nation of Mozambique.

192 Fighting Communism with Free Trade and Open Immigration

Frank W. Bubb

By opening its borders to people and goods from the Third World, America could draw people away from the false promises of communism.

199 A Reviewer's Notebook

John Chamberlain

A review of *Cities and the Wealth of Nations* by Jane Jacobs.

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PERSPECTIVE

Unexpected Consequences

Government intervention inevitably makes conditions worse, the late Ludwig von Mises often explained, even from the viewpoint of a program's original backers. The current depressed state of U.S. shipping offers a dramatic example.

Congress passed the merchant marine law in 1886, and the Jones Act of 1920, to protect U.S. shipping. Yet from the point of view of the U.S. shipping industry, these laws have made conditions worse, not better.

The 1886 law forbade foreign ships from transporting people between two U.S. cities. The 1920 law required all ships engaged in U.S. coastal trade to be built in the United States and to sail under the U.S. flag. But the drafters of these laws could not anticipate future conditions. Ships are no longer a primary means of travel; the cost of building and manning U.S. ships has skyrocketed, especially because of rising U.S. labor costs; and U.S. coastal cities now include such popular tourist ports as Oahu, Hawaii, and Anchorage, Alaska.

Because of the high cost of construction in the U.S., foreign shipping now enjoys a substantial cost advantage. As a result, relatively few U.S. ships now engage in world trade. And by taking advantage of loopholes in the maritime laws, foreign ships now carry much of the lucrative U.S. tourist traffic to Alaska and Hawaii.

Foreign ships can carry passengers on a round-trip cruise from Los Angeles to Los Angeles, via Hawaii, where brief stops are allowed. Although foreign ships cannot pick up one-way passengers in Seattle who want to cruise to Alaska and fly back, they can pick them up a few miles away in Vancouver, British Columbia. Meanwhile, Seattle, Washington, which once flourished as a seaport, finds much of its port facilities lying idle, as the bulk of the Alaskan cruise business bypasses Seattle to sail from Canada.

Government legislation, intended to promote and encourage the U.S. shipping industry, has

had unexpected consequences. It has not only led to the decline of the very industry it was supposed to help, but also to the encouragement of foreign competition.

In Marc Connelly's 1930 Pulitzer Prize winning play, "Green Pastures," God complains that every time he performs a miracle, he soon has to perform several others to solve the problems caused by the first one. Such has been the case with the "miracle" of maritime regulation. Government should stop subsidizing, regulating, and controlling shipping and shipbuilding and let consumers decide which ships and what shipping routes to support with their business.

—BBG

Rent Control

The battle lines over rent control seem to be clearly drawn. On one side stand the landlords; on the other side are the tenants. And the issue seems clear enough: Should powerful landlords be prevented from raising rents above reasonable levels? When viewed in these terms, rent control attracts many adherents.

But there is another way to look at the rent control issue, and a third party which is almost completely ignored. This third party is the prospective tenants effectively locked out by rent control. Controls prevent these people from bidding for apartments, thereby creating a housing shortage. These people have to wait for someone to vacate a controlled apartment, crowd into uncontrolled housing, or live in another community.

Thus, the real rent control issue is: Should outsiders be prevented from bidding for apartments?

Of course, when apartments are decontrolled, prospective tenants tend to bid up the rents of previously controlled units. But in so doing, they provide incentives for new construction. As time passes, this new construction relieves the housing shortage created by rent controls, and brings rents down to market-clearing levels. When rents are controlled by supply and demand, and not by political edicts,

landlords have no more power than their ability to offer attractive apartments at reasonable rents in a competitive housing market.

It is difficult to identify the prospective tenants locked out by rent control. Thus, they have no organizations and no politicians eager to champion their cause. But they surely include many people who, frustrated by the housing shortages created by rent control, pursue careers in more hospitable parts of the country. These people will get by, and many of them will prosper, but the rent-controlled community will be poorer without them.

—BJS

Soviet Monopolies

"Government-owned services, though not adequately developed, were in a monopoly situation, dictating to consumers the kinds and range of services, their quality, cost, duration of fulfillment, and so forth."

—*From an article in the Soviet newspaper Tass, November 19, 1986, announcing a new Soviet law permitting citizens to engage in limited forms of private enterprise.*

Hungarian Candor

"In your opinion, should Hungary resemble more the capitalist countries or the socialist countries?"

"It should resemble more the capitalist countries."

"In the Hungarian economy, what changes are needed?"

"Fundamental."

"Agree or disagree: Only prices of luxury goods should be determined by market forces."

"Disagree."

"Do you want little differences in earnings or big gaps?"

"Big gaps."

"What layers of society get bigger-than-average earnings now?"

"Those with the biggest mouths."

—*from an official Hungarian public opinion interview, as reported in The Wall Street Journal (January 8, 1987).*

How the Fed Fooled Farmers

by Jay Habegger

The crisis in agriculture has moved to the forefront of national attention. Scarcely a day passes without a story on the evening news about farm foreclosures or farmers pleading for financial relief. Occasionally the tale is even more dramatic and invokes a public response. One Colorado farmer, for instance, recently crashed his tractor through the front window of the bank which holds the mortgage on his farm. When the story appeared on television, sympathetic viewers began sending contributions to a fund established to provide for his legal defense. Clearly not all is well down on the farm.

Why are so many American farmers in financial trouble? Individuals who confine discussion to nonrecourse loans, marketing orders, or target pricing will uncover only part of the answer. Evidence indicates that government intervention in the money supply, popularly called monetary policy, is responsible for many of the financial woes of agriculture.

Farmers have long recognized the importance of monetary policy. Even in post-revolutionary America a large number of the debates in state legislatures concerned the proper role of government in monetary affairs.¹ Farming interests consistently supported “easy money”—inflation. Later, agrarian support for inflation manifested itself in several political movements. For instance, the Greenback party was largely supported by agrarian interests to promote the issue of paper currency.² The

Greenbackers claimed that “easy money” would cure the farmer’s problems. Although their assertions have proved false, agriculture’s advocacy for inflation can be explained when one understands the business of farming.

Agriculture requires a large capital investment. Even a small farm needs a substantial investment in land and the machinery. Quality farm land can cost several thousand dollars an acre, and an average farm may run several hundred acres. A tractor alone can cost a farmer upwards of a hundred thousand dollars, and this doesn’t include the implements for it to pull.

Individual farmers, however, rarely have the savings to finance even a small operation. Farmers typically obtain credit from commercial banks, savings and loans, and the U.S. government. Without credit, farmers are unable to purchase new land and machinery. In short, credit is an integral factor in agriculture.

As with any other factor of production, the terms and conditions under which credit is assumed and maintained play a major role in business decisions. The farmer is concerned not only with the terms of a loan, but the terms viewed against the current state of the economy and projected economic conditions. How the economy is expected to perform over the life of the loan may be even more important than the actual terms.

Agriculture’s interest in monetary policy can now be explained. Since the farmer’s livelihood is directly linked to the long-term performance of the economy, the factors which affect the economy, such as monetary policy, are of

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paramount importance. At the very least, the farmer would like to insure that long-term economic performance does not harm his position. Even more desirable is a situation in which monetary policy favors agricultural interests.

The Power of the Fed

Agriculture is not the only special interest group with a stake in monetary policy. Heavy industry, labor, and a bevy of other groups all would like a voice in monetary policy. The question then arises about how monetary policy is formed. Who wields this enormous power over the American economy? In the United States, responsibility for monetary policy falls chiefly on the Federal Reserve Board, commonly called the Fed. Through regulation of

the quantity of money in circulation, the Fed hopes to achieve an optimal level of monetary growth and credit expansion.

There is little doubt about the Fed's ability to change the rate of monetary growth. Through various instruments, the Fed influences interest rates and other credit market conditions. What is open to question, however, is the Fed's ability to prescribe an *optimal* rate of monetary expansion—if such an *optimal* rate even exists.

Can the Fed know what the proper rate of expansion should be? The simple answer is no. The Fed would need total knowledge of all the factors that might affect the economy, which clearly no group of individuals can possess. Consequently, opinions on the optimal growth rate vary widely, depending on whose interest is at stake. What one group considers optimal

growth another group may find detrimental. For example, farming interests generally favor rapid growth of the money supply. Labor, on the other hand, tends to find inflation undesirable. Thus, various special interest groups try to influence monetary policy to their benefit.

In practice monetary policy is determined by the Board of Governors of the Federal Reserve Board. Each of the seven governors is appointed by the President to a nonrenewable 14-year term. Often special interest groups try to influence monetary policy by exercising their leverage over appointments. Agriculture, for example, has used this tactic in the past. In 1922 agricultural interests persuaded President Warren G. Harding to appoint an "agriculturist" to the Board of Governors.³

Each member of the board is subject to political pressure from a variety of sources. In an election year, the administration may encourage the Fed to cause a mild inflation, thereby stimulating the economy and aiding incumbents. Congress and the administration may also influence the Fed to monetize the Federal debt, thus causing inflation in order to finance large government expenditures. If the inflation becomes a political burden, however, Congress or the President may call upon the Federal Reserve Board to slow monetary growth.

The effect of all these political influences is an unpredictable, myopic monetary policy. A change in any one of the factors which influence the Fed may cause a major shift in monetary policy. Each policy shift causes significant fluctuations in the economy. Thus, every time the Fed alters its policy, individuals in the economy must also alter their economic activity and long-range forecasts. They must adjust to each policy shift. It is the policy shifts and consequent readjustments that have caused many of the severe problems in American agriculture.

Throughout the late 1970s, the Fed pursued a policy of rapid money and credit expansion. The resulting inflation, which lasted several years, caused farmers to believe that inflation would continue. They made their investment decisions accordingly. Federal price supports, Federally subsidized credit,⁴ low interest rates, coupled with the seemingly favorable investment climate caused by the inflation, prompted

many farmers to bury themselves in a mountain of debt.

The inflation caused economic distortions. Since most nominal prices rose, nominal income also increased. Rising incomes and low real interest rates convinced farmers that they were in a better financial situation than they actually were. If, as many farmers expected, the inflation continued and their nominal incomes rose, their debt payments would become less of a burden. Thus, the expectation of a continuing inflation induced farmers into investments which they never would have undertaken in a period of stable money.

But no one can predict the political future. The farmers couldn't anticipate the appointment of Paul Volcker as Chairman of the Federal Reserve Board in 1979, and the mounting political pressure to slow inflation. Following Volcker's appointment, the Fed began an erratic shift in policy that was designed to reduce inflation.⁵ While actual monetary growth varied from month to month, the overall result of the Fed's policy was to slow the growth in the money supply. As a consequence, inflation subsided. The economy began a painful period of adjustment which led to a recession.

Trapped

Farmers became victims of the recession. With monetary expansion slowing, money incomes stopped rising. Without rising incomes, many farmers faced severe cash flow problems. Their incomes became insufficient to service the massive debts they had accumulated during the inflation. The result, which we see reported on the evening news, is the foreclosures and bankruptcies of many small farmers. It should be emphasized that the readjustment problems are not restricted to agriculture, but affect every sector of the economy to some degree. The U.S. government essentially lured these farmers into a financial trap that was sprung by the Fed.

Eventually, many of these farmers will recover. Nothing, however, prevents the same cycle from repeating itself. As long as the Fed is allowed to cause long periods of inflation followed by radical and sudden policy shifts, farmers will be subjected to painful readjustments. Thus, any long-term solution to the ag-

ricultural problem must put a stop to the Fed's erratic monetary policy.

Several solutions have been proposed. Although they have one element in common—eliminating the arbitrary factors and political influences in the Fed's decisions—they differ radically in approach.

One solution, advocated by Milton Friedman and the monetarists, proposes greater government control of the money supply in the form of a Constitutional amendment which would require the Fed to limit monetary growth to a certain level.⁶ While this solution might enhance predictability of the Fed's actions, it faces the same knowledge problem that currently plagues the Fed. There is simply no way to know how much monetary growth will insure a given economic expansion at a given point in time. And, if the Constitutional amendment left loopholes for the monetary authorities to try to determine what the monetary growth should be, monetary policy probably would become just as chaotic as it is today.

Another proposed solution to the problems of erratic monetary policy is the institution of a completely free banking system. This would remove the money supply from government control. Such a system has an excellent historical precedent. During the first half of the nineteenth century, a successful free banking system existed in Scotland.⁷ Competing private banks issued banknotes which were redeemable in specie and individuals had the right to use the currency of their choice.

The system possessed several natural checks on inflation. Since each banknote was imprinted with a statement insuring its redeemability, banks were required to keep substantial specie reserves. When a bank wanted to expand its note issue, it needed first to acquire more specie. If a bank inflated its currency without enlarging its reserves, the market ensured that it would suffer severe consequences. An increase in note issue caused more notes to be presented for redemption. If the bank had failed to expand its specie reserves, its existing reserves would be quickly depleted. If the bank continued the inflation for any length of time, bankruptcy would result. However, long before the bank went bankrupt, the depletion of reserves would force the officers of the bank to halt the inflation.

Perhaps an even more important virtue of free banking is that it depoliticizes the money supply. Political influences would be replaced with market forces. The supply of money would be regulated by the same market forces which currently regulate the supply of shoes and other commodities. Monetary stability would be achieved through freely acting individuals, as opposed to the Fed's attempt at monetary stability through central control. Thus, it would appear that free banking offers the best hope of an economy free from recessions and economic shocks.

The establishment of a free banking system faces many legislative barriers.⁸ It requires the elimination of the Fed and the abolition of legal tender laws which require individuals to use a specific currency. Indeed, any law which specifies the currency of payment must be repealed. The largest barrier, however, may be the U.S. government itself. The government benefits substantially from the status quo. Inflation increases its revenues and lowers the real value of its debt.

Uncertainty introduced by the Fed's almost random policy causes severe financial distress in the farm community, and indeed the entire economy. According to Milton Friedman, the last few years have been "a striking example of the harm that monetary instability can produce." It is clear that a comprehensive solution to the problems of agriculture must include a curtailment of the Fed's ability to produce economic chaos. □

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5. Michael G. Hadjimichalakis, *The Federal Reserve, Money, And Interest Rates: The Volcker Years and Beyond* (New York: Praeger Publishers, 1984), p. 38.

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7. For more information on the history and theory of free banking see: Lawrence H. White, *Free Banking in Britain: Theory, Experience, and Debate 1800-1845* (New York: Cambridge University Press, 1984) and Donald R. Wells and L. S. Scruggs, "Toward Free Banking," *The Freeman*, July 1986.

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Wilderness Cathedrals and the Public Good

by William C. Dennis

“In wildness is the preservation of the world.”

—HENRY DAVID THOREAU

The public interest” has become one of the cant phrases of the day. In a democratic society, almost by definition, proponents of a particular policy must claim that it promotes the public good and opponents must argue that it will harm the public weal. As the scope of government expands, the claims on behalf of the public interest grow ever more extravagant while the concept of the public interest becomes increasingly vague.

If the public interest is to advance, everyone must benefit and no one should bear disproportionate costs. The Founding Fathers believed that this idea of the public interest could be furthered only through a government of strictly limited powers because only a few measures in carefully defined areas could be expected to benefit the nation as a whole. Today we might call their version of the public interest a positive-sum game. Yet the power of the government has grown since the early days of the Republic to the point where public policy is characterized less by the public interest than it is by transfer activity. In a transfer society, public

policy is dominated by efforts at using the power of government to transfer, or redistribute, wealth from some people to others. At best, transfer activity is a zero-sum game—the gains equal the losses. More likely, scarce resources are consumed in the bargaining over the transfer activity, and society is left poorer than before.¹

One area where claims on behalf of the public interest have been particularly noteworthy has been the cause of wilderness preservation. Without exception, the proponents of the public protection of parks and wild land have maintained that their program was manifestly in the public interest. While most public policies have been subjected to close scrutiny in recent years, the public interest claims of the wilderness preservationists have met few challenges.²

Yet there are a number of problems with the argument on behalf of the public provision of wilderness protection. Wilderness protection yields major benefits for a few at the expense of the many. Whatever the general benefits of public wilderness protection, they are far outweighed by the private benefits. Public wilderness preservation, at least in part, is a transfer activity. Even if wilderness preservation is in the public interest, on net, the government probably has done more to destroy wilderness than to preserve it. Public action is an uncertain means to preserve wilderness and may well be counterproductive. Public means do not always produce public benefits. Finally, the proponents of wilderness protection disagree among themselves on such questions as the nature of

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The Great Canyon and Lower Falls of the Yellowstone, 1871

wilderness, how best to manage wild lands, and how much preservation is desirable. Such disagreements make the promotion of the public interest through government protection of the wilderness even more unlikely.³

Indeed a brief look at the history of the public interest arguments on behalf of wilderness protection turns up what, from the perspective of today, can only be called some real embarrassments.⁴ For instance, contact with the wilderness was thought to promote those masculine virtues necessary and appropriate for a young virile nation. While this view is commonly and correctly associated with Theodore Roosevelt, it was a typical position throughout the nineteenth century. For example, Washington Irving wrote: “. . . we send our youth abroad to grow luxurious and effeminate in Europe; it appears to me, that a previous tour on the prairies would be more likely to produce that manliness, simplicity, and self-dependence most in unison with our political institutions.”⁵

The most popular masculine sport was hunting. Then, as now, hunters wanted wild lands to be managed for their benefit. But there was little appreciation for the balance of nature

among nineteenth-century hunters. Hunters viewed wolves, mountain lions, grizzly bears, and coyotes as vermin which threatened the population of desired game animals, particularly deer. Even as late as 1920, Aldo Leopold, who would later help bring the ecological perspective to the attention of the nation, argued that the restoration of deer population to satisfactory levels required the eradication of every last wolf and lion.⁶

American wilderness demonstrated the purity of the American nation and people. Life in the wilderness invigorated the spirit and better prepared Americans for the challenges of civilization. On the other hand the destruction of the wilderness denoted the Europeanization of America and the general decline of American civilization. Toward the end of the century the masculine argument on behalf of wilderness protection became associated with Manifest Destiny, the Darwinian struggle, patriotism, the mild racism so characteristic of many of the progressives, and even the benefits of barbarism and the cleansing qualities of war.⁷

The progressives also brought to the wilderness argument their belief in scientific manage-

ment and planned economic growth. Proper, knowledgeable, centralized management of natural resources was the only way a healthy, prosperous future could be assured. As Gifford Pinchot wrote, "Conservation stands for the same kind of practical commonsense management of this country by the people that every businessman stands for in handling of his own business."⁸ Eventually this attitude led to a split in the wilderness movement, which is with us yet today, between those who saw the wilderness primarily as a resource storehouse for future development of the common good, and those who desired large quantities of wild land to be set aside and protected from economic exploitation.⁹

"These temple destroyers, devotees of ravaging commercialism, seem to have a perfect contempt for Nature, and instead of lifting their eyes to the God of the mountains, lift them to the Almighty Dollar."

—JOHN MUIR, 1912

But there has also been a good bit of commercialism of one sort or another in the wilderness movement throughout its history. The preservation of Yellowstone was partly the effort of the Northern Pacific Railroad which saw the possibilities of a tourist trade. Congress viewed Yellowstone largely as a collection of geysers, waterfalls, and other curiosities rather than as wild parkland. Railroads and other commercial enterprises contributed to the preservation of the Grand Canyon, Niagara Falls, Yosemite, Glacier Park, the White Mountains, and the Maine woods. Improvements in transportation brought people closer to the wilds and contributed to the popularity of the preservation movement. Certain tours became the "thing" to do for the leisured elite. Trips to Mount Marcy, Natural Bridge, or Crawford Notch were more daring, but just as acceptable as sojourns at Saratoga, Newport, or White Sulphur Springs. As late as the 1950s advocates of preservation gloried in the rising park attendance and commercial tourism made possible by the automobile and the Federal highway program. Growthmanship has not been limited to the for-profit sectors of the country.¹⁰

Paintings, panoramas, photographs, lecture tours, accounts of life in the woods, and famous explorations—these were signs of a popular interest in the wilderness in the nineteenth century. But to a surprising degree the impetus to preserve wild lands came from the intellectual elite of the eastern cities. Emerson, Thoreau, Irving, Greeley, Whittier, Bryant, Cooper, Cole, E. L. Godkin—men who believed it was their responsibility to elevate the taste and standards of a mediocre democracy and who were uncomfortable with the bustle and whirl of nineteenth-century economic expansion, were often the ones who first sought solace in at least a tentative contact with the wilds. Much of the nineteenth-century wilderness movement came not so much from a love of nature as it did from an antipathy to the city. The urban elite delighted in romantic pastoral poems, in genteel outdoor activity (such as beach walks, fishing trips, and picnics), in leisured travel, and in summer migration to fashionable watering places. When the parks and beaches and resorts near home became too crowded the wealthy patrons who had "pioneered" these retreats, like aristocratic "Daniel Boones," moved farther off so that they would not have to rub elbows with their social inferiors.¹¹ Some of the most venturesome of these travelers eventually got so far out that they met up with real wilderness at Mount Katahdin, or in the Adirondacks, or even along the Oregon Trail, as the young Francis Parkman did, out for a lark in 1846. When they did, not all of them liked what they found there. Thoreau's rather terrifying climb of Mount Katahdin served to remind him of the many benefits of civilized life. There were, of course, lovers of the wilderness of the modern-day stripe who actually knew the wilds from long personal experience—men like Alfred Jacob Miller, John Wesley Powell, Osborne Russell, John Muir, or William Henry Jackson, but in comparison to the East Coast elite whose contact with the wilds was rather remote, such figures were few and far between.

The nineteenth century produced other, more familiar arguments on behalf of wilderness protection: wilderness was an important source of aesthetic beauty, wilderness served as an antidote to the ill effects of the corrupting materi-

“The explosion of American concern for conservation was rooted in shifting attitudes and values and, in view of its intensity and evangelical character, might be termed a gospel of ecology.”

—RODERICK NASH
(from *The American Environment*)

alism of modern civilization, wilderness provided an escape to freedom from the cares of daily life. These views, and the masculine, romantic, commercial, utilitarian, planning, and aristocratic arguments for wilderness preservation which are discussed above, continue to be of historic interest, and serve to give us pause about present-day claims of furthering the public interest through the public provision of wilderness. But far more common than these arguments, and surprisingly modern in its approach, was the frankly theological argument that wilderness brought one closer to God and helped to restore the soul. For Americans, wilderness was to be the Temple and the Cathedral for ages to come:

What are the temples which Roman robbers have reared, what are the towers in which feudal oppression has fortified itself, what are the blood-stained associations of the one, or the despotic superstitions of the other, to the deep forests which the eye of God has alone pervaded, and where Nature, in her unviolated sanctuary, has for ages laid her fruits and flowers on His altar!

My God is in the wilderness . . . My church is the church of the forest.¹²

Now, it is one thing for an individual to be guided by his religious beliefs on decisions of public policy, but it is quite a different thing to demand that the state in its own best interests, actually provide both a church and a religious service. In a diverse democratic society, there are serious problems with providing religious goods through statist means. Yet the theological argument, or its modern equivalent, for wilderness protection, remains every bit as popular today as it was a hundred years ago. In his beautifully written and highly acclaimed,

Mountains Without Handrails, Reflections on the National Parks, Joseph L. Sax, a professor of law at the University of Michigan Law School, is unabashedly moralistic in his plea for wilderness preservation. Wilderness advocates are secular prophets, says Sax, bringing to the people a much needed superior set of values. God may be missing from Sax's impassioned plea, but Sax is a preacher for the political establishment of a faith nonetheless. Let Sax speak for himself.¹³

The preservationist is not an elitist who wants to exclude others, notwithstanding popular opinion to the contrary; *he is a moralist who wants to convert them*. He is concerned about what other people do in the parks not because he is unaware of the diversity of taste in the society but because he views certain kinds of activity as calculated to undermine the attitudes he believes the parks can, and *should* encourage. . . .

The setting of the national park provides an opportunity for respite, contrast, contemplation, and *affirmation of values* for those who live most of their lives in the workaday world.

The preservationist is an elitist, at least in one sense. He seeks to persuade the majority to be distrustful of their own instincts and inclinations, which he believes are reinforced by alienating work and the dictates of mass culture. To the social reformer his message is that he can help generate incentives that will lead toward reform of the workplace. To those who say “let's look at demand,” he says that *people need to pay attention to what they ought to want as well as to what they now want*. To those who ask how anyone else can purport to know what another citizen should want, he responds that complacent acceptance of things as they are is not the hallmark of a democratic society.

Right or wrong, persuasive or not, *his claim is that he knows something about what other people ought to want* and how they can go about getting it, and he should not back away from, or conceal, that claim. . . .

The preservationists are really *moralists at heart*, and people are very much at the center of their concerns. They encourage people to

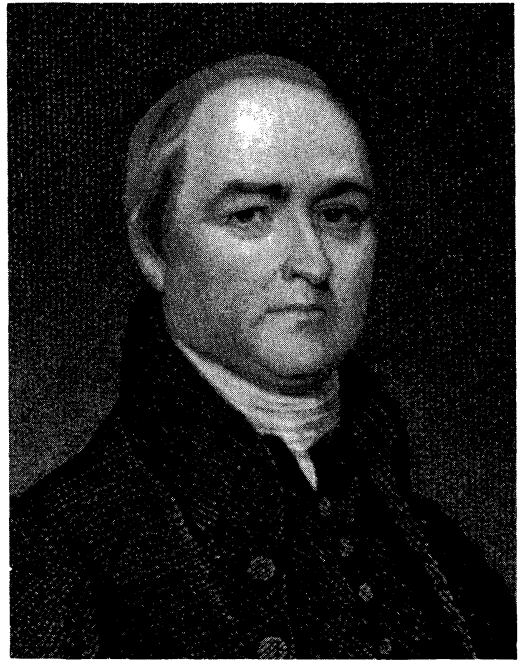
immerse themselves in natural settings and to behave there in certain ways, because *they believe such behavior is redeeming. . . .*

It is not enough to accept the preservationists simply as a minority, speaking for a minority, however impressive. For that reason *I have described them as secular prophets, preaching a message of secular salvation.* I have attempted to articulate their views as a public philosophy, rather than treating them merely as spokesmen for an avocation of nature appreciation, because the claims they make on government oblige them to bear the weightier burden. (Emphasis added)

What Professor Sax recommends is coercion on behalf of a good cause. Wilderness preservation, he believes, will redeem mankind from the evils of the modern world through an official policy of moral uplift. Americans will be won away from their passive existence. Mental health will improve. In short, wilderness will bring a new (secular?) salvation to mankind.

But when it comes to moral uplift, Sax will find that there are many denominations, each with its own version of salvation, each with its idea of what a cathedral should look like.¹⁴ Fishermen (and Sax is one) know the moral value of casting a fly some early morning out onto the waters of a calm lake. Hunters and trappers conduct their slaughter in the name of the higher value of personal responsibility, self-sufficiency, camaraderie, and family unity. Wendell Berry calls for a restoration of the historic values of the small, independent farmer.¹⁵ Popular culture touts the freedom of the cowboy or the trucker as being socially redeeming. Pick almost any special interest magazine off the newsstands, (I find *Sports Afield*, *Car and Driver*, and *Runner's World*, to be of interest because I do not share in their enthusiasms), and one will find claims of social virtue almost as extravagant as those of Joseph Sax (in whose enthusiasm I share).

Then we think back to the exaggerated claims of the nineteenth-century lovers of nature and we realize that little has changed since those days. A preacher is a preacher wherever he may be. One of the early nineteenth-century adventurers into the wilderness was himself a



Timothy Dwight

minister. Timothy Dwight, Congregational clergyman, President of Yale College from 1795 to 1817, left an account of his journeys in four massive volumes.¹⁶ Dwight actually got out into the wilds and was one of the first New Englanders to record his admiration of the physical beauty of natural America. But, Dwight feared the wilderness as well. In contrast to Joseph Sax, he thought that extensive contact with the wilderness was morally debilitating. Men living in the wilds, away from home, church, and town become dissolute and antisocial. For Dwight the wilderness could never be a church; a good church required a settled town, an educated clergy, and regular worship within a community setting.¹⁷

Dwight, like Sax, however, believed in an established church at public expense with compulsory church attendance, only it was the Congregational Church, not the church of the wild wood that he supported. Dwight believed that Christianity was God's plan for mankind and that God demanded that His Church be supported by the civil authorities, because through church attendance some would be brought to salvation who would not otherwise obtain it. Of the many varieties of the Christian faith, the Congregational Church was the highest and most pure expression of God's will

and should receive preferential treatment. But Dwight was not just a Congregational minister of the old school. He was a modernist, a rationalist, and a scientist who established the first chair of natural philosophy at Yale. He knew that his theological arguments would not appeal to everyone and he went on to bolster his argument on behalf of the establishment of religion with arguments from political economy as well.* The Church provided public benefits and, therefore, all should help pay for it. Church attendance promoted good morals and, with its appeals to conscience, reduced crime. The Church taught Christian charity so that people would live together in peace and harmony. It reduced social tensions and increased good will among men. A higher degree of social morality meant less public expense for police, punishment and rehabilitation, and court litigation. The Church, for Dwight, had what economists would call a favorable cost/benefit ratio. Without a strong public commitment to religion Dwight feared that vice, crime, and licentious-

ness would grow to the detriment of the society as a whole.

Timothy Dwight was probably correct about the social benefits of a well-ordered church. As long as he was alive, Connecticut remained true to its long-established policy of public support of religion. The year after Dwight's death in 1817, however, a contentious election brought to power a party committed to a complete severing of church and state. But was this dramatic change in Connecticut policy accompanied by rampant immorality and criminality, together with associated social costs, as Dwight feared? Not according to Lyman Beecher, Dwight's friend and protégé and Congregational minister at Litchfield. After disestablishment, no longer able to rely upon state support, the Congregational Church began an intensive effort to keep existing parishioners and to attract new members to the fold. At the same time, the dissenting sects stopped viewing the Congregationalists as the enemy and ceased wasting their scarce resources on political opposition to the establishment. Soon a wave of religious enthusiasms known as the Second Great Awakening swept over Connecticut. The voluntary, instead of compulsory support of religion, ended petty religious quarrels and brought about greater social cooperation and new religious concern.¹⁸

Perhaps there is a lesson to be learned here. The state is not a good means to promote either religious or secular salvation. Considering this brief history of the strange arguments made for the public provision of wilderness, should we not expect the preservationists to be more modest in their claims today?¹⁹ Is it not at least plausible that the "disestablishment" of wilderness might bring with it many of the benefits that came to Connecticut with the disestablishment of religion?²⁰ Joseph Sax and his friends could promote wilderness preservation as one of the many good achievements of modern civilization and would no longer have to promote their position after the manner of true believers. The various sects of "preservationists" and "developers" would stop spending scarce resources on the unending and increasingly strident battle for the political control of the wilderness, but instead could cooperate in the discovery of new ways to provide wilderness

*Dwight's language is so similar to some of the arguments of modern day preservationists that it is worth quoting at length: "The legislature of every State is the proper superintendent of all its prudential concerns. It has not only a right, but is obliged by an authority, which it can neither oppose, nor question, to pursue every lawful, and expedient, measure for the promotion of the public welfare. To this great purpose Religion in every country is not only useful, but indispensable. But Religion cannot exist, and has never existed, for any length of time, without public worship. As every man ought, therefore, willingly to contribute to the support of whatever increases his own prosperity; he is by immovable consequence obliged to support the religion, which by increasing the common prosperity, increases of course his own."

Should an advocate for the doctrine, which I oppose, demand proof, that Religion is indispensable to the welfare of a free country: this is my answer . . . Moral obligation has its sole ground in the character, and government of God. But, where God is not worshipped, his character will soon be disregarded; and the obligation, founded on it, unfelt, and forgotten. No duty, therefore, to individuals, or to the public, will be realized or performed. . . ."

"I am well aware, that in spite of this and any other reasoning; in spite of demonstration itself: there are men, who may, and in all probability will, say, that, however good and useful the public worship of God may be, they do not wish to avail themselves of its benefits; and owe, therefore, no contributions to its support. To these men I reply, that he, who has children, or who does not wish to send his children to school; and he who does not use the roads, and bridges, of his country, because he is either necessitated, or inclined, to stay at home; may on exactly the same ground, claim an exemption from supporting schools, roads, and bridges. To such an objector it is a sufficient answer, that these things enter into all the happiness which he enjoys; and that without them he, and his countrymen, would be hermits, and savages. Without Religion, man becomes in short time a beast of prey; and wastes the happiness of his fellow-men with as little remorse, as the wolf, or the tiger; and to a degree which leaves their ravages out of remembrance."

(Dwight, *Travels* IV, 403, 405. Also see, Theodore Dwight, Jr., *President Dwight's Decision of Questions Discussed by the Senior Class in Yale College in 1813 and 1814*, New York, 1833, "Dispute XII, December 8th 1813: Ought the Clergy to be Supported by Law?")

through private means. We would come to see wilderness as a scarce good, worthy of ownership and stewardship as with other scarce goods. The public appreciation for the value of wilderness would grow accordingly.

Less wilderness in public hands, in the long run, might well lead to better wilderness preservation as well. At the end of his third edition of *Wilderness and the American Mind*, Roderick Nash writes: "It has occurred to others that the need for the wild is a transitory, frontier-related enthusiasm that Americans will outgrow . . . Changing ideas and values replaced the wilderness hatred with wilderness preservation, and ideas could change again."²² If that day should come, would it not be better for the cause of preservation to have substantial tracts of wilderness in private hands where it could be protected from changes in public taste and public interest?

Finally, and most importantly, the disestablishment of the wilderness, as with the disestablishment of the church, would contribute to the expansion of liberty. Wilderness then would truly contribute to the support of those liberating values held in high esteem by the preservationist community—values, which it might well be in the public interest to further. □

1. For more on the public interest and the transfer society, see William C. Dennis, "The Founding Fathers and the Public Interest," unpublished lecture, delivered at Shawnee State College, Portsmouth, Ohio, April, 1976, and Terry L. Anderson and Peter J. Hill, *The Birth of A Transfer Society* (Hoover Institution Press: Stanford, California, 1980).

2. There is, however, a growing literature on this subject. Three good references are: Edwin G. Dolan, *Tanstafl, The Economic Strategy for Environmental Crisis* (New York: Holt, Rinehart & Winston, 1971), Robert J. Smith, *Earth's Resources: Private Ownership vs. Public Waste* (Washington, D.C.: Libertarian Party, 1980); and John Baden and Richard Stroup, "Priceless Wilderness: A Paradigm Case of Rent Seeking" (paper prepared for a Liberty Fund Conference on, "The Political Economy of the Transfer Society," Montana State University, Bozeman, September, 1980). But also see the convenient bibliography in Stroup and Baden, *Natural Resources: Bureaucratic Myths and Environmental Management*, San Francisco, 1983. See also William R. Tucker, *Progress and Privilege: America in the Age of Environmentalism* (Garden City, NY, 1982).

3. These arguments are developed at length in William C. Dennis, "The Public and Private Interest in Wilderness Protection," *The Cato Journal*, Vol. 1, No. 2, Fall 1981, pp. 373-390.

4. I do not want to be misunderstood. I value wilderness highly. During the last fifteen years, I have spent more than 600 days in wilderness or park settings. Many, indeed most, of the arguments on behalf of wilderness protection, both historical and current, are persuasive to me. They just do not establish convincingly, a sound basis for a public policy of wilderness protection. I confess, however, that most persons I talk to do not seem to object to providing me with a wilderness experience through the tax system even though they use little wilderness themselves. Perhaps they feel that

the indirect benefits they gain from the preservation of wilderness fully compensates them for their expenditures on wilderness. But a modern society offers many moral and aesthetic goods without public support or subsidy.

5. Quoted in Roderick Nash, *Wilderness and the American Mind* (Yale University Press, New Haven and London, 1967), p. 73. Also, Nash, *Wilderness*, pp. 148-149; Arthur A. Ekirch, Jr., *Man and Nature in America* (University of Nebraska, Lincoln, 1973, org. pub. Columbia University Press, 1963), p. 65.

6. Susan L. Flader, *Thinking Like a Mountain: Aldo Leopold and The Evolution of an Ecological Attitude Toward Deer, Wolves and Forests*. (University of Nebraska: Lincoln, 1978, org. pub. University of Missouri Press, 1974), pp. 53-61. Alston Chase in *Playing God in Yellowstone: The Destruction of America's First National Park* (1986) shows how the National Park Service itself successfully eliminated wolves from Yellowstone.

7. Nash, *Wilderness*, 11, 102, 106, 145, 152-53; Ekirch, *Man and Nature*, pp. 33-34, 98-99.

8. Quoted in Ekirch, *Man and Nature*, p. 98. Also, Ekirch, *Man and Nature*, pp. 88-90, 97, 99; Hans Huth, *Nature and the American: Three Centuries of Changing Attitudes* (University of Nebraska, Lincoln, 1972, org. pub. University of California Press, 1957), pp. 186-187. Samuel P. Hays, *Conservation and The Gospel of Efficiency: The Progressive Conservation Movement, 1890-1920* (Harvard University Press, Cambridge, 1959), pp. 41-42.

9. Ekirch, *Man and Nature*, p. 88; Nash, *Wilderness*, pp. 161-181.

10. Nash, *Wilderness*, pp. 105, 112-113, 155; Huth, *Nature*, pp. 72, 155, 202; Hays, *Conservation*, p. 196.

11. Huth, *Nature*, chapters 4 and 7. Huth, p. 62, quotes the painter, Asher Durand, as worrying that the rural districts around New York City in the 1840s were being "invaded by roughs—the inevitable canker of public grounds, contiguous to our great cities. . . ." Some modern day preservationists, viewing Yosemite, say, know what Durand was talking about. But, then, what are public grounds for if not for the public?

12. Nash, *Wilderness*, pp. 11, 73, 157, 67, 71, 121, 157-159, 167; Ekirch, *Man and Nature*, pp. 52-53; Hays, *Conservation*, p. 145.

13. Joseph L. Sax, *Mountains Without Handrails, Reflections on the National Parks* (The University of Michigan Press: Ann Arbor, 1980), pp. 14, 42, 51, 59, 103-104.

14. Ernst R. Habicht, Jr., first put this idea in my mind.

15. Wendell Berry, *The Unsettling of America* (Sierra Club: San Francisco, 1977).

16. Timothy Dwight, *Travels In New England and New York* (New Haven, Connecticut, 1821-24, in four volumes).

17. The paragraphs on Dwight are based on William C. Dennis, *A Federalist Persuasion: The American Ideal of the Connecticut Federalists, 1795-1818* (unpub. Ph.D. dissertation, Yale University, 1971), Chapters 2 and 3.

18. Lyman Beecher, *Autobiography, Correspondence, etc.* (2 vols., New York, 1864-1865), I, p. 344. Charles Roy Keller, *The Second Great Awakening in Connecticut* (Yale University Press, New Haven, 1942), pp. 55-69. Keller argues that the revival was a spontaneous development and was not something artificially created by the Congregational clergy to counter the effects of disestablishment. Keller believes that most of the clergy were unconcerned with politics by 1818. Indeed, the presence of revival may have eased the path to disestablishment by showing the clergy they had nothing to fear.

19. I find support for this position in Julian L. Simon, *The Ultimate Resource* (Princeton University Press: Princeton, New Jersey, 1981), p. 145: "Conservationists perform an invaluable service when they alert us to dangers to our unique treasures, and when they remind us of the values of these treasures to ourselves and to coming generations. But when they move from this role to suggesting that pulp trees or deer should be conserved beyond what we are willing to pay to set aside the trees or deer's habitat, they are either expressing their own personal aesthetic tastes and religious values, or else they are talking misguided nonsense."

20. Or in Madison's famous words from *Federalist #10*: "In a free government the security for civil rights must be the same as that for religious rights. It consists in the one case in the multiplicity of interests, and in the other in the multiplicity of sects."

21. Roderick Nash, *Wilderness and the American Mind*, 3rd. ed. (New Haven and London: Yale University Press, 1982), pp. 387-388.

Liberty and Property

by Joseph S. Fulda

Perhaps the best way to illumine the connection between the economics and philosophy of liberty is to uncover the relation between liberty and property.

There is no more authentically conservative idea than the rights of property. What is less understood is that there is no more authentically liberal idea either. The alliance between liberty and property is nowhere more celebrated than in John Locke's second treatise of government, *An Essay Concerning the True Original, Extent, and End of Civil Government*, and it is to the master that we turn for its exposition.

To Locke, property was a broad concept. Anything that one has a right to is his property, for rights are proprietary interests, no more, no less. Indeed Locke often interchanges "property" and "rights." Everything we have is thus a property: life, limb, health, reputation, and possessions. Thus broadly must be understood Locke's noble statement, oft cited but little understood, "Government has no other end but the preservation of property."¹ So he explains himself, to anyone who troubles to look.

It is "lives, liberties, and estates, which," Locke informs his readers, "I call by the general name, *property*."² Earlier he had written, "Every man has a property in his own person. This nobody has any right to but himself. The labour of his body, and the work of his hands, we may say, are properly his."³ Properly his—or proper to him—because man has "in himself the great foundation of property."⁴ Again and again, this unifying idea—property,

or rights—lends simplicity and beauty to this earliest exposition of limited government.

We have, for example, a proprietary interest in our children which though it gives us the exclusive right to rear them is neither unlimited nor permanent: we have created an equal with rights of his own. The moral basis of religion is much the same: "For men being all the workmanship of one omnipotent, and infinitely wise Maker . . . they are his property, whose workmanship they are. . . ."⁵ Whether the relation between God and man is master-slave or father-child is the subject of many a theological discourse and an endless dialogue between Creator and created. Marriage is also a proprietary interest as it "consist chiefly in such a communion and right in one another's bodies. . . ."⁶ The commitments of contract, founded on mutual considerations, are also proprietary interests, rights to be secured by the law of the land. Richard Baxter, an English divine contemporary with Locke, summed it up this way: "Every man is born with a propriety in his own members, and nature giveth him a propriety in his children, and his food and other just acquisitions of his industry. . . . And men's lives and liberties are the chief parts of their propriety."⁷ Perhaps more than anything else, it is Locke's broad, underlying conception of property that makes his *magnum opus* cohere so gracefully.

It also illuminates the connection between liberty and property. Liberty, after all, refers to something coercive that isn't there. It is a condition of noninterference with one's properties, one's proprietary interests, one's rights: nonin-

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terference with one's person, family, worship, contracts, and possessions. That is liberty and it is of property. Jefferson's statement that governments were instituted to secure the rights of man is Locke's assertion that governments exist for the preservation of property recast in the language of a later time.

The Power to Tax

The preservation of attachments, of man to God, of family ties, of contractual commitments, of a man to his life, fortune, and honor is perhaps the essence of conservatism rightly understood. The closely allied classical liberal tradition is about freedom: the freedom to attach, the freedom not to attach, the freedom not to be interfered with in one's attachments. Government is ever a threat to such freedom and attachment, to liberty and property, for it has within its means the dread taxing power. If we understand property broadly as did Locke, then the power to tax—to take property—is readily seen to encompass all the multifarious interventions of the state in our lives. The power to tax is indeed the power to destroy.

Such an understanding of property and taxation gives the lie to those who incessantly call for "national service" and their fond belief that this would lower taxes. Of course, it would simply make the state's consumption of the energies of the citizenry more direct and more coercive, shifting the burden of taxation from "that property which men have in their . . . goods" to "that property which men have in their persons."⁸ As George Gilder has written, the shift is regressive, "the Moloch of the closing circle": "The rates of taxation climb and the levels of capital decline, until the only remaining wealth beyond the reach of the regime is the very protein of human flesh, and that too is finally taxed, bound, and gagged, and brought to the colossal temple of the state—a final sacrifice of carnal revenue to feed the declining elite. This is the destination of all dictatorship. . . ."⁹

But what of that property which men have in their goods and in their land? How do rights in places and things preserve liberty? The answer lies more in the nature of human action than in the nature of places and things. Human action

not only engages our persons; most action is performed on, with, or by the agency of property. And all human action takes place on the Good Earth, where by the grace of God man has erected his civilization. Thus is liberty of property and thus does the preservation of property rights secure liberty. The founders did not have available the comprehensive and beautiful vision of human action and economic freedom that we do, but this simple insight, that liberty is largely of property, never left them for a moment. That is why the polity they constructed so protected property and why their hope for freedom was realized here for so long, so well.

To come to a full appreciation of the role of personal property in human action, consider the dearth of activities that would remain open to us were all private (non-state-sanctioned) uses of personal property suddenly banned. Trade and enterprise would vanish, just as Marx, who worked for the abolition of private property, wished. Universities, broadcasters, and printers would have to close up shop, and everything else would soon follow. Indeed only three activities seem to be left to us: disorderly fist fighting (neither gloves, a whistle, nor a ring is allowed), yelling at large crowds (yelling because microphones are property, the crowd is gathered because radio, television, and other means of telecommunication involve property), and making love in the grass (beds being property). There was a time when this was largely what was meant by freedom; the reader may recall this as the Freedom of the Sixties. It is what is left of freedom when we are free to use our persons as we wish, but not our property. It is without question a caricature of freedom.

But even such skeletal personal freedom assumes the right to use the land as one wishes. Without such property rights, even these meager liberties are preserved only as long as the state pretermits. Land use regulations become ever more proscriptive and ever more prescriptive until one finds oneself utterly without choice of how to live on the land: the condition is known as serfdom and it is the logical extension of land use regulations and the actual unfortunate lot of millions.

When the territory of the free society—the many arenas of private activity—is not re-

spected, the liberties of its denizens are woefully insecure. That is why state control of land, its use, and its distribution is so prominent a feature of socialist programs and why such miserable and blatant failures as collectivist agriculture still generate enthusiasm among the ruling elite. These leaders understand full well—as did their predecessors in other closed societies, feudal societies, for instance—that the private domains of a free society powerfully circumscribe the long arm and reach of the state. Private property is thus for them a thing to be greatly feared.

Whether the state draws the line around the object the man wishes to use or around the man who wishes to use the object is only a matter of perspective. What results is a contraction of choice, a limitation of the field of possibilities for human action, in short an abridgment of liberty.

Concern for the security of real property is not new to the tradition of liberty. Indeed it is one of the principal concerns of the *Magna Carta* and eventually made its way into our Bill of Rights as part of the third, fourth, and fifth amendments to the Federal constitution.

Let us move forward in time and examine the liberty-property connection as it is manifested today. Indeed today much abridgment of liberty comes under the guise of regulation of property: real and personal. Whether the state draws the line around the object the man wishes to use or around the man who wishes to use the object is only a matter of perspective. What results is a contraction of choice, a limitation of the field of possibilities for human action, in short an abridgment of liberty.

Regulations of farms and farm products inflate

the costs of production and abridge the farmer's liberty to produce. Urban zoning ordinances abridge the associative freedoms and erect barriers to commerce, enterprise, and peaceful residency. Airwaves, too, are real property. When their use is circumscribed by "fairness," political access, public access, equal time, community service, and public interest requirements, it is the liberty of expression that is violated, in particular the liberty not to speak. When labeling requirements are placed on substances, it is the same freedom that is diminished along with the freedom of enterprise.

Productive human action is greatly encumbered by detailed regulations on capital goods and plant by the likes of OSHA and USDA, on transportation by the likes of DOT, the ICC, the FAA, and NHTSA, and on housing by HUD and countless state, county, and municipal agencies. The demands of these agencies are on people, not on machines, trucks, and houses. It is people who are directed to associate with such and such a person in the name of fairness, to transport only such and such an item in the name of fair competition, and to build machines in this or that way in the name of worker safety.

But it is precisely because control over people is being exerted through control of property that such measures can never meet their goals. Writes William E. Simon:

The common feature of OSHA regs, EPA "zero discharge" crusades, and NHTSA efforts to improve traffic safety is that they seek to create a risk-free existence by manipulating objects. But most accidents and other health and safety hazards . . . result from human error or carelessness. The crusade to create a totally risk-free environment is therefore doomed to failure from the outset.¹⁰

Empirical evidence supporting this generality and demonstrating the incredible lack of cost-effectiveness in what is known as the "command and control" method of regulation has become increasingly acknowledged in recent years.¹¹

The connection between liberty and private property can be further illumined by an examination of the connection between their polar opposites: totalitarianism and the abolition of private property. "The theory of the Communists may be summed up in the single sentence: Abolition

of private property," wrote Marx.¹² Lenin was later to write: "The scientific concept of the dictatorship (of the proletariat) means nothing other than unlimited government unrestrained by any laws or any absolute rules and supporting itself by force."¹³ The connection between the aim of the former and the reality of the latter is evinced by a consideration of Marx's central proposals: placing under state control the instruments of production (farms and factories), the means of association (transport and communications), and the sources of ideas (schools, universities, churches, printing presses and other media).

We Are What We Consume

Broadly considered, the old adage is quite right: we are what we consume. The foods we eat, clothing we wear, houses we dwell in, furnishings we decorate them with, appliances we use, haircuts we get, discussions we enter into, places we visit, books we read, pictures we watch, courses of study we embark on, ideas we adhere to, and the God we worship: these are all the things that make us what we are: they *are* our civilization.

Control over everything consumed, from agricultural produce and manufactured goods to the company of others and the ideas of the day, is thus the power to shape civilization. Marx instinctively reaches for the throat of the free society when he suggests state control of the means of production. "The means of production," after all, is a prosaic phrase. We are

talking of nothing less than the source of supply, the means of satisfying human needs and wants. Granting the state power over this satisfaction does more than place every man in "terror of effective deprivation . . . of his business and his livelihood,"¹⁴ although it does that. It allows the state to define society.

The relation between Marxism and the more virulent Leninism thus has a simple, syllogistic structure: We are, broadly speaking, what we consume. In a planned economy, what is produced determines what is consumed. Therefore, control over what is produced determines the nature of our lives. In a market economy, in contrast, what we would consume is all that can be produced. Control over what is produced—and over what is consumed—is left in the hands of the common folk, you and me: that is the essence of a free society. □

1. John Locke, *Two Treatises of Government*, Peter Laslett, ed. (Cambridge: Cambridge University Press, 1967), II: 94.
2. *Ibid.*, II: 123.
3. *Ibid.*, II: 27.
4. *Ibid.*, II: 44.
5. *Ibid.*, II: 6.
6. *Ibid.*, II: 78.
7. Richard Baxter, *The Second Part of the Nonconformist's Plea for Peace*, pp. 54-55.
8. John Locke, *op. cit.*, II: 173.
9. George Gilder, *Wealth and Poverty* (New York: Basic Books, 1981), p. 258.
10. William E. Simon, *A Time for Action* (New York: Berkley Books, 1980), p. 89.
11. See, e.g., Donald Lambro, *Fat City: How Washington Wastes Your Taxes* (South Bend, Indiana: Regnery/Gateway, Inc., 1980).
12. Karl Marx and Friedrich Engels, *The Communist Manifesto*, Samuel Moore, trans. (New York: Penguin, 1967).
13. Lance Morrow, "What Workers Get Out of Communism," *Time* 116:11, September 15, 1980, p. 102.
14. Herbert Hoover, *The Challenge to Liberty* (New York: Charles Scribner's Sons, 1934), p. 82.

IDEAS
ON
LIBERTY



Property Rights

If personal freedom is the basic institution of the free society, then the principles of private property and freedom of contract must be the vital instruments of the free society; for personal freedom cannot even be conceived outside the environment provided by property and contract rights.

—SYLVESTER PETRO

The Labor Policy of the Free Society

The Private Property System and the Decent Society

by Tibor R. Machan

The Western liberal system of values has been suffering from lack of adequate moral support. Ever since the time of Adam Smith, liberal capitalism has tended to be defended on grounds that the pursuit of private profit will benefit the public interest. After all, Smith's great book is called *The Wealth of Nations*, not *The Wealth of Individuals*. Yet what capitalism and liberalism stress is that each individual ought to be protected in his or her liberty to act as he or she chooses. This is a far broader claim than what is actually supported by even Smith's capitalist economic system.

Even more recent arguments against statism do not fully support the capitalist system of individual liberty and the practical legal principles that sustain it, namely, the right to private property. There are essentially three famous arguments against state planning of socio-economic systems.

First, there is an argument associated with the great Austrian economist, Ludwig von Mises, which holds that it is impossible to allocate resources rationally in planned economic systems. The reason is that such systems lack the information base provided by the price system, since such a system must rest on free trade and private ownership of the items being traded. But this argument assumes that there is something extremely important about allocating resources efficiently. Statists most often have

different goals. Even socialists in our time have given up claiming that socialism produces better than capitalism, but argue only that capitalism is so cruel and heartless that its productive capacity does not justify sticking to it beyond a certain limited historical period. If they are right, and other values are more important and can be better preserved under socialism, Mises' famous argument, repeated often by others (e.g., F. A. Hayek), will not suffice to defeat statism.

Second, there is the argument advanced by Kenneth J. Arrow, Stanford University's Nobel Prize winning economist, that in a society which respects democracy and lets everyone express his or her preferences for what should be public policy, the results often will be logically contradictory. Letting everyone participate in public policy decisions, which so-called democratic socialists advocate, just leads to the impossibility of rational public policy guidance. And this seems to be clearly enough demonstrated in today's numerous welfare states which are kinds of democratic socialisms. The pressure groups exerting influence on the state make it impossible for the state to have a rational, consistent public policy in its domestic or international affairs. Yet the argument only proves that democratic socialism is impossible; it leaves open the possibility that dictatorships could be rational solutions. Indeed, Lenin already realized the problem of trying to have a combination of socialism and democracy, so he revised the Marxian ideal and instituted outright despotism in the Soviet Union.

Third, it is argued by Professor Garrett

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Hardin of the University of California—who is reviving an argument Aristotle advanced against Plato's defense of partial communism in the ideal society—that common ownership of resources must lead to resource depletion. He calls this the "tragedy of the commons." We can see how this happens when public spheres are used in relatively open societies. Beaches, the air mass, lakes, rivers, parks, roads, and so forth all tend to be cared for less well than private backyards, homes, company headquarters, and so on. In all these public realms we find something going terribly wrong without knowing just where to place the blame. That's what makes for a tragedy! Yet Professor Hardin and those who agree with him simply propose the alternatives of greater state control, which invites statism. And we have seen above that statism ultimately reduces to some form of dictatorship.

So what argument can be given against this by Western liberals who feel that the rights, including property rights, of the individual should be defended? Why is it sensible to choose the Western liberal system and to work to extend its principles even further by demanding greater and greater liberty for the individual?

A Moral Defense

Ultimately, any political-economic-social system needs a moral defense. One reason statisticians always seem to be at an argumentative advantage is that they know this and use it effectively. Marxists and welfare statisticians never tire of denouncing capitalism and freedom for all kinds of alleged moral failings. Capitalism is supposed to foster greed, heartlessness, cultural decline, lack of safety and health measures for workers, inadequate social security, etc. Never mind that not a single socialist system produces as much of the good things in society as the near-capitalist U.S. and other Western systems have and still do. The moral rhetoric never seems to suffer from this. The Soviets get a great deal of advantage from always talking about the few poor and neglected in capitalist societies, even while they oppress an entire generation of Russians and others in their sphere of power. The West still hasn't found an

effective way to respond, even when any honest person can see that Western practices have preserved human values far more than anything the Soviet and Marxist regimes have managed to accomplish.

To remedy this it is necessary to understand that human beings are first and foremost moral agents. They have freedom to control their own actions and are responsible for how well or badly they exercise this control. This implies that any decent society must make room for free choice for individuals. Anything else—art, sports, science, military might, the preservation of ancient buildings, or whatnot must take second place in comparison to this vital function of a society, namely, to make the moral agency of individual human beings a real, practical possibility. It is not the business of a legal system to make people good, to get them to behave well, to engineer their perfection. Rather, it is to provide them room in the company of others to take up the challenge of their moral nature! And this challenge is most accessible to them in a legal system in which there exists strict adherence to the principle of private property rights.

The reason is not difficult to see. Human beings live in the natural world, surrounded with the items of nature—mostly this earth, but soon beyond. When they are in each other's company, they must have a clear idea of what is theirs, what is not theirs, so that they can make intelligent use of this earth's resources in leading their lives. The principle of the right to private property is the moral prerequisite for making this coordinated pursuit of human excellence possible.

If I don't know what is mine in how I lead my life, I am unable to make a responsible judgment. Whose backyard may I let my children play in? Mine, not yours, for that would make it impossible for you to judge about your priorities, your moral objectives, intelligently, rationally. As the argument about the tragedy of the commons suggests—although in a limited way—when everything is everyone's and no one has a determinate sphere of personal jurisdiction, utter confusion and tragedy result.

The ultimate result of collectivization is dictatorial statism, which denies the moral nature of individual human beings. Very often in the

pursuit of some particular value, people will be willing to sacrifice the most important prerequisite for the pursuit of values—the principle of private property rights. Yet they are perpetrating the most grievous social evil through doing so. They are making it impossible for human beings in society to be morally responsible.

Since my points above are very general in nature, let me make clear that when I speak of the principle of the right to private property, I speak of a right to obtain, keep, and dispose of all sorts of valued items, not just land or material goods. Poems, novels, musical arrangements, computer programs, architectural plans, chemical formulas invented by scientists and so forth all qualify as property. When people voluntarily pool their resources and together

pursue some common goal, then, of course, they must take responsibility for what they have done and their moral agency is preserved. When people own shares in truly private corporations and then either hold on to them or sell them, here again their moral role in what they do is not difficult to determine. So the principle of private property can give rise to all sorts of complex institutional relations. What is crucial is that the role of the individual never be lost. And this is just what that principle makes possible.

Those who vaguely perceive that the West is right and Marxism is wrong should realize that their best argument is a moral one. It is the dignity of the human individual, the moral nature of persons, that requires their kind of system, whatever else also speaks in favor of it. □

**IDEAS
ON
LIBERTY**



An Instrument of Freedom

We have almost forgotten that there is a right of property which “is before and higher than any constitutional sanction.” We talk about such things as freedom of speech, freedom of the press, freedom of religion, and freedom from false arrest, without giving much attention to the foundation upon which all these freedoms rest. We have forgotten that these are but the symbols, the ornaments, and the outward manifestations of a solid structure without which none of them could exist. We have become so interested in the cake’s icing that we have ignored the cake. We have become victimized by the often repeated but absolutely false assertion that there is a conflict between property rights and human rights. The truth is that private ownership of property is the greatest instrument of freedom ever designed and it is sheer folly to speak of granting a man freedom while withholding that instrument from him.

As we move from one age to another there is but one fundamental change in the concept of private property. The rate of the change as well as the direction of the change may shift from time to time. But the question is always one of deciding what incidents of ownership rest in the individual and what incidents are claimed by the state. If human freedom is to be preserved, that question must be faced squarely.

—BERTEL M. SPARKS

Laissez Faire as a Development Policy

by John Semmens

The majority of the people in the world live in poverty. Fatalistic philosophy and pessimistic disposition induce many to accept this situation as inevitable. Others, observing the prosperity of the minority, are inspired to anger and envy. Fortunately, the prosperity of the minority also serves as evidence that something other than poverty is possible for humankind.

Knowing that poverty is not inevitable still leaves us with the question of how the condition is to be overcome or ameliorated. In the eagerness to speedily conquer the ills of poverty, much of the development economics literature has emphasized approaches calling for government planning, direction, and control of the economies of developing nations. The impetus behind this approach is the idea that the market left to itself cannot produce growth as fast or as well as a planned or directed economy. Unplanned markets rely upon atomistic decision-making by independent actors in the economic environment. There is no assurance that any particular type or quantity of industrialization will take place.

In contrast, it is argued, a planned economy can aim at specific objectives of development. Target industries can be developed and nurtured. Educated and trained experts can guide the economy onto planned paths that might, or might not, have been taken by an uncontrolled economy. The experts, informed by ex-

perience and observation of what has worked elsewhere should be able to avoid many of the costs of an unguided, trial-and-error, profit-and-loss market system. Thus, the planners conclude, economic growth should be forced into a higher pace.

While planned development may sound good in theory, the reality is quite a bit different. The government experts in control of Third World nations' economic policies are neither willing nor able to chart a better course than the unplanned market. Government attempts to direct economic development are little more than plausible sounding theory. An especially pessimistic view of the role of government intervention in economic development was expressed by Mancur Olson in *The Rise and Decline of Nations*. On the one hand, he perceived that it would require "... an enormous amount of stupid policies ... to prevent economic development" On the other hand, he observed that "... growth-retarding regimes, policies, and institutions are the rule rather than the exception"

The problem with government control of the economy is one of devotion to socialist dogma. The key elements of this dogma include (1) suppressing or supplanting the market with government price and allocation schemes, (2) a reliance on government manipulation of the economy that routinely ignores individual incentives, (3) interference with free commerce via tariffs, quotas, or subsidies, and (4) an emphasis on redistribution of income. Many developing countries were formerly subjected to colonial status by various European nations.

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The socialist regimes that have arisen in the wake of decolonization are often reflective of government controls employed by colonial powers. That less developed countries have not thrown off the yoke of interventionist policies is probably due to a combination of the traditional tribal tendency to authoritarian political structure and the advice of development economists who believe that the laws of economics don't apply in the Third World.

The contrast between approaches to economic development could not be more stark. The advocates of a strong government role in directing economic development frequently write and speak as if there is no alternative to government intervention. It seems to be assumed that the market hasn't worked or cannot work or that the mere demonstration of imperfection in the market is sufficient to justify intervention by government. Little consideration seems to be given to the prospect that government imperfections may be worse than those of the market.

The First Development Economist

It is interesting that in all of the many articles on development economics listed in the *Journal of Economic Literature* only one in the last decade explicitly mentions Adam Smith. Even at that, the article questions the relevance of Smith's work to development economics. Granted, the analogy between a developing Western world of the eighteenth century and the less developed countries of today is not a perfect match. However, Adam Smith was concerned precisely with the fundamental issue facing less developed countries: how to achieve prosperity. After all, Smith's main treatise was *An Inquiry into the Nature and Causes of the Wealth of Nations*. Smith's objective was to elaborate on how wealth could be obtained.

How a nation is to obtain wealth is the crucial issue in development economics. Wealth must be produced by the efforts and investments of human action. However, not all effort and investment are guaranteed to produce wealth. The waste of time and money is a possible outcome of any effort or investment. Some undertakings yield losses. These di-

minish the wealth of the nation. Undertakings that yield profits increase the wealth of the nation. Reducing the occasions of loss and multiplying the occasions of profit are the essence of development economics.

The prevailing economic policy in the eighteenth century was mercantilism. This policy was oriented toward promoting national wealth by extensive government intervention. There were regulations, exclusive monopoly franchises, trade barriers and manipulations of all sorts designed to guide commerce and industry into paths deemed favorable by the government. The government controls may have resulted in high profits for favored firms, but did they really increase the wealth of the nation?

Like the socialistic development economists of today, mercantilists perceived that the nation could be guided to superior economic performance via the wisdom and expertise of knowledgeable experts and statesmen. Smith, in contrast, perceived that the statesman was also a politician subject to influence by special interests to the detriment of the economy as a whole. As Smith saw it, establishing barriers to free human action enabled the few to profit at the expense of the many. This could not be the true path to a wealthier nation. Prosperity could not be built upon the deprivation and exploitation of the many, no matter how much gold was earned by state franchised monopolies.

Ironically, many who today profess an abiding concern for the well-being of the masses end up asking that the government use its powers of coercion for the benefit of the powerless masses. The improbability of this outcome should be readily apparent. The powerful are apt to control or influence the government already. Granting the government more power in the economic sphere and urging that this power be used to control the economy is unlikely to dismantle the privileges of existing elites or their political successors. Adam Smith was acutely aware of this difficulty. His solution, unlike the misguided notions of modern radicals, was not to merely transfer coercive governmental power to a new "right-thinking" elite, but to urge the diminution of government economic intervention. This would allow individuals the freedom to pursue their own welfare. Freedom would allow the economy to as-

sume its natural course—which is to grow and prosper.

The Key to the Wealth of Nations

Economic growth was the key to the wealth of nations and the prosperity of the masses of people. Individuals didn't need to struggle over the distribution of a fixed amount of wealth. More could be created. Rather than the desperate squabbling over redistribution that breeds envy and expropriation, the human condition can be one of cooperation for mutual benefit. If government can be restrained, the market can channel the human proclivity for acquisitiveness into a process of serving the needs of others. In the market economy, free of government interference, the only path to individual riches is through service to consumers. Thus, individual greed is made to fulfill human need by the "invisible hand."

So, Adam Smith did provide a model for promoting economic growth and development. The role of the government was to be confined to that of protecting the individual's right to freely pursue his own interest. Pursuit of this self-interest would lead the individual to specialize and cooperate with other economic actors. This specialization and cooperation would permit greater productivity. The greater productivity would broaden markets and lead to even more specialization and cooperation. The result would be an ever-expanding wealth for the nation.

Smith's laissez-faire model for economic development provided an effective rationale for the liberal political economies of the nineteenth century. This model appears to have been a better predictor and explainer of economic growth in the ensuing period than the theories of some of Smith's famous successors (i.e.: Malthus, Ricardo, and Marx). However, is Smith's model still relevant for less developed countries today? Even if we question the fit of Smith's model to contemporary development problems, the issue is whether the ideas advanced by the first development economist, imperfect though they may be, are better than alternative approaches. There is much to suggest that Smith's ideas are better.

Government vs. Market: The Evidence

Adam Smith's model for economic growth was a key guiding influence for nineteenth-century economic policy. Policy in Britain upheld the security of property rights over class privilege. This meant that contract rather than status determined an individual's position and fate in the economy. This is the crucial distinction between a liberal capitalist society and a more traditional social structure. Inevitably, the replacement of status by contract "disrupts" the static equilibrium of the society. Unconstrained individuals desert their traditionally assigned roles and create new places for themselves. In the process, old ways of doing things may be made infeasible, even for those who would wish to maintain them.

It wasn't so much that the 1776 publication of *The Wealth of Nations* immediately let loose a flood of reform legislation. Undoing some of the regulatory restrictions left over from the mercantilist period took decades. However, a key feature of the capitalist economy is its dynamic nature. Without being prevented from doing so, individuals will tend to adopt easier ways of accomplishing objectives. This leads to increasing efficiency, productivity, and wealth creation. As long as the political regime does not raise new barriers in anticipation of new industries and new methods, the dynamism of the market will surge past obsolete government regulations by innovating around them. This is precisely what transpired in the industrial revolution of the nineteenth century. New industries and methods fell outside the scope of many existing regulatory constraints.

The political support of capitalism in the industrial revolution was basically passive in nature. This is not to say that there were no public works programs or no assistance through subsidies or tariffs. These types of government action were relatively insignificant, as well as contrary to the guiding principles of laissez-faire capitalism. Low taxes and the shrinking relevance of obsolete trade barriers and regulations were government's major contributions to economic growth.

Comprehensive government planning, direction, or control did not play a major role in the

development of any of today's most highly advanced Western nations. In fact, the more closely a nation's policies approximated the laissez-faire model promulgated by Smith, the more rapidly its economy grew. The overall success of the market approach to economic development has been overwhelming. No other approaches have even come close to matching, much less exceeding, the results. (See Rosenberg and Birdzell: *How the West Grew Rich*.) Today, less developed countries have not only Smith's basic model, but the demonstration of specific examples of economic development experienced in the West. Consequently, some of the false starts and unsuccessful investments undertaken in the past can be avoided by nations just beginning to industrialize today. So, entering the development process later should be a significant advantage.

Unfortunately, only a few developing nations have made the most of this late-start advantage. For the most part, the economic policies adopted by the majority of less developed countries can be characterized as disastrous. Rather than benefiting from the demonstrated utility of Smith's laissez-faire model, all too many less developed countries insist on imposing mercantile-like heavy government intervention on the economy. Seeing that modern economies are industrialized, developing nation leaders pursue ritualistic imitation. A prime victim of the attempt to modernize via ritualistic imitation is the agricultural sector. Inspired perhaps by Marx's denigration of "rural idiocy," many less developed countries suppress farm prices in order to provide cheap food for urban workers. The idea is that low food prices will permit lower wages and make industrialization more financially feasible. The predictable result, of course, is the simultaneous suppression of agricultural output. In terms of resource availability, it has been estimated that the world's farmers could feed 40 billion people. (See Rydenfelt: *A Pattern For Failure: Socialist Economies in Crisis*.) That millions starve is a reflection of bad economic policies, not inadequate means.

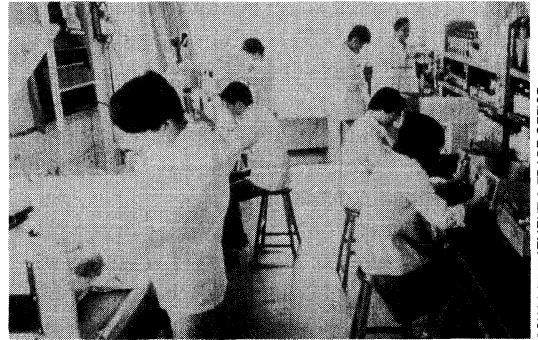
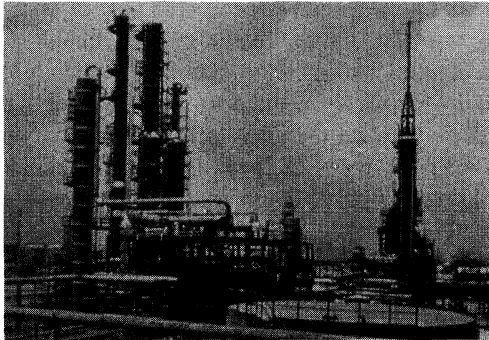
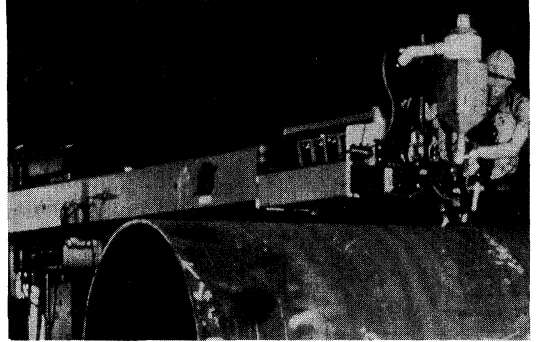
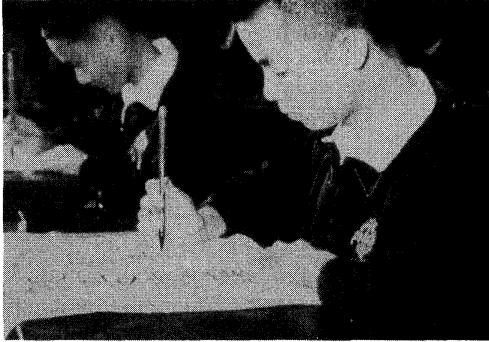
A favorite, and sad to say frequently recommended, policy of less developed countries is the establishment of inefficient, capital-intensive, highly subsidized, and protected indus-

tries. Like the mercantilists of the eighteenth century, many modern development economists seem to imagine that sheltered monopoly franchises will make nations develop an industrial base. This approach is just as senseless today as it was in Smith's time.

Establishing protected industries causes the nation to consume capital rather than build an industrial base. By producing a resource that it could have bought more cheaply, a firm or nation diverts scarce capital from more productive uses. Of course, many endorse protective policies as a temporary expedient, a sort of investment in the future. In the market, businesses have been known to sustain short-term losses on investments intended to produce long-term gains. The fact that private firms decline to establish the types of firms that require protection, unless protection is assured, is convincing evidence that the supposed long-term gains are sufficiently remote or uncertain to discourage these uses of resources. It should not be surprising, then, to discover that "temporary" protection becomes permanent, and that few "infant" industries ever grow to self-supporting maturity.

The long-term effect of government intervention on the fortunes of less developed countries is clearly negative. There is no sound theoretical support for government enhancing growth through planning, directing, and controlling the economy. Statistics also bear out the theoretical case against government control. Unprotected economies consistently perform better than protected ones. Government intervention consistently and significantly reduces a country's rate of economic growth. The price distortions caused by heavy government intervention can more than halve the potential growth rate of a developing nation. A study for the World Bank in 1983 found that countries with heavy governmental controls grew at an annual rate of about 3 per cent (on average). This is less than half the annual 7 per cent average growth rate for economies with a low incidence of government interference in the market.

As Adam Smith predicted, market-oriented economies grow faster. The so-called "gang of four" (Singapore, Hong Kong, Taiwan, and South Korea) have engineered what many label



CCMA INVESTMENT & TRADE OFFICE

High-tech industrial development in Taiwan. Taiwan, Singapore, Hong Kong, and South Korea have all experienced significant economic growth rates since 1960. Rapid growth in Taiwan and South Korea appeared only after U.S. aid declined.

“economic miracles” in spurring their nations into high growth paths. The performances of these economies are not due to any miraculous event, unless, of course, one views sensible refrain from interference on the part of their governments as miraculous.

The 1960 to 1980 annual combined growth rates for these countries exceeded 7 per cent. This compares favorably with the low income country average of 2.9 per cent, the middle income country average of 3.7 per cent and the oil-producing country average of 6.2 per cent. In terms of current levels of well-being we find that Taiwan with a per capita Gross Domestic Product of \$2160 is substantially better off than the People’s Republic of China with a GDP of \$300/capita (figures are for 1981). South Korea with a GDP/capita of \$1700 is more well off than the Democratic People’s Republic of Korea with a GDP/capita of \$1000.

While these data do not conclusively prove that a freer market is the cause of improved economic results, they lend important support to the premise that a freer market can make a substantial difference. Critics of the market ap-

proach to economic development cite U.S. foreign aid to Taiwan and South Korea as a possible alternative explanation for the growth in these countries. However, rapid growth in these countries appeared only after U.S. aid declined. (See Melvyn Krauss: *Development Without Aid.*)

Why the Market Works Better

Supplied with both the theory and the practical demonstration of the superiority of a laissez-faire model for economic development, the tragedy is that the adoption of market approaches has not been more widespread. The seductive allure of using government power to force a faster pace of growth now dominates most economic development policies. Waiting for the market to produce growth seems so passive. However, the attempt to jolt an economy into more rapid growth by government intervention has more often electrocuted than electrified less developed countries.

It is not the announced intentions of development policies that are defective, but the institu-

tion through which they are to be implemented. Government is an institution designed to apply force. This makes it suited to performing functions like national defense and law enforcement. Government is not well suited to the task of making a profit. Yet, making a profit—generating a surplus of value over cost—is essential if real economic growth is to occur. Adam Smith recognized this truth and advised against an active governmental role in the economy.

The key problem with looking to an active government to promote development is that it serves to politicize economic decision-making. The same force that can be used to deter aggressors or punish criminals can also be used to seize and redistribute resources. Profit-maximizing actors in the society may perceive that it is harder to produce resources than to use the government to seize them. Considerable effort and investment will be diverted toward influencing government to grant monopoly franchises, provide subsidies, outlaw competitors, and so on. So, not only do we observe the distorting inefficiencies of the interventions, but the additional diversion of resources toward political lobbying. This attempt to obtain resources through government coercion and its policy outputs act as a drag on the productive capacity of the economy. The result is retarded development.

Rather than promoting an active government and the struggle over who will seize whose wealth, development policy could achieve better results by seeking governmental passivity in order to permit an active private economy to create wealth. After all, wealth creation is a subjective, individualized process. The goal is to maximize value. However, value is a subjective concept. Only individuals are in position to know what is valuable to them. Left free to pursue value, people are more likely to achieve it than if they are channeled toward

what some government expert believes will benefit the society. Smith recognized this in urging that individuals be left to make their own economic decisions.

People will tend to be more energetic and more enthusiastic when carrying out plans of their own choosing than when responding to the plans others seek to impose upon them. A laissez-faire development policy will allow a maximum of individual plans and actions. This market-based approach can unleash what may be the most scarce resource of all: entrepreneurship. Developing an economy entails risk. Not all plans can succeed. Government planners can afford to devote huge sums of a nation's scarce resources to money-losing ventures. Private entrepreneurs cannot. Bad decision-makers in the private sector will lose their capital. Bad decision-makers in government lose someone else's capital. A policy framework that allows private sector entrepreneurs to experience the rewards and penalties of their decision-making will generate a better set of decisions than a policy framework that suppresses or supplants this market process.

The market economy involves a dispersion of power that facilitates optimal growth. When political power plays an excessively large role in the economy, entrenched elites and vested interests will be positioned to oppose the transformation of society that will inevitably occur with economic growth. Whether the entrenched position is one favoring traditional culture, well-connected elites, or an ideology, the victims are still the masses of people denied the opportunity to better themselves. Constructing a laissez-faire model for political economy that would grant the masses of people the opportunity to better their economic condition was Adam Smith's ingenious contribution to world economic development. □

Francis E. Mahaffy

Only when the state is restricted to the administration of justice, and economic creativity thus freed from arbitrary restraints, will conditions exist for making possible a lasting improvement in the welfare of the more miserable peoples of the world.

IDEAS
ON
LIBERTY



Black Marx

by Edward Theberton

If the people of Mozambique could eat slogans, they would be fat. Unfortunately, they require food, and so they are thin; for it is in the provision of food that the Mozambican government appears to be experiencing difficulties.

Since independence, 11 years ago, the Mozambican economy has contracted by at least a half, while the population has increased by a third. Of course, there are reasons, or excuses. The exodus of 200,000 Portuguese (surely predictable to any but a Marxist-Leninist) left the country completely without skilled manpower; the South Africans (again predictably) rerouted much of their rail traffic and cut back on Mozambican employment in the mines; they supported the armed dissidents who have brought chaos to the countryside; and even the weather has been unkind with drought, flood and cyclone.

And yet—and yet the main characteristics of the Mozambican economy are easily recognizable to anyone who has travelled to other African countries which have espoused socialism or dirigisme as a doctrine and practice. There is the same shortage of consumer goods; the same black market in foreign currency and almost everything else; the same wheeling and dealing in the simplest transactions; the same surliness and contempt for the public of anyone supposedly providing a service; the same dilapidation;

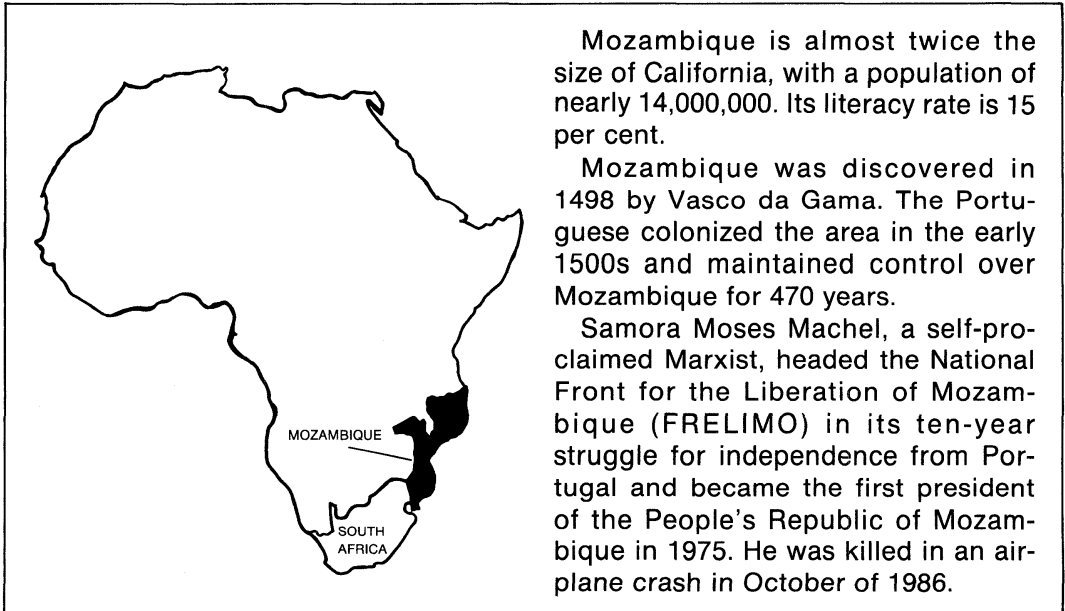
the same disregard of public property; even the street names are depressingly familiar—Avenida Sekou Touré, Avenida Kwame Nkrumah, Avenida Julius Nyerere. One might suppose that the highest goal to which a politician could aspire was the utter destruction of his economy. In Mozambique, these characteristics have been developed to the *n*th degree.

Maputo is a surreal city, even when the lights are working. There are uncompleted tower blocks, untouched since the day the Portuguese left. Much of the city could have been used unchanged as a film set by Luis Buñuel. The shops remain open by decree, but without anything to sell. There is a large department store, John Orr & Co., which looks as though it has been struck by a special kind of neutron bomb that destroys merchandise. With mile on mile of empty shelving, the only goods on sale are a few old Portuguese army badges and old British knitting patterns dating from before the decimalization of the currency. The attendants stand guard over empty glass cases, day after day, year after year; that is how socialism solves the problem of unemployment.

The city used to have a Mediterranean café life, and the cafés are still there. So are the waiters, in whitish jackets, and there are even customers, though nothing to eat or drink, not even water. Occasionally, one comes across a notice in the window: *Há sumo*, we have juice, a disgusting sweet pink liquid that people drink only out of boredom. Every café's allocation of food and drink is diverted immediately on to the capacious black market.

Procuring food and other household items is

Edward Theberton is a free-lance writer on travel, and is particularly interested in Africa. This article originally appeared in the July 5, 1986, issue of the British magazine, The Spectator, and is reprinted here with their permission.



Mozambique is almost twice the size of California, with a population of nearly 14,000,000. Its literacy rate is 15 per cent.

Mozambique was discovered in 1498 by Vasco da Gama. The Portuguese colonized the area in the early 1500s and maintained control over Mozambique for 470 years.

Samora Moses Machel, a self-proclaimed Marxist, headed the National Front for the Liberation of Mozambique (FRELIMO) in its ten-year struggle for independence from Portugal and became the first president of the People's Republic of Mozambique in 1975. He was killed in an airplane crash in October of 1986.

no easy matter. Visitors who stay at Maputo's luxury hotel, the Polana (soon, to be run by Tiny Rowland's Lonrho, an economic entity nearly twice the size of Mozambique, despite its 13 million people and 300,000 square miles), eat a four-course luncheon and a four-course dinner, or they eat nothing. Residents of the city, on the other hand, are allotted certain basic commodities on ration: two kilos of rice, two kilos of maize flour, one of fish, one of sugar, half a liter of oil (sometimes) per month. In Maputo, the last time soap was available on ration was seven months ago, in November.

People with foreign currency—for the most part expatriate whites—can shop at the *Loja Franca*, where they pay for imported goods in dollars or rand (everything about South Africa being unacceptable except the money). The sight of expatriates emerging from the mysterious air-conditioned shop—the windows are blanked out—laden with goods like milk and soap powder that are now only dim memories for most of the population, has done nothing to improve race relations.

Generally, people have to resort to the black market, known locally as *candonga*. A single bar of rough soap on *candonga* costs three weeks of the minimum wage. A medium fish costs £5 \$100 at the official exchange rate, a small bottle of tomato sauce \$9, one coconut \$4. (However, the black market exchange rate

is now 35 times the official rate, 1,400 *metica*s to the dollar instead of 40.) Not surprisingly, much of the economy runs on barter: if you want your telephone repaired, you pay in cigarettes or toothpaste, not money.

Crime and Punishment

It must not be imagined that in these difficult times the FRELIMO party has gone soft or liberal on crime, the causes of which, as Marxist-Leninists, they understand so well in capitalist societies. *Noticias*, the Maputo daily newspaper, reported on 10 April that in Cabo Delgado province three men had been sentenced to 30 lashes each of the whip (known popularly as *o chamboco*, the sjambok) for having stolen between them ten eggs, some bananas and 15 coconuts. Of course, *o chamboco* is not the inhuman punishment it was in former times; a doctor, when available, decides whether the criminal is to take his punishment whole, or in divided doses. Cases have been known where the punishment has, owing to the frailty of the criminal and revolutionary ardor of the People's Tribunal that sentenced him, continued for nearly a year.

Meanwhile, the government minister who presides over this revolutionary flogging, Sergio Vieira, publishes lyrical poetry in praise of the people whom he now has often to have

flogged. (In Mozambique, all poetry written, or at least published, seems to be by FRELIMO ministers.) In a poem dedicated to his "Portuguese friends who have not understood in 50 years the meaning of independence," the flogger-in-chief writes:

A flower, tired,
discards its petals in the river
and strangers
will ask:
why do flowers die?
Poets and those on their knees will smile
and they will drink the perfumed water of the
river.

As for Samora Machel, who is now *Marechal* (Marshal), and is wearing increasing quantities of gold braid, that last resort of the bankrupt dictator, on his ever more elaborate uniforms, and keeps a yacht with a crew of 50, taking the entire Mozambican navy with him when he goes on an outing, *he* says flogging is necessary because otherwise the people would have to feed criminals in jail, and that would be unfair. Lesser but more forthright officials have admitted that conditions are now so desperate that if people thought they could get two meals a day by committing a crime, the streets would be empty and the jails full within a week.

It is surely ironic that a government that prides itself on its guerrilla origins should now find itself in effective possession of far less of the national territory than the Portuguese at the time of their withdrawal. It controls only an archipelago of cities and towns, and a corridor along the Beira to Zimbabwe road, the latter only thanks to the 8,000 to 10,000 Zimbabwean soldiers who guard it at a cost (to Zimbabwe) of half a million dollars a day. Even the cities have been infiltrated by the National Resistance Movement (MNR). A beach in Maputo frequented by Soviet advisors was mined in February and three people lost their legs. A car bomb recently exploded in Maputo, injuring 50. In Beira, the second largest city, a sabotaged electricity supply is now regarded as the norm. Everyone is indoors by six in the evening.

The government insists that the MNR are just armed bandits (*bandidos armados*). There is some justification for this view. They do not

set up an administration in "liberated" zones, so far as anyone knows. Their program is vague, and consists of multi-party democracy, at least until they win an election, and economic liberalization. They frequently act with terrible brutality. One doctor I met, who has spent the best part of a decade digging bullets out of babies ("they can't run away"), and who has no sympathy to waste for FRELIMO, says he would support anyone fighting the government, but not the MNR. The bus on which I travelled from Swaziland to Maputo had not long before been intercepted by the MNR: two people had been savagely stabbed to death, five shot dead, and 20 injured. The bus is never attacked on the way from Mozambique to Swaziland, only on the return journey, when the guerrillas can combine the business of robbing (the passengers bring bread and onions) with the pleasure of killing. This random brutality, however effective as a means of destabilization, is surely not a good augury for a future alternative government.

But a movement, even one created by Rhodesians and then nurtured by South Africans, that can operate from Maputo province in the south to Cabo Delgado in the north, 1,200 miles away, rendering the whole country impassable; that operates anti-aircraft guns captured from FRELIMO in Gorongosa; that has toppled more than 500 pylons from the Cabora Bassa dam, and that publishes an ironically titled newsletter, *A Luta Continua* ("The Struggle continues"—FRELIMO's most famous slogan), in Lisbon, cannot be merely one of bandits. It is now doubtful whether the South Africans, even if they wished it, could put an end to the MNR. If it were any other than a communist government they were fighting, enthusiasts in Europe would long since have been explaining how such a movement could not possibly continue without considerable support from among the people.

One thing seems certain: the government is not going to defeat the MNR militarily. Their conscript army is disorganized and demoralized. Within it, corruption is such that when new uniforms were imported into Mozambique, the MNR were wearing them before the FRELIMO army. One conscript to whom I spoke told me that no boots were issued to him

and that when his shoes wore out he had to march barefoot. Sometimes he was not fed for two or three days in succession, and when he complained that tea was doled out in tots as though it were whisky or rum he was dragged naked across stony ground and then ordered to be whipped. Only a doctor's intervention prevented the punishment from being carried out. Ammunition, he said, frequently runs out halfway through an operation, the officers having sold the rest to the enemy. One morning in Beira I heard machine-gun fire: a FRELIMO soldier—maddened by hunger, so the rumor went— suddenly loosed off at some civilians. It says something of his marksmanship that he hit only one lady in the arm; but it helped explain why the population now makes little distinction between the opposed forces.

The FRELIMO soldiers who man the roadblocks on the road from Beira to Zimbabwe are, quite literally, pathetic. They huddle, cold and wet and poorly clad, in makeshift lean-tos of thatch. They seem half-doped, by boredom, drugs or hunger, and react with snail-like slowness to passers-by. They do not ask for identity documents, but cigarettes. Their only sign of life is when they are given a couple, and then they display a truly child-like pleasure, actually dancing for joy. It is not easy to imagine such a force scaring off hardened bands of saboteurs and throat-cutters.

And so Mozambique seems destined for end-

less chaos and misery. Increasing numbers of Mozambicans flee to Zimbabwe, Swaziland and even South Africa as refugees. There are the inevitable rumors of talks between the government and the MNR, but even if, as seems unlikely, an agreement could be cobbled together, it could not last. One side would have to swallow the other. Negotiation would, in any case, tear FRELIMO, already reduced to a tiny incestuous clique, apart. FRELIMO are too fond of their own power to allow that to happen.

After more than a week in Beira, a city that has not seen a tomato for months, one realizes the vital importance to human existence of small pleasures, of frivolity. Showings of Vietnamese films depicting utterly selfless and heroic peasants, slogans inviting vigilance at all times, do not compensate for the lack of light, water and bedclothes in one's hotel (once four star, according to the plaque still in the entrance), for the absence of anything for breakfast, for the dilapidation of filth beyond the capacity of the most scatologically-inclined to imagine. It disgusted even a Tanzanian, and I can't say fairer than that.

I asked a Zimbabwean in Beira whether it was safe to travel on the road to Zimbabwe. "Put it like this," he said. "You'll be unlucky if you're shot." After a week in Beira, I was not so sure. □

In Future Issues . . .

June

- "Pay Television and Property Rights" by Joseph S. Fulda
- "Defending the Rich" by William H. Peterson
- "Privatizing Federal Programs" by Hans F. Sennholz

July

- "World Resources and Economic Exploitation" by M. W. Sinnott
- "Lessons in Liberty: The Dutch Republic, 1579-1750" by Robert A. Peterson
- "Amelioration" by Philip J. Bowers

Fighting Communism with Free Trade and Open Immigration

by Frank W. Bubb

In the ongoing debates over protectionism versus free trade and restrictive versus liberal immigration policy, those advocating greater freedom have argued primarily on the grounds of economic benefit to Americans. Milton Friedman has argued cogently that Americans would benefit from eliminating tariffs and import quotas, even if other governments do not reciprocate.¹ Julian Simon has made the case that immigration produces largely unrecognized economic gains for the native population.² And George Gilder, with his unique eloquence, has argued passionately that both imports and immigrants have helped fuel America's recent economic growth.³

Such arguments have clearly had an impact. If there is one proposition that elicits near-unanimous assent from academic economists, it is that free trade is more efficient than protectionism. And, after decades during which this nation of immigrants viewed immigration as distinctly unpleasant, the idea of open borders is once again starting to become a living issue. One measure of the progress of open border advocates is the February 1986 report of the President's Council of Economic Advisers, which reviewed the findings of several recent studies and concluded that, on balance, immigration benefits native Americans.⁴ Another measure is the appearance in several mass-circulation magazines of realistic portrayals of recent immigrants' hard work, entrepreneurial drive, and devotion to American ideals.⁵

Obviously, these ideas have not yet permeated our political culture. While mass opinion always lags behind informed opinion, the lag in this case may partially result from the narrow economic focus of the advocates of freer trade and immigration policies. Economic arguments directed to the self-interest of one's audience are clearly vital, but such arguments tend to be difficult for many people to follow and may not, by themselves, provide strong motivation for supporting greater freedom.

This suggests that advocates of freedom should broaden their attack by advancing additional arguments that complement the economic analysis already being offered. *Put succinctly, both open immigration and free trade could be powerful "weapons" in America's worldwide fight against communism, substituting in whole or part for unpopular and costly foreign aid and guerrilla warfare programs. By opening its borders to people and goods from the Third World, America would act as a magnet, drawing the people of the Third World away from the false promises of communism and giving impetus to an emerging worldwide free market economy.*

Why, one might ask, do I juxtapose open immigration and free trade? How are these two ideas related? As discussed in some detail below, both would have similar effects on economic freedom and attitudes toward communism in the Third World. But more fundamentally, both are aspects of the belief that all people everywhere have inalienable rights, and that the right to property is an *individual* right, not a *group* right.

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Free trade recognizes the right to engage in voluntary transactions in goods and services across international boundaries; open immigration recognizes the right to move across international borders in a series of voluntary transactions. If a person born in Guadalajara or Port-au-Prince buys an airline ticket to Philadelphia, rents an apartment and finds a job, he has violated no one's rights. Hidden beneath the opposing view is the premise that the current inhabitants of each nation collectively own it, so that individual decisions to buy goods from abroad or to deal with foreigners on one's own property are subject to permission from the collective.

(Needless to say, whether immigrants should be entitled to become U.S. citizens, vote, or receive welfare benefits are entirely different questions. Clearly, immigrants have no moral entitlement to welfare benefits.)

Thus, dismantling U.S. government barriers against trade and immigration would *directly* increase the freedom of the people involved—Americans and foreigners who wish to engage in transactions across borders or face-to-face in the United States. But this article's primary purpose is to explain the *indirect* means by which such measures would increase freedom in other countries.

In his new book *How NATO Weakens the West*, economist Melvyn Krauss observes that the principle of comparative advantage applies to competition among nations: "Just because a given strategy works for one person, or nation, does not mean that it will work for another. Different nations have different traditions, institutions, and cultures that make them more or less suited to different types of activities."⁶

Krauss correctly observes that the American strategy for fighting communism in the Third World has been largely an imitation of Soviet strategy: foreign aid designed primarily to buy the allegiance of local rulers and surrogate warfare using local guerrillas (and, one might add, government propaganda directed at Third World audiences). According to Krauss, America's comparative advantage lies in a different strategy: "The marketplace is this country's strongest institution, and the United States must learn to use it to help the poorer countries of the world develop a vested interest

in the capitalistic system. Once capitalism spreads, communism will contain itself."⁷

Unfortunately, from this breathtaking insight Krauss brings forth a pea-shooter of a policy: bilateral elimination of trade barriers with Caribbean nations. If Krauss' insight is correct, then America's comparative advantage in the struggle against communism can be maximized by unilaterally eliminating all barriers to both trade and immigration. The following discussion will compare these two policies against the alternate policies of foreign aid, surrogate warfare, government propaganda, and taking no affirmative steps against communism.

In making such comparisons, two caveats are in order:

(1) Free trade and open immigration cannot be viewed as substitutes for U.S.-backed guerrilla warfare in countries like Afghanistan, Cambodia, Nicaragua, and Angola. Clearly, such nations are "too far gone" for the development of market institutions to serve as a barrier to communism. At best, free trade and open immigration can help prevent other countries from following the same path.

(2) The U.S. government's current policies allow the illusion of "targeting." If a country—say, Egypt or Iran—is viewed as strategically significant, it may be given more aid. Free trade and open immigration, on the other hand, would take considerably more time to produce results, and the country-by-country results would be inherently unpredictable. If our leaders were to opt for these liberalizing policies, they would be admitting that they cannot "fine tune" geopolitics any more than their intervention can "fine tune" the economy. They would be saying that such policies are more likely than current policies to win friends for America and for capitalism, but that *we cannot predict who these friends will be.*

The Pro-Freedom Effects of Open Immigration

Open U.S. borders would allow people in the Third World to get a truer picture of the United States and how a semi-capitalist system works. America's most formidable obstacle in the battle for the hearts and minds of the Third World is an often-virulent anti-Americanism

and anti-capitalism. America is seen as a rich bully unholding the legacy of colonialism, a system of government-granted privileges for the rich and powerful. Third World inhabitants have almost no understanding of the practical workings of a market economy.

Against such entrenched attitudes, continually reinforced by the anti-American propaganda emanating from many Third World governments, U.S. government propaganda is likely to lack credibility. By contrast, Third World residents are more likely to believe what they hear from friends and relatives who emigrate to the United States.

What would they hear? At a minimum, that Americans are not devils and that America is not such a bad place after all. More likely, they would also hear accounts of how a semi-free society which they define as "capitalist" operates.

Advocates of the free market have always labored at a disadvantage. Unlike interventionists, who can simplistically assert that government can "make" certain results happen, free marketeers are often asked to explain exactly how a market system would solve certain problems. Since the actions of free individuals are inherently unpredictable, market advocates are usually reduced to theorizing about how things *might* work if people were given the proper incentives. For the great majority of people, who have difficulty envisioning hypothetical alternatives, real life examples of market-based solutions are far more compelling.

Imagine the effect on American attitudes if some of our friends and relatives were to emigrate to a fully free society—one without welfare, antitrust laws, government roads, or the Post Office. What if Americans could hear first hand that the absence of welfare does not cause starvation, that the absence of antitrust laws has not handed the economy over to monopolists, and that private individuals have figured out how to provide roads and deliver letters?

The same principle applies to Third World emigration to the United States. By comparison to the Third World's government-stultified economies, the U.S. offers a cornucopia of real-life examples of problem-solving by private individuals.

Finally, and even more important than the transmission of facts, immigrants would convey a feeling, a sense of life, to their friends and relatives at home. Time and again, immigrants have luxuriated in their relative freedom, their greater sense of control over their own destinies. To the masses who do not view freedom as one of life's possibilities, the immigrants' message could be powerful indeed. Through immigrants, the supply of freedom in America could raise the demand for freedom in the Third World.

By attracting the self-reliant and industrious from the Third World, America would give Third World governments the incentive to liberalize their economies. An article in *Forbes* magazine on the rapid growth of the computer software industry in India pinpoints the reason India has become more accommodating to U.S. firms seeking to set up operations there: "The new hospitality is of a piece with the low-key pragmatism of the country's young prime minister, Rajiv Gandhi. India wants to keep more of its brightest graduates at home, rather than seeing them emigrate to the U.S. and elsewhere. Software development can help keep them at home and gainfully employed."⁸

Software developers in India are not the only people who view the United States as an alternative. It is no accident that America is the preferred destination of a large number of the world's brightest scientists, engineers, and artists. Nor is it an accident that, as the President's Council of Economic Advisers noted, "many immigrants are entrepreneurs."⁹ Leaving familiar surroundings to leap into the unknown is fundamentally an entrepreneurial act. People with the vision and self-reliance to migrate are more likely than most to become entrepreneurs in their new land.

By limiting immigration, the U.S. government is reducing options available to competent and entrepreneurial people all across the Third World. It is allowing Third World governments to exploit such people with relative impunity in the name of egalitarianism; they often have nowhere else to go. Giving such people the choice of coming to the U.S. would make it more costly for their governments to continue to re-

strict their freedom. Third World rulers—whether or not their statist ideology changes—would find themselves compelled to enhance opportunity, to place a more realistic value on competence.

But, it might be objected, wouldn't an open immigration policy bleed Third World countries of their most competent people, the ones who would be most likely to push for reform if they were forced to stay put?

This question misunderstands the politics of Third World countries, most of which are one-party systems run by tiny, self-aggrandizing elites. It is unrealistic to expect competent, entrepreneurial-minded young people to throw their lives into political action to alter such a system; they are more likely to end up rotting in a jail cell than changing the system.

On a deeper level, this question is based on the zero-sum premise that humanity's supply of competence is limited. In fact, there is no limit to the development of competence when people are left free to deal with reality. The market process is a discovery process. It gives people the incentive to learn about and adjust to a constantly changing reality because it allows them to capture the benefits—and bear the burdens—of their own actions. By contrast, socialism thwarts the discovery process both by direct prohibitions and by allowing people to pass onto others the consequences of their actions.

We need not worry that an open immigration policy would deprive the Third World of its competent people. If open immigration is effective in persuading Third World governments to liberalize, vast numbers of people who would have lived their lives in stagnation and oppression could rise up to become competent, productive members of their societies.

The Pro-Freedom Effects of Free Trade

Free trade would increase people-to-people contact. International trade is not just a matter of shipping goods from one place to another. It requires ongoing personal contact on a large scale—to understand the preferences of customers in the recipient country, to establish and maintain distribution networks, and so forth. Exports from one country to another require a

cooperative effort among people in both countries.

Such contacts are qualitatively different from the sort of contacts needed to grant foreign aid or train local military or intelligence organizations. Regardless of his personal qualities, the aid official or military adviser or Peace Corps volunteer plays a role that engenders resentment. He comes as the representative of a "superior" culture to "help" an "inferior" one. Too often, the government representative remains painfully ignorant of the local culture because he has little *personal* incentive to understand it.

The trader's role at least allows the possibility of a non-resentful response. The trader pays a compliment to the people he deals with by expecting to profit from their relationship. The trader has a personal incentive to learn about the local culture and to cultivate a relationship of trust with those in it; if he doesn't, he has no deal.

Free trade, like open immigration, would foster the people-to-people contacts needed to give the Third World a truer picture of America and how a semi-capitalist system operates. As Frank Chodorov once wrote: "It is not only that trading in itself necessitates some understanding of the customs of the people one trades with, but that the cargoes have a way of arousing curiosity as to their source, and ships laden with goods are followed with others carrying explorers of ideas; the open port is a magnet for the curious. So, the tendency of trade is to break down the narrowness of provincialism, to liquidate the mistrust of ignorance."¹⁰

If we want American ideals to become part of the Third World, we must let its people and goods become part of our world.

Free trade would give Third World governments the incentive to liberalize their economies. As Krauss explains, foreign aid and lowering U.S. trade barriers have very different effects on the economic policies adopted by other governments: "Consider a candidate for foreign aid that is experiencing economic difficulties because of faulty domestic economic policies. If the aid is not given, the difficulties

may eventually lead to a policy reversal. The problem can, and often does, correct itself. But rendering economic assistance to the troubled country removes the incentives for domestic policy reform and perpetuates the status quo. In effect, the continuation of the bad economic policies becomes dependent upon the foreign aid: so long as foreign aid is maintained, bad economic policies persist."¹¹

One obvious example of this effect is Israel. According to Krauss, "A country that spends almost 50 percent of its public budget on defense cannot afford the elaborate welfare state Israel has been able to finance because of the economic aid it receives from the United States. Instead of making Israel strong, U.S. open-ended economic aid has made Israel into the 'Sweden of the Mediterranean.'"¹²

Two other examples, which are more instructive because they illustrate the opposite effects of foreign aid and open U.S. markets, are South Korea and Taiwan. Krauss shows that the conventional argument that U.S. economic aid served as a springboard for these two countries' growth "not only is incorrect but is the reverse of what actually happened."

U.S. economic aid to Taiwan through the 1950s helped finance heavy public sector investment that was creating a socialist state. In addition, U.S. aid helped sustain protectionist policies. The discontinuance of U.S. aid forced both governments to adopt radically different economic policies in order to generate foreign exchange. ". . . foreign and domestic private investment [in Taiwan and South Korea] did not take off until the governments of these countries changed their policy orientation from government-led growth and reliance on foreign aid to more emphasis on private sector growth." "Korean per capita GNP, for example, grew at an annual average rate of 1.9 percent during this period, compared with figures three times that magnitude after both aid and government size in Korea were scaled down in the 1970s."¹³

These two cases illustrate the complementary effects of aid cutoffs and relatively open U.S. markets: if discontinuing aid is the stick to cause other governments to adopt pro-market policies, open U.S. markets are the carrot. South Korea and Taiwan were able to switch

from government-oriented to market-oriented policies even in the face of modest U.S. import barriers. If such barriers were removed altogether, it would be easier for other governments to make the transition to market-oriented policies.

The ascendancy of pro-market thinking within the Reagan Administration has led to a new variation on the foreign aid theme: Rather than discontinuing foreign aid, let's make it conditional upon the recipient governments' movement toward more rational policies.

It would be difficult to imagine a policy more likely to create resentment against America and capitalism. Instead of having policy changes viewed as an accommodation to *reality*, this approach would encourage people in the recipient country to view the changes as an accommodation to *the wishes of the U.S. government*. Instead of creating the conditions that might allow a consensus for policy change to develop among local ruling elites, this approach seeks to impose the will of a strong nation on weak ones. Instead of having local rulers take the heat for necessary but unpopular changes, this approach allows such rulers to blame the Yankee imperialists.

Free trade would alter the selection process in Third World countries. The above discussion describes how cutting off U.S. aid and opening U.S. markets could create the conditions under which *existing* Third World ruling elites might change their policies. A more powerful but slower-acting effect would be to change the composition of such elites, to broaden them to include people with pro-market and pro-American views.

F. A. Hayek's *The Road to Serfdom* contains a wonderfully insightful chapter entitled "Why the Worst Get on Top."¹⁴ According to Hayek, a socialist society, organized along military lines, will select in favor of a very different sort of person than a liberal society.

What sort of person rises to the top in a Third World society that receives U.S. economic or military aid, or that is the subject of a guerrilla war supported by the U.S. government? What sort of person would rise to the top in such a society if U.S. trade barriers were eliminated?

How does the process of rising to the top affect the character and outlook of those who do? What sorts of moral compromises must they make with the powerful? What sorts of skills do they develop? Where do their vested interests lie? What is their vision of the proper society?

Most Third World countries are tightly controlled by small self-aggrandizing elites. Such oligarchies tend to shut off all routes of advancement for the vast majority of people. For those few to whom advancement is possible, the only route is to curry favor with the ruling elite. This particular means of advancement selects in favor of those who are more adept at amoral political maneuvering than at dealing with reality. It selects in favor of—and reinforces—a zero-sum view of reality in which one person's gain is another's loss. And it selects in favor of people with a strong vested interest in the maintenance of the same corrupt system through which they rose.

Foreign economic aid, going as it does directly to governments, helps entrench local ruling elites. It strengthens their comparative advantage versus other avenues of advancement. It gives them favors to dispense, helping local cronies at the expense of would-be independent businessmen. Foreign military aid has a similar effect, strengthening an unproductive and usually authoritarian military at the expense of the private sector.

The Reagan Administration's policy of aiding anti-communist rebels should also be analyzed from the standpoint of Hayek's insight on selection processes. As noted earlier, free trade and open immigration cannot be viewed as alternatives to U.S.-backed guerrilla warfare in countries like Afghanistan, Cambodia, Nicaragua and Angola. However, if Hayek is right, surrogate warfare is of little use in creating free societies (as opposed to merely pro-U.S. governments.)

By providing materiel and training for local guerrilla groups, the U.S. government opens up another avenue of advancement in the recipient society (assuming the guerrillas win). Even if such guerrilla groups begin with a liberal orientation, the selection process within a military organization strongly favors authoritarian personalities who have little personal contact with marketplace activities. If the guerrillas are for-

fortunate enough to emerge victorious, the most likely result would be the replacement of one authoritarian regime by another.

By contrast, lowering U.S. trade barriers would tend to open another avenue of advancement in Third World countries. An open U.S. market would select in favor of competent businessmen, who in turn would select in favor of competent employees, suppliers, and so forth. Such people would tend to be oriented toward the real world of production and trade, rather than a life of political maneuvering. By engaging in wealth-creating activities, they would be more likely to adopt the positive-sum view of existence which provides a critical underpinning for a pro-market viewpoint. And finally, they would develop a vested interest in their particular means of advancement—the marketplace and ties with the United States.

To understand the power of U.S. markets to generate social change in Third World countries, one need only look at the burgeoning middle class demands for democracy and civil liberties in South Korea and Taiwan. Without export markets in the U.S., such middle classes probably would not have arisen.

Free trade would change attitudes in the Third World. The most enduring effect of eliminating U.S. trade barriers would be to change the attitudes prevalent in the Third World toward America and capitalism. Free trade and cutting off foreign aid would increase the economic well-being of people in the Third World (although aid cutoffs in the short term would have the opposite effect). But greater wealth by itself is no guarantee of pro-U.S. or pro-capitalist viewpoints; witness Sweden. Nor is the fact of *increasing* wealth necessarily a guarantor of such viewpoints; the "revolution of rising expectations" can just as easily generate demands for more governmental activity.

The critical determinant of attitudes is what people view as the *source* of their increasing well-being. For all of the reasons discussed above, opening U.S. markets would tend to cause Third Worlders to identify their increasing prosperity with America and with the market economy, rather than a government-dominated economy.

No Time For Halfway Measures

If the ideas discussed in this article eventually find their way into American political culture, the most likely outcome would be a series of halfway measures which meet the political demands of established anti-import and anti-immigration interests (for example, observe how such groups have gutted even a modest program such as President Reagan's Caribbean Basin Initiative), and which allow our leaders the illusion that they can "target" the benefits of liberalization. One can easily envision some legislator proposing that countries be certified as recipients of a more liberal U.S. trade or immigration policy.

The answer to such targeting efforts should be: The world simply doesn't work that way. No government agency could predict how many emigrants to America or how many trade contacts with Americans a Third World country needs before its people can learn "enough" about the American system. No government agency could predict how much of a liberalization of U.S. trade or immigration policy is necessary to induce policy changes by any given Third World government. And no government agency could begin to predict free trade's long-term selection effects in a specific Third World country.

As recently as one decade ago, no one could have predicted the recent liberalization of economic policies in socialist India or communist

China or the virtual destruction of Iran's state capitalism by an anti-capitalistic religious fundamentalism.

The effects of free trade and open immigration are likely to be unsatisfactorily slow and random for those accustomed to producing results in time for the next election. But slowly and inevitably, these twin liberalizations would tilt the world's playing field decisively in America's favor. □

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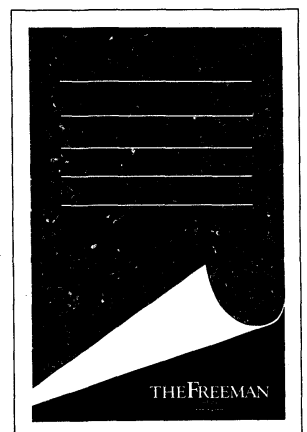
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Cities and the Wealth of Nations

by John Chamberlain

Jane Jacobs, whose specialty is the death and life of cities, is not an economist. You won't find much in her books about such things as the gross national product of separate countries, or the effects of monetary decisions of the Federal Reserve on national standards of living. Her latest work, *Cities and the Wealth of Nations* (New York: Random House, 257 pp., \$17.95), tells us that the classical economists were guilty of putting the cart before the horse in their discussions about the origins and enhancement of wealth. In her view cities create wealth quite independently from their national settings. It follows that economic wisdom must begin with an investigation of city cultures.

What Jacobs explores in this book is a process that takes off from individual wills and personal ingenuities. Boston and the Boston region offer a prime example of such a process in dynamic continuity. The city, with its ties to Salem and the North Shore, had been a creative metropolis since the days of the tea packets. Later, it put its money into railroads. But its citizens lost their drive as the local third and fourth generation rich limited their energies to coupon clipping. As the Boston economy stagnated, it lost its exports (shoes and textiles) and ceased to import. The popular explanation was that cheaper labor and lower taxation in Georgia and elsewhere in the American South had made New England an economic backwater for good.

This explanation seemed entirely too defeatist to Ralph Flanders, who later became a U.S. Senator from Vermont. In 1946 Flanders and a few of his moneyed friends formed a venture capital company to make four million dollars available to small Boston enterprises. The Flanders group had no preconceived ideas of what they were doing. They were quite surprised when the first applicants for capital were three young scientists who, using their relatives' savings, had started a high technology enterprise. The presence of universities such as Harvard, M.I.T., and Tufts guaranteed a willing personnel for the proliferation of high tech companies that followed, with the new enterprises moving out of Boston proper to take advantage of cheap rental space along the now fabled Route 128.

The Flanders group touched hands with the world of John Hancock. Looking back on Boston history, Jacobs says the creative city will begin by importing goods for processing and resale. But it will not stop there. To meet competition it will begin to duplicate the imported produces for itself. It will reach out to its own hinterland for manpower and for markets. State lines will mean little to it—the Boston region spills over into southern New Hampshire and into Maine.

What Jane Jacobs has a hard time explaining is why some city regions turn out to be Bostons and some do not. Tokyo, in Japan, has been a Pacific rim Boston, providing jobs for the sons



of farmers from the surrounding countryside and selling products made from imported raw materials to the world. Scotland's Edinburgh, on the other hand, has done little to rejuvenate itself. The displaced highlanders who came into the city when their lands were cleared for raising sheep had to find housing in slum quarters. Many of them died from tuberculosis. The more energetic among them moved on to London or migrated to Ulster in northern Ireland or Nova Scotia in Canada. Some joined the British army, serving notably in the conquest of India.

Query: would the story of Edinburgh have been different if there had been a Scottish Ralph Flanders?

Jacobs leaves us with the task of trying to puzzle out what it takes to set a Flanders in motion. Obviously a city setting is needed. But it can't be just any city. The Lockheed Company built a factory in Marietta, Georgia. But it couldn't have started out in a Georgia town that lacked mechanics and toolmakers. Allen Loughhead, the founder of the company, designed his first plane in Los Angeles in the late Twenties. He had to scramble for hundreds of things to make the plane—tools, wiring, wheel parts, bearings, aluminum sheets, printing services. Not everything was available locally, but there were people who could provide the needed items when specifications were set before them. Imports came first, then the local duplication of imports. Finally, when the company had become relatively self-sufficient, it could afford to build a plant in Georgia.

Jane Jacobs' investigation of city-region patterns makes her doubt the use of providing regions with capital when they are far away from solvent city markets. She is particularly depressed by the example of the Volta Dam in Ghana. Volta, as one of the world's great hydroelectric projects, was supposed to supply

adjacent factories with power. But Ghana had no Ralph Flanderses or Allen Loughheads. The people displaced by the dam were forced to farm soil so poor that they could not feed their families. There are, says Jacobs, quoting a UN food and agricultural specialist, some 40 dams around the world that are useless.

Jacobs has nothing good to say about the supposed science of macro-economics, which she defines as "the branch of learning entrusted with the theory and practice of fostering national and international economies." It is, she says, a shambles. The effort to act on macro-economic recommendations has tied up incomprehensibly huge resources in the World Bank, the International Monetary Fund, and the UN. What has resulted has been a tremendous waste and a real wreckage of hopes. The reality of stagflation, she says, has made nonsense of two centuries of elaborate theoretical thought.

Jacobs concluded that economic life develops by innovating. It expands by the process of import-replacing. It follows that the politicos should stop taking money out of the pockets of prospective innovators, who should be left to their micro-economic concerns in their various cities. The innovator can always use capital, but a little of it will go a long way. A good idea will generate its own support, much as production under Say's Law generates its own purchasing power.

Jane Jacobs ends her book with a crack at capital cities that are no more than that. Where they seem to boom, it is "in service to transactions of decline." "Behind its busyness at ruling," she says, "a capital city of a nation or an empire, vivacious to the last, at length reveals itself as being a surprisingly inert, backward, and pitiable place. So it was with Lisbon, Madrid, Istanbul. So it is gradually becoming, one suspects, with London, Paris, Stockholm . . ."

Since her last chapter is titled "Drift," Jane Jacobs ends with pessimism. "Even creative cities such as Boston," she says, "must depend on trade-offs from transactions of decline, at least in part. Boston . . . now depends partly on trade-offs from military production." What we need is "many, many cities in a trading network" not dependent on the military, and that is something we just don't have anymore. □

THE FREEMAN

IDEAS ON LIBERTY

204 The Face of a Bureaucrat

Joe Hochderffer

A hospital administrator comes face to face with a hometown bureaucrat.

206 Privatizing Japan's Railroads

Donald J. Senese

The privatization of Japanese railways could point the way to further political and economic advances.

210 Planning Threatens Freedom

C. Brandon Crocker

Economic controls are people controls.

212 Socialism Succeeds by Failing

Allan Levite

Socialism continues to attract followers despite its economic inefficiency.

215 Houston's Laissez-Faire Housing Policy

J. Brian Phillips

A free market will provide consumers with the best housing at the least cost.

218 The True Charity

Kenneth McDonald

By discouraging individual independence, public charity proves uncharitable.

220 Pay Television and Property Rights

Joseph S. Fulda

A recent FCC ruling concerning pay television has revived questions about freeloading, theft, and ownership of the airwaves.

223 Privatizing Federal Programs

Hans F. Sennholz

Untangling the many meanings of privatization.

229 Defending the Rich

William H. Peterson

Wealth does not cause poverty.

231 Banking Before the Federal Reserve: The U.S. and Canada Compared

Donald R. Wells

Government restrictions made the American banking system vulnerable to panics, while nations such as Canada avoided these crises.

236 A Reviewer's Notebook

John Chamberlain

A review of Sidney Hook's "Out of Step: An Unquiet Life in the Twentieth Century."

238 Other Books:

"Regulating Government: The Positive-Sum Solution" by Dwight R. Lee and Richard B. McKenzie. "After Apartheid: The Solution for South Africa" by Frances Kendall and Leon Louw.

CONTENTS

JUNE

1987

VOL. 37

NO. 6

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PERSPECTIVE

Excusing Irresponsibility

Many people are angry at the common spectacle of convicted criminals escaping punishment for their crimes, on grounds that they were "not responsible" for the social or biological conditions which allegedly "provoked" their aggression.

In recent years a new form of criminal has appeared: the international terrorist. Frequently sponsored by some collectivist regime, the terrorist commits the most heinous and blood-thirsty deeds. Inevitably, sympathetic voices in civilized nations are raised to declare that these were merely acts of desperation, in response to intractable injustices.

Then there is the related issue of aggression by communist governments, and the chronic excuse-making responses of Western individuals and governments—a phenomena vividly chronicled in such books as Jean-François Revel's *How Democracies Perish*.

What links all these issues? Each entails some form of *appeasement*—of victims rationalizing, or even abetting, the outrages of foreign and domestic aggressors.

And one other thing links them: *the assault on the philosophy of self-responsibility*. Observe that in each instance of aggression, foreign or domestic, voices of "moderation" are raised to excuse the aggressors of moral responsibility for their crimes.

Sociologists and psychologists claim that environmental or biological factors caused a career criminal to victimize others. What he needs, they say, is understanding and rehabilitation.

Diplomats and scholars argue that when the Soviet Union invades a neighboring country or subverts a distant one, it is not being aggressive; it is merely "reacting" to "historic fears of invasion" in order to "secure its borders." The cure is to reassure the Soviets that *we* mean *them* no harm, by means of increased aid, trade, and negotiation.

In each case, individual moral responsibility is obliterated, allowing causality to be inverted—with aggressors being treated as victims, and their victims treated as aggressors.

Just as the obliteration of individual respon-

sibility encourages legalized aggression, so too does it sanction those who have no time to observe legal niceties. Therefore, it is no accident that with the decline of the philosophy of individualism and self-responsibility, we have seen the explosive increase in crime domestically, and atrocities internationally.

—Robert James Bidinotto

Controls Raise Prices

A recent Canadian study provides revealing information about the effects of government regulation on prices. In 1982, Statistics Canada began to measure the rates of price increases on goods and services that are regulated by government and to compare those to the price increases on products that don't have the benefit of government regulation.

The figures show that since April, 1973, government approved or regulated prices have increased 240 per cent whereas other prices, based on what the market will bear, have increased only 167 per cent. At the present time, the annual inflation rate of products whose prices are approved is about 6 per cent while those whose prices are determined by good old supply and demand in the market place are inflating at only 3 per cent.

In other words, the unmistakable message from the Stat Can figures is that for at least the last 13 years, Canadians have gotten a better deal price-wise on those products whose prices were determined by "whatever the market will bear." The reason for this is not hard to see.

Approved or regulated prices are usually prices that are produced under monopoly or under special license from government. For example, eggs, milk, chicken, and airline travel as well as telephone calls have in common the fact that those who produce them enjoy a form of government-sponsored monopoly. The monopoly in turn is regulated by the government. The theory is that by removing the product or service from the market place and permitting a monopoly, the government will ensure that there is no duplication of facilities—e.g., telephone networks—and no oversupply—e.g., eggs and milk. By regulating the price, the

government also attempts to ensure that "the price is right."

The problem is that in determining the price they will allow, regulators often have to rely on information from the regulated industry to determine the costs of production and the reasonable profit that is added. What is lacking is the pressure of entrepreneurs who want to lure away their competitors' customers. In the end, what the market will bear is determined by customers and businesses looking out for the best deal, and that is why what the market will bear serves the interest of consumers better than the well-meaning regulations of government.

—Michael Walker

*The Fraser Institute
Vancouver, British Columbia*

Strategies for Freedom

What is the best way to attain a free society? Is it political action? Letters to the editor? The endowment of free enterprise chairs on college campuses? Mass mailings and lobbying?

I don't know. That is, I don't know the best way others should take because I don't believe there is a single best way that works for everyone. We are all different, with different strengths, weaknesses, and interests. I would no more try to tell you the best way to work for freedom than I would tell you the best way to live any other aspect of your life.

But I would like to offer an observation. Many people have become so wrapped up in developing strategies for freedom that they seem to have forgotten what freedom is all about. *Freedom is an ideal*. It refers to the absence of coercive intervention in peaceful activities. It can never be compromised because principles cannot be compromised; principles can only be broken.

When we forget this—when we get so involved in forming strategies for freedom that our main concern is to "put one over" on a gullible public—we aren't fooling anyone but ourselves. For the "freedom" we attain this way will be a false freedom, with no moral conviction, ready to be turned against us by someone smarter than we are at developing a winning strategy.

—BJS

The Face of a Bureaucrat

by Joe Hochderffer

As an old bureaucrat hater, I had often wondered what a real live bureaucrat looked like. Did he have horns? Spit fire? Scaly skin? Cleft foot? I didn't know.

Bureaucrats were the guys who wrote the regulations that took all the do-goodism out of the laws that Congress passed. Or they were the people in the statehouse, underpaid and overworked, who labored in dingy rooms flanking ill-lighted corridors and could hardly wait until the clock struck four. They were faceless, nameless. The unseen enemy. Waiting to pounce on an unsuspecting developer who had submitted plans for a new shopping mall. Hungry for the little old lady who dared propose corridors a mere seven-and-a-half feet wide in her nursing home wing.

Bureaucrats didn't run for office, so they didn't wage political campaigns. You never saw their pictures on a brochure or in a newspaper. They weren't interviewed by Barbara Walters, or nominated for Man of the Year.

I had grown accustomed to thinking of bureaucrats as living in Washington, D.C., or Indianapolis. But a few months ago I learned that they live in my hometown as well.

I'm CEO of a small hospital and we were about to complete a medical office building next door as a way to assure our survival. We'd long since had approval of all the state agencies required. Our community looked forward eagerly for the new young family practitioners who were moving to town to beef up our med-

ical staff. It was a rare day in June and the contractor was right on schedule for the July 1 opening—when I had a phone call from a bureaucrat.

The local representative of the state fire marshal's office did not like the fire rating on a storeroom wall about 10 feet long. Our architect agreed to replace it.

The state fire marshal asked for one thing; the local fire inspector wanted another. It was impossible to do both. The runaround between state and local bureaucrats took several days. They juggled responsibility like a hot potato.

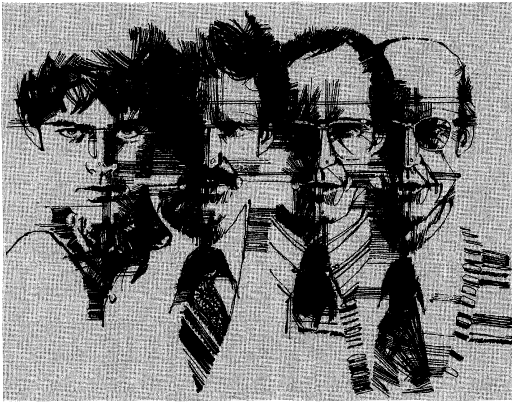
Then we found out the local building inspector didn't like our architect. Plans for a storm sewer drain, previously approved, were rejected. We started altering plans to please the locals, who kept telling us it wasn't they but the state who was holding up our project.

We finally appeased the right people at the right time and were able to open our medical office building almost on schedule. A sad story, perhaps, but at least I learned what a bureaucrat looks like.

This one had a square jaw, piercing blue eyes, and closely cropped graying hair, the latter a holdover from his days in the Marine Corps. He was medium height, medium build, and had a distinct military bearing. He was average. Bureaucrats just look average.

A few months later I had the opportunity to meet another local bureaucrat. He was the city planner, new on the job. I remembered meeting him when he first came to town. He had puppy dog eyes and a strong desire to please. He was

Mr. Hochderffer is Administrator of Cameron Hospital, Angola, Indiana.



polite and accommodating. That was when he first came to town.

Now he was stopping construction on our day care center, a project designed to strengthen our position to hire and retain nurses who are mothers of infants or toddlers.

We had gone through the lengthy process of getting approval of our plans from the state board of health, the public welfare department, and the state fire marshal. We had made several changes at recommendations of the state agencies—a usual process. After all the okays, our building contractor received the go-ahead from the local building commissioner, our old friend from the medical office building days.

Two weeks into the project and we received a letter from the building commissioner telling us to stop construction. If we had questions we were to call the city planner, the one with the puppy dog eyes. More responsibility dodging.

The young planner had now been on the job long enough to be too busy to return telephone calls. But we finally connected.

“I don’t want to shut you down,” he assured me.

“But are you going to shut us down?”

“Well, I don’t want to shut you down.”

Long pause.

“My hands are tied.”

“Then you’re shutting us down?”

“I don’t want to shut you down. It’s up to the board of zoning appeals.”

“When can I see them?”

“They meet in three weeks.”

I remembered that bureaucrats are never to blame. That had become clear a few months earlier when state bureaucrats blamed local bureaucrats and vice versa for the delays on our medical office building. Now the bureaucrat was passing the blame to a committee.

The sin we had committed was in not getting a land use variance to remodel the interior of a structure in a block that housed medical and hospital offices and residences.

“The city is considering changes in the zoning laws,” the city planner told us. “If those changes were now in effect, you wouldn’t need a variance,” he said.

“And since they’re not yet in effect,” I began.

“You need the zoning variance,” he finished.

So with our project half completed, our contractor had no choice but to take on other jobs. We’ll get back in priority line with him when we get the decision of the board of zoning appeals. Meanwhile we’ve lost a few thousand dollars (nothing to a bureaucrat) and we have a newly hired director of a day care center twiddling her thumbs and wanting to get started in a new enterprise.

Now I hope you don’t get the idea that I have become a hater of local bureaucrats too. I have not.

For me bureaucrats now have faces. And that’s an improvement. I still like my government at the local level. I prefer the bureaucrat that I know to the faceless one.

I can leave phone messages with the local bureaucrat. I can knock on his office door. I guess I could throw rocks at his house if I chose, but it hasn’t come to that yet. I might even be able to get him fired—but why do that? You might trade in Dracula and get Frankenstein.

I’ll stick by my hometown bureaucrat, thank you. I may learn to love him, but at least I won’t have to take a long canoe trip with him. □

Privatizing Japan's Railroads

by Donald J. Senese

Japan is one of the world's economic success stories. After suffering defeat and destruction in World War II, Japan, with American assistance, adopted the principles of free enterprise which have made it the leading economic power in Asia. Japan may once again show the world an economic lesson with its recent efforts to remove its railroad system from government control and turn the system over to private enterprise.

Railroads have played an important role in Japan's development, providing essential links for this unique nation which consists of four islands—Kyushu and Shikoku in the south and Honshu and Hokkaido in the north. In the words of the famous historian of Japan and former U.S. Ambassador Edwin O. Reischauer, a "complex and efficient railway network ties the whole country together."¹

Japan began developing railroads in the 1870s. The first railroad constructed in 1872 linked Tokyo to Yokohama. British engineers built it and British investors financed it. A railroad in 1874 linked Osaka with the port of Kobe and another one in 1877 linked Osaka with the port of Kyoto. And while the years of World War II saw a slowdown in internal railroad construction, the trend toward rapid railroad expansion resumed after 1945.

Visitors to Japan in the last two decades have been impressed with Japan's "bullet trains" which carry passengers at speeds up to 130 miles an hour. The new Tokaido Line, linking

Tokyo and Osaka, began operation in 1964 and Japan has continued to run superexpresses between these two key cities.

While the trains traveled quickly, inefficient railroad management was causing growing concern among top Japanese officials. To understand the problem, we need to focus on the role of government in the Japanese economy.

Japan has built its economic success by following the general principles of private enterprise, but the Japanese government, partly through influences of history and culture, has continued to exercise extensive controls. Japan maintained a monopoly on salt and tobacco through its Japan Monopoly Corporation. Japan's telephone and telegraph services were conducted through the Nippon Telegraph and Telephone Public Corporation. And railroads fell under a government-owned company called Japan National Railways. The JNR exercised powerful control, maintaining responsibility for two-thirds of rail transport in Japan. (The Japan government did maintain a hands-off policy on such areas as gas production and electricity generation.)

The management of Japan's railroads is along the lines of a government bureaucracy, rather than a profit-seeking firm. With no market incentives, costs have mounted. The number of government employees on the railroads has grown enormously, and this large personnel force is isolated from economic accountability by strong union pressures. At a time when Japanese government officials and economists are questioning the role of government and its rising costs, the deficit for Japan's

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railroads has continued to climb, placing an ever-growing burden on taxpayers.

Defenders of the public sector claim that such services as railway transportation and telecommunications are so important that they must be run by government for the public good. This argument proves shallow. Government bureaucrats, while professing to serve the public good, have strong incentives to expand their power and increase their own benefits, rather than serve consumers. This becomes evident when attempts are made to cut costs by reducing employees, or increase productivity by using more advanced technology. Growing evidence has demonstrated to the Japanese that railways are too important to leave to the mercy of a growing bureaucracy.

A Better Way?

The most visible problems of the Japanese railroads have been the soaring deficit and the growing labor force. Could these problems be solved by more government controls? Or is a new approach needed? Does the private sector offer a better way?

A special blue ribbon committee was asked to examine various alternatives. The committee members opted for a private sector solution, suggesting that the gigantic Japan National Railways be split up and that management be shifted to the private sector. Japan's Prime Minister Yusuhiro Nakasone enthusiastically embraced the recommendation, and began to push it through Japan's legislative assembly, the Diet, where his Liberal Democratic Party has a strong majority, thus virtually assuring its passage.

The committee suggested that Japan National Railways be divided into six companies. There would be one separate company for each of three of Japan's four islands (Hokkaido, Shikoku, and Kyushu). The largest island, Honshu, which contains Tokyo and the bulk of Japan's population, would be served by three companies, with one each in charge of the northern, central, and southern parts of the island.

The companies operating on Honshu island would be expected to earn a profit and therefore would need to assume a part of the huge

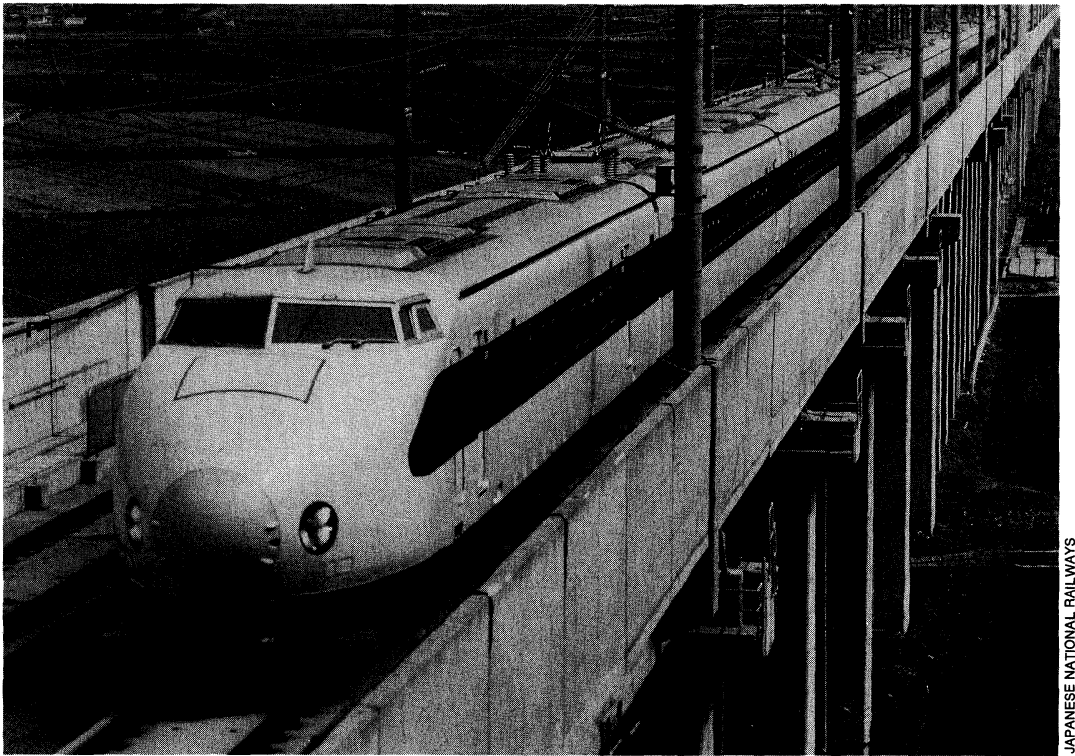
railway debt. The companies on the other islands would have more difficulty in turning a profit, but would benefit from the payment of interest from a special fund. The Shinkansen lines and the "bullet" trains which run on them would be leased to the three companies operating on Honshu island. A completely separate company would handle freight operations. The plan is scheduled to go in operation this year.

Opposition to this plan soon surfaced. Bureaucrats and their supporters argued that the railways should continue to be operated by the central government, with even greater government support, since it is in the "public interest" to have the government maintain control. Toshikazu Yamazaki, chairman of the National Workers' Union (Kokuro), largest union in the Japan National Railways work force, criticized the plan because it would reduce the number of railroad workers. A total of 61,000 workers are scheduled for transfers to central and local government agencies or the private railway companies.²

(The debate over the Nakasone plan demonstrates how the political debate can be shifted by advocates of freedom. The left wing of the National Railway Workers' Union strongly opposes the effort to turn the railways to the private sector. And yet possibly sensing the public mood, the Japanese Socialist Party endorsed a half-way approach which supported the idea of privatizing Japan National Railways but opposed dividing it into separate companies.)³

The argument that the "public interest" is being served by the government-run railways is refuted by the growing inefficiencies in the system and by the bureaucracy's failure to correct them. For example, trains have not been permitted to run 100 kilometers and back without permission from the central office. Another example involves schedule changes, which often result in simultaneous departures for connecting trains. Engineers must delay trains so that passengers can make the connections, thus causing trains to run late. Even such simple schedule changes get bogged down in the government bureaucracy.

As with other national monopolies, Japan National Railways has been responsible for the decline and disappearance of local railway lines which have difficulty competing with the gov-



JAPANESE NATIONAL RAILWAYS

Tohoku Shinkansen train

ernment-subsidized national system. Hiroshi Kato, a member of the blue ribbon panel which recommended turning the railways to the private sector, addressed the importance of this change:

After reviewing why the JNR (Japan National Railways) is no longer working for the public benefit, we concluded that more efforts must be devoted to bringing efficiency levels up again. If the railways are efficient and competitive, they can protect even local lines. As things are now, all the JNR can think of to solve its troubles is to abolish local lines. And that's exactly what it's been doing. If the JNR had been denationalized a decade ago, I'm sure we could have saved a lot of local lines.⁴

Observers of the Japanese system recognize that transferring the railways to private hands will be a major undertaking. The inefficiency of the present system, the burden of the growing debt which the taxpayers of Japan must bear, the stagnant bureaucracy, and excessive workers are readily apparent. However, can the private sector do a better job? Despite

the cries of alarm from advocates of the public sector, there is firm evidence that the private sector can succeed.

Telephones: A Shift to the Private Sector

One can look to the Japanese experience with telecommunications as a guide. The government of Japan, through the Nippon Telegraph and Telephone Corporation (NTT), dominated communications for over a century, creating the second largest telecommunications system in the world. Government exercised monopoly control over this enterprise, and few suggested that the private sector could do a better job.

However, the government of Japan established an Ad Hoc Commission for Administrative Reform which recommended that the company's operation be turned over to the private sector so that it could efficiently meet the changing and diverse needs of the public. An historic event took place in December 1984 with the adoption of three pieces of legislation which shattered the government monopoly and

permitted any firm to enter the telecommunications business. In April 1985, telecommunications shifted to the private sector with the renaming of the operating group as the NTT Corporation. The NTT Corporation, with its 380,000 employees, is Japan's largest private corporation.

A number of moves were made to increase telecommunications efficiency. The NTT was reorganized along the lines of a modern company, rather than a government bureau. Almost 25 thousand tons of documents and data were thrown away and the new corporation kept only those which were vital for operations. The company through its employees began promoting the sale of telephones and telephone cards, providing greater contact with the customers so as to better ascertain their needs. Research and development efforts, opened to competition, have gone forward with a number of companies seeking new technologies to improve telecommunications.

The almost two years of private sector telecommunications demonstrate that the public interest is better served by the new system. Hisashi Shinto, who headed up the old Nippon Telegraph and Telephone Public Corporation and became president of the privately owned NTT Corporation, emphasizes the change in spirit and approach with the new ownership of telecommunications: "When I became the head of the 'old' NTT, there was no concept of the customer. But now I see the word 'customer' used instead of 'subscriber' even in formal documents. In other words, people at NTT have readily begun to understand that they earn their living because customers use their services."⁵

Fortunately, the change in telecommunications was made when even the government-run operation was making a profit. The new NTT Corporation has produced a larger profit, up 30

per cent in its first year of operation. In addition, any profits in excess of a 10 per cent dividend will go to reduce customer charges. On the other hand, Japan National Railways has experienced tremendous losses and carries a heavy debt. The record of losses will have to be reversed as the new companies work to turn the railways into profit-making operations.

The decision by Japanese political leaders to turn the debt-ridden and inefficient Japan National Railways over to private corporations is an important one with significant consequences for the Japanese public and the expansion of the private sector in Japan. As the telecommunications experience has already shown, government can divest itself of long-time monopoly operations, with consumers reaping important gains.

However, in the long run, the real beneficiary is the cause of freedom. A new avenue for competition, creativity, efficiency, technological innovation, and service is opened up compared to the rigid regulations and productivity disincentives built into government monopolies.

The privatization of Japanese railways will likely signal another great economic and political advance for Japan. One of the most powerful economies in the world is demonstrating that individuals operating in an atmosphere of economic freedom can greatly benefit the public in providing essential services. □

1. Edwin O. Reischauer, *The Japanese* (Cambridge, Massachusetts and London, England: The Belknap Press of Harvard University Press, 1977), p. 28.

2. Hiroshi Kato and Shun'ichi Yamazaki, "The Plan to Privatize the National Railways," *Economic Eye*, December 6, 1985, No. 4, pp. 24-25.

3. "Socialists' Plan for JNR Backed by Biggest Union," *The Japan Times*, March 18, 1986, p. 2.

4. Kato and Yamazaki, "The Plan to Privatize the National Railways," p. 26.

5. "Science and Technology: One Year Later—Improved Services in the Wake of NTT's Privatization," *Look Japan*, May 10, 1986, p. 13.

William Graham Sumner

Competition can no more be done away with than gravitation. Its incidence can be changed. We can adopt as a social policy, "Woe to the successful!" We can take the prizes away from the successful and give them to the unsuccessful. It seems clear that there would soon be no prizes at all . . .

IDEAS
ON
LIBERTY



Planning Threatens Freedom

by C. Brandon Crocker

Is the American economy too free? Many people think so. Socialists have long advocated central economic planning, and, under the guise of “national economic policy,” the idea is working its way into the programs of the major political parties.

The persistent appeal of central planning is anomalous, given the poor relative performance of planned economies versus free economies. But economic efficiency is not the only, or necessarily the most compelling, argument against central planning. Economic planning threatens all individual freedoms, and must be analyzed in terms of these threats.

How does central planning threaten individual liberty? To find the answer, we must consider what central planning is and how it works. The goals of central planning are to create high growth, minimize unemployment, and sometimes to provide an “equitable” income distribution, or to protect the environment. Proponents believe these goals can be achieved by using government to intercede in the “chaos” of the free market so as to redirect the nation’s resources and design an “optimal” mix of industries.

The losses to individual freedom from this type of system are obvious. To make sure the economic plan is followed, government must interfere with the freedom of individuals to start businesses, to invest and work where they choose, and even to consume certain goods and services.

A nation’s economy is nothing more than the

Brandon Crocker recently earned his MBA at the University of Michigan School of Business Administration. As an undergraduate at the University of California, San Diego, he was editor-in-chief and founding member of the California Review.

decisions of individuals as to what to produce and consume. Therefore, a government-controlled economy means government-controlled people. If government is to enforce an economic plan, it cannot have people starting whatever businesses they like or investing capital wherever they wish. Certain fields of employment will have to be forcibly curtailed and certain goods and services (either already available or which could be made available) will have to be prevented from reaching the population—because control of what is produced is necessarily control of what is consumed.

These are not insignificant losses of freedom. Proponents of central planning, however, deny that there is any major restriction of occupational choice under economic planning. To be sure, some restriction will take place in “undesirable” industries targeted to be phased out, curtailed, or not allowed to start up, but this will be done for the “social good.” Furthermore, central planning in practice often saves jobs, they claim, in industries which would be abandoned in a free market, thus preserving the freedom of many people to pursue the occupations of their choice.

These arguments, however, are invalid. First, whether jobs are taken away for the “social good” or not doesn’t alter the fact that freedom of choice, in terms of available options, has been diminished. Second, while the free operation of the market does cause some people to leave their chosen occupations when industries become obsolete, there is a great difference between not being able to follow one’s chosen occupation because no one is willing to pay for a particular product or service, and not being able to follow one’s chosen occupation

because of government edict. In the first instance freedom of action is not being denied and the freedom of people to make (or not make) contracts is preserved. In the second instance, the opposite is true.

Is the loss of individual freedom so onerous as to outweigh such professed benefits as security against involuntary unemployment and destitution? An acquaintance from Norway, living under a semi-socialist system, thinks not. He likes the feeling of security. He even asserts, as do many Norwegians, that government should tell people what they should and should not do because most people do not know how best to take care of themselves (and the government does).

This is security at a price, certainly. But in addition to the individual freedoms already lost by such a scheme, this brand of security comes at the expense of something of far greater value—security against arbitrary power and despotism—in a word, security against totalitarianism.

The serious implementation of any significant economic plan will lead to increasing governmental dominance in the running of industry and make possible the easy abduction of most political and economic freedoms. There will be an inevitable conflict between business and the economic planners. To regulate millions of individual businesses in such a complete way (output, number of employees, use of raw materials, etc.) without the cooperation of those businesses will be impossible—especially considering that business will feel that policy may change with the next election. The solution to an uncooperative private sector will be to make individual companies better serve the “public interest” through measures such as nationalization and government controlled syndicates.

Government control of the economy leads not only to power over production, but also to power over consumption and distribution. Displacing the price system with government edicts takes the distribution of goods and services out of the hands of individual buyers and sellers, and places it into the hands of a central authority. With this power the central authority can wield great control over the populace.

George Orwell, commenting on Friedrich Hayek’s classic book, *The Road to Serfdom*,

remarked, “It cannot be said too often—at any rate it is not being said nearly enough—that collectivism is not inherently democratic, but, on the contrary, gives to a tyrannical minority such powers as the Spanish Inquisition never dreamt of.” To believe that such a vast concentration of power will not be used at some point to oppress the population is to deny the history of mankind. The world is full of maniacs and coercive utopians—many of whom are interested in exercising political power, as history well shows.

All totalitarian regimes rely heavily on economic controls to coerce their subjects. The efforts of Hitler’s National Socialists to oppress Jews and other minority groups were greatly facilitated by the Nazi government’s control of employment and the distribution of goods. The Soviets use economic controls to pressure dissidents, and they even use their system of rationing to create high voter turnouts for their one-candidate elections—if you don’t vote, you don’t receive your ration cards. Those not rigidly conforming to Maoist doctrine during the Cultural Revolution often lost their jobs, no matter how valuable their skills. China’s current one-child policy is enforced through the control of a series of economic “benefits” which include jobs, salaries, and rations. The success of the Chinese central planners in enforcing such an unpopular policy which meets the resistance of centuries of Chinese tradition shows how great the power a government can wield over its people when it controls the economy.

Neither Germany in 1933, nor Russia in 1917, nor China in 1949 had long traditions of democracy and political and economic freedom. The United States, in contrast, has a long and deeply ingrained tradition of democracy and freedom, as well as constitutional arrangements which make quickly installed tyranny unlikely. This is no reason, however, to feel safe in taking steps to weaken that tradition and to make possible great abrogation of individual freedom. Free societies have been, and still are, very rare and fragile. Freedoms taken for granted and not carefully safeguarded do not last long. The loss of economic freedom is a major crack in the foundation of any free society. □

Socialism Succeeds by Failing

by Allan Levite

There has never been any shortage of proof—both theoretical and empirical—that socialism is a practical failure. Or, to put it another way, it has proven itself to be an economically inefficient system. Yet in spite of its major flaws, socialism continues to attract and often hold many of the best minds.

In our effort to understand this phenomenon, it seems to me that we have also erred, in that we have always analyzed socialism using an assumption that we never questioned because its truth seemed so obvious. This proposition is that socialists define economic “success” the same way we do, as a condition of greater general prosperity—in short, increased living standards for most people, compared with alternative economic systems. As I will show, however, this is a false assumption, and the misplaced emphasis it causes on our part accounts, in large measure, for our failure to understand why socialism keeps thriving in theory despite performing so poorly in practice.

Our first clue should come from the history of socialism and communism, a history permeated with examples of fervent disciples living austere, spartan lives. Almost invariably, the more wholeheartedly a socialist or communist believes in his credo, the more ascetic an existence he maintains. This point is all too often overlooked as we allow our attention to be diverted by the many well-known examples of wealthy or cultured socialists who do not eschew their hedonistic surroundings. We should instead focus on those who are the most loyal to

both the letter and the spirit of socialism—namely, those who shun material wealth even though it would be available to them with a little effort. And it is here that we find the essence of the socialist creed.

Any biography of Karl Marx will note that he lived in self-imposed poverty, even though he could have used his educational credentials to obtain well-paying work.¹ His friend, Engels, similarly wrote with great admiration of the ascetic renunciation that he (Engels) believed was necessary for revolution, stating that workers “must deny themselves even the smallest enjoyment” in order to steel themselves for the class struggle.² Bruce Mazlish, in his appropriately titled *The Revolutionary Ascetic*, quoted Gorky describing Lenin as a puritan who had “renounced all the joys of earth . . .”³ Mao Tse-tung, who like Engels had a wealthy father, lived his life in much the same way; stories of his economic self-abnegation abound.⁴ Fidel Castro, another scion of wealthy parents, lives quite frugally and, like Mao, prefers to dress in plain army fatigues, a sharp contrast with the sartorial habits of genuine working people whenever they can afford more expressive apparel.

With this evidence, let us construct an imaginary Socratic dialogue that will illustrate the point I have in mind.

“You socialists assume, I take it, that people like Marx, Mao, and Castro are ‘men of good will’?”

“Of course.”

“Which means that they wish only good for others?”

“Certainly.”

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“So if anything bad happened to them, they would not want anything similar to happen to others, especially the poor?”

“Correct.”

“And if they believed something to be good or beneficial, they would want that also for others, particularly the poor?”

“Naturally.”

“So if such a socialist leader were blessed with good health all his life, he would want the masses to enjoy the same advantage?”

“Positively.”

“Now, do the socialist leaders who believe in this doctrine the most completely, like Mao Tse-tung, tend to live ascetically or in self-imposed poverty?”

“Most of them, without a doubt, particularly those whose faith in socialism has not become corrupted by greed or pragmatism, like that of the current Soviet and Chinese leaders.”

“Yes. Now mustn’t we assume that the ‘purest’ of the socialists, like Mao, lived ascetically because they believed it to be good and proper to do so? Obviously, since they are men of good will, they would not have lived this way had they believed it to be morally objectionable, but only if they thought it was right.”

“So it would seem.”

“And we have already agreed that whatever they deem good for themselves, they also wish for others?”

“Yes, we did.”

“Then since they deem poverty good and affluence bad for *themselves*, they must also consider poverty good and affluence bad for others, especially the poor, with whom they so strongly identify. And they must therefore want the poverty of the poor to be continued, not eliminated.”

From here on it should be understandable why socialism continues to attract followers despite its economic failures whenever tried. It was never *intended* to “work,” as we understand the term. If it did “work,” using our own definition, prosperity would soon emerge, which is the *last* thing that the most passionate of the socialists want. How could they want for others what they believe is morally objectionable for themselves? Abundance, for them, means not only that materialism will erode ideological zealotry, but also that enjoyment of life will manifest itself, which for them is an undesired goal. Nothing can make an ascetic feel lonelier and more betrayed than the sight of multitudes busying themselves with the

pursuit of life’s pleasures. And even those socialists who decline the spartan life still hold such self-sacrifice to be a fine ideal even if they cannot bring themselves to practice it. So they can never truly accept prosperity for what it is. They hate capitalism not for its failures but precisely for its successes, because it engenders markedly higher living standards for the majority.

Not surprisingly, then, as Ludwig von Mises pointed out, we learn that the concept of socialism was not a product of proletarians, but of the children of wealth and of the bourgeois intelligentsia.⁵ Working people cannot be so easily convinced to give up their quest for a more comfortable life, not having been jaded by a superfluity of comforts. As rare as a snowball in Tahiti is the poor person who wants to remain poor. Such notions, where they exist at all, are almost exclusively the property of those who disdain wealth, due perhaps to guilt. “Imagine no possessions,” said Beatle John Lennon in his song “Imagine.” It is no coincidence that this was not one of the songs he wrote when he was poor, struggling to earn a living playing rock and roll in gritty nightclubs—he wrote it after having amassed great wealth. Anyone wanting to imagine something truly fantastic should try to conceive of *poor* people giving up their dreams of having more possessions.

The Power of the State

Socialism’s most extreme form, communism, absolutely depends on making the poor abandon their materialistic dreams. This explains why communism proposes to give such awesome power to the state. No other institution, and no amount of propaganda, could induce the masses to abjure wanting to enjoy life. Only the *state* has the naked power needed to *enforce* asceticism. A future condition of abundance is promised only because it is counterproductive to advertise what people don’t want, and much more practical to promise something they do want.

Can generations of “re-education” ever make the common people renounce their urge to enjoy life and its material benefits? Fortunately, no. In December 1986, many thousands

of students in China demonstrated for democratic reforms, complementing the millions of their brethren who wanted and finally received greater economic freedoms in the post-Mao era. These youngsters had never seen capitalism nor known anything but the Marxist dogma they had been exclusively taught; they were all born after the Communists took power in China. Yet their profoundly human strivings to live freer and fuller lives could not long be suppressed. No amount of propagandizing could ever make them or any other mass of people stop wanting to be human. And in this we can rejoice, for true hope comes from this simple observation.

We must not, however, conclude that socialists will see in this evidence proof of the error of their dictum that people can be taught to seek monastic, self-sacrificing existences. Facts cannot make the socialists stop wanting a spartan world, and, as I have shown, trying to convince them that capitalism produces high living standards is largely useless, especially if they already believe it. Even the best salesperson would have a hard time trying to sell something the customer does not want at all.

We will be able to convert the most zealous of the socialists only by convincing them that

enjoyment of life is not wicked. Our occasional successes in converting socialists to capitalism with economic facts should not obscure the larger truth that those who take socialism truly to heart cannot be swayed by statistics on higher living standards under capitalism if they seek ascetic conformity instead. This is why no number of economic failures, no matter how high, ever demoralizes socialism's most devoted partisans. If anything, such debacles only *strengthen* their convictions. This is not to say that we should abandon our factual approach to promoting free enterprise; far from it. But we must temper it with the knowledge that only those who have no objection to enjoying life will find capitalism appealing. There are those who have such objections, and so our first goal must be to overcome them before moving on to economic or political theory and practice. □

1. Thomas Sowell, *Marxism* (New York: William Morrow and Co., Inc., 1985), p. 174.

2. Edmund Wilson, *To the Finland Station* (Garden City, N.Y.: Doubleday and Co., Inc., 1940), p. 210.

3. Bruce Mazlish, *The Revolutionary Ascetic* (New York: McGraw-Hill Book Co., Inc., 1976), p. 152.

4. Edgar Snow, *Red Star Over China* (New York: Bantam Books, 1972), pp. 68-72.

5. Ludwig von Mises, *Theory and History* (New Rochelle, N.Y.: Arlington House, 1969), p. 121.

In Future Issues . . .

July

- "World Resources and Economic Exploitation" by M. W. Sinnett
- "Lessons in Liberty: The Dutch Republic, 1579-1750" by Robert A. Peterson
- "Amelioration" by Philip J. Bowers

August

- "Which Liberalism?" by Tyler Cowen
- "Take Back the Environment" by Jorge E. Amador
- "One Complaint per Customer, Please" by Jane M. Orient

Houston's Laissez-Faire Housing Policy

by J. Brian Phillips

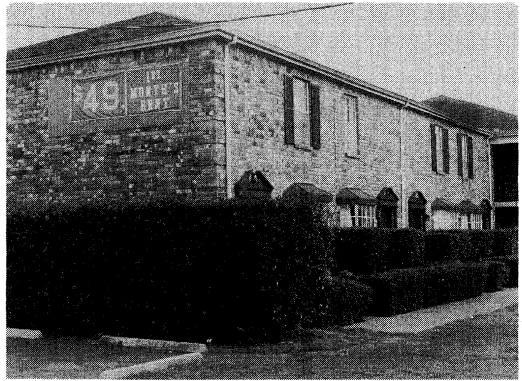
During the 1970s Houston's population grew by an average of 36,000 per year. This pace accelerated during the early 1980s as oil prices skyrocketed and Houston's economy boomed. Jobs and opportunities were plentiful, which combined with the subtropical climate to create a virtual paradise for unemployed, winter-weary Northerners.

This huge influx of people created a tremendous need for housing. New home and apartment construction proceeded at an unprecedented rate. Over 25,000 apartment units were built each year from 1977 through 1983. What had been cow pastures and rice paddies only ten years before were transformed into sprawling apartment complexes in a matter of months as developers raced to meet the growing demand for housing.

In 1982 Houston's economy began to slow. Unemployment rose and the stream of new arrivals dwindled to a trickle as recession gripped the city. Throughout this period of economic volatility, Houston continued to have an adequate supply of rental housing at reasonable rates. Unlike cities which have turned to rent control in a futile attempt to provide affordable housing, Houston has remained committed to a laissez-faire housing policy. The results speak for themselves.

The most striking fact about cities with rent control is their perpetual shortage of rental housing. Vacancy rates usually run under 5 per cent, which gives renters few, if any, housing options. Rent control, in fact, is price control.

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As has been demonstrated repeatedly, in theory and in practice, price controls always result in shortages.

But Houston did not experience a housing shortage. The lowest vacancy rate reached in Houston was 4 per cent in June 1982. During the 1970s the average vacancy rate was 7 per cent. And this was in spite of the fact that the population was growing by an average of nearly 700 people a week.

The 4 per cent vacancy rate of June 1982 did not last long. By April 1983 the rate had reached a record high of 24 per cent. This abrupt shift was primarily caused by two factors: the downturn in the economy and an overbuilt market. Because housing construction is a relatively long-term project, developers were unable to respond immediately to market conditions. Despite the high vacancy rate in 1983, over 28,000 new units were built that year. However, the next year that number fell by over 50 per cent, reflecting the oversupplied market.

As occupancy rates decreased, apartment owners were hard pressed to continue operating profitably. In an effort to attract tenants, apartment owners began offering a myriad of gifts and other special promotions. Televisions, video recorders, memberships in health clubs, holiday turkeys, life insurance policies, and cable television were among the free gifts used to entice renters into signing leases. Many apartment owners waived security deposits, and more than one even paid the moving expenses of new tenants.

Owners Compete, Too

In rent-controlled cities, renters often pay apartment "locators" hundreds of dollars to find housing. In Houston, apartment locators offer similar services; however, their fees are paid by the apartment owner rather than the renter. Just as the recession has hurt the apartment industry, it has hurt the apartment locators also. Most now offer gifts to renters who find an apartment through their services. This illustrates the fundamental difference between cities with rent control and those which allow the market to operate freely: *In the former, renters engage in one-sided competition for housing space, while in the latter, there is also competition among apartment owners.*

These competitive forces are readily apparent in the Houston rental market. When the economy slipped into recession, the number of renters stabilized as new arrivals dramatically decreased, while developers continued to build new apartments, though at a greatly reduced rate. Since April 1983, the vacancy rate has stayed near 17 per cent, keeping apartment owners in intense competition to attract and retain tenants.

In rent-controlled cities, tenants often stay in the same apartment for decades. There are two good reasons for this: one is the general lack of housing options, the other is the obvious benefit of paying a rent established 20, 30, or even 40 years ago.

In Houston, however, most leases run six months. The average renter is young and mobile, and with an oversupplied market from which to choose, renters are quite willing and able to move with ease. The fact that renters

can move so easily places more competitive pressure on an already intensely competitive industry.

One of the stated purposes of rent control is to insure a sufficient quantity of affordable rental housing. But in city after city, rent control has resulted in housing shortages. In Houston, in contrast, where apartment owners are governed by the market, there has always been a sufficient supply of rental housing.

The real victims of rent control are property owners who must accept less than market rates for their properties. Rents are established by a central board, and annual rent increases are generally meager, if allowed at all. In New York City, some renters still are paying 1940s rates for their apartments. It is little wonder that developers are reluctant to build new rental housing in such cities.

Even the most radical rent control advocates eventually recognize the discouragement to new construction that rent control creates. Consequently, like most statist policies, exceptions are made as those in power seek to gain the benefits of the free market without losing their control over the lives of others. Most often, new construction is exempted from rent controls.

But even this enticement is seldom sufficient to stimulate new construction. After all, the exceptions that can be arbitrarily granted can just as easily be arbitrarily withdrawn. Developers see little reason to take chances on such a possibility, when cities such as Houston offer developers the economic freedom all industries need to thrive.

Rental property in rent-controlled cities is difficult, if not impossible, to sell. Clearly, not many people care to spend good money for the privilege of losing more money. In Houston, despite a soft real estate market in general, apartment complexes are selling rather briskly, as investors hope to make purchases at bargain prices. This demonstrates that capital flows not only to its most profitable uses, but also to its most efficient.

Many rent-controlled cities allow the rents on voluntarily vacated apartments to rise to market levels. But when this occurs, the under-supplied market pushes rents higher than they would be in a completely free market. Conse-



PHOTOS OF HOUSTON HOUSING BY JANE H. HERBENER

quently, new tenants are forced to pay rates much higher than could be sustained if rent control did not exist at all. By artificially establishing and controlling rents, rent control creates huge inequities in rental rates.

In Houston, the average apartment rent reached a high of \$402 in late 1982, shortly after the vacancy rate reached its record low. However, as the vacancy rate increased, rents fell to reflect the market's oversupply. And despite the fact that vacancies have remained relatively stable for the past three years, rents have continued to drop. Today the average apartment rent in Houston is \$303.

Maintenance Suffers

One of the most visible consequences of rent control is the slow deterioration of rental property due to a lack of maintenance. Property owners, often forced to incur losses on their property, see little economic sense in making repairs. And all too often, owners simply abandon their property, rather than continuing to absorb losses.

In Houston, however, competition encourages apartment owners to maintain their properties. While there are certainly examples

of rental housing that is not well cared for, Houston does not have the widespread deterioration of rental housing that plagues most cities with rent controls. Furthermore, most of the vacancies in Houston are in the older apartment developments.

Today, apartment rates in Houston are 25 per cent lower than they were five years ago. During the same period, consumer prices have risen nearly 13 per cent, and Houston's unemployment rate has climbed from 4 per cent to nearly 10 per cent. Consequently, at a time when prices are higher and more people are out of work, i.e., when people have less money available for housing, the market has driven rental prices down in Houston.

Rent control advocates insist that their policies will result in decent housing at reasonable rates. The facts show otherwise—only the free market can provide the best product at the lowest cost to the consumer. Rent control attempts to force property owners to provide affordable housing, ignoring the fact that if a legitimate market exists, free enterprise will provide for that market. While rent control advocates profess to help the consumer, the free market is the best protection the consumer has ever had. □

The True Charity

by Kenneth McDonald

When government expands, special interest groups divert its powers to their own ends. These groups look upon government as a way to get other people to pay for things which group members would like to have but don't want to pay for themselves.

Often this is done in the name of charity. For example, Africans are starving and we in the West must go to their aid. As private citizens, some of us do. We send money to organizations that channel food to hungry people. When our government sends aid, however, we have no choice but to send part of our tax money to the governments of the countries concerned.

Quite frequently, people there are starving because their own governments have made a botch of things. The post-colonial years of Africa have been marked by collectivization, forced resettlement, confiscation of grain and livestock through excessive taxes and obligations, coercive labor programs: nothing less than state terrorism against the farmers who formerly grew food enough for everyone. Ironically, by coercing us as individuals into yielding part of our incomes in the form of taxes to African governments, our own governments reinforce the socialism that is causing Africans to starve.

This quite minor activity of our governments in the name of charity abroad is an extension of the major activity they indulge in at home, namely the forced redistribution of wealth and

income—"redistribution" being a more palatable term than theft.

Again, this is done in the name of charity. It is to relieve poverty, or to "create jobs," or to pay medical bills for the sick, or to build "affordable" housing. In one form or another the object is to subsidize particular groups of people at the expense of others.

This process has been going on for so long that even those of us who prize independence may be tempted to dismiss it as an ingredient not only of taxes but of the duty that citizenship and taxes entail. We pay the taxes and are quit of the duty.

In this way governments have inserted themselves between individuals whose instinct is to be charitable and other individuals to whom they might have offered charity.

It is when we consider the matter as individuals that we are brought up against the morality of it.

Rightly, we prize our independence. We achieve it through self-reliance, a quality that bids us to husband our resources so that we might not become a burden to others. Self-reliance, then, is the quality that would appear to be lacking in those that our governments oblige us to subsidize. The lack is attributable to a number of causes ranging from laziness to imitation, that is, growing up in places where dependence upon government subsidies is accepted as a natural condition.

Whatever the cause, to discourage self-reliance is to condemn those who lack it to a life of dependence. Yet this is where governmental redistribution has brought us. Charity thrice re-

moved has proved uncharitable. By insulating recipients of public charity from the moral restoratives of work and self-reliance, governments confirm them in habits that morality condemns.

To all this the socialist replies: “Ah! But there is no work for them. They are the weak who have been pushed to the wall by a market-dominated economy. A caring society must show them compassion.”

Governments Intervene

The truth is that most Western economies are dominated not by markets but by government interventions in markets. If markets were free, no one would have the legal power to dominate anyone. The rule of free exchange would apply, namely that participants stand to gain from an exchange, otherwise they wouldn't participate. In Frederic Bastiat's words: “By virtue of exchange, one man's prosperity is beneficial to all others.”

This rule is self-evident. Why would anyone wish to interfere with exchanges that are of such obvious benefit to the general welfare?

This brings us back to the role of government. Ideally it should be to maintain a peaceful society in which the citizens would initiate the exchanges from which a nation's wealth is created. The fact that no society embodies that ideal is all the more reason why it should be not only envisaged but also set as the criterion against which societies are measured.

Since the quantities and kinds of exchanges in such an ideal society would be as varied as man's ingenuity, it would be contradictory to limit them. What free men might agree to limit

is their own behavior. Thus each would recognize the need to fulfill whatever contracts he was engaged upon just as he would expect his fellow contractors to do the same.

Here, then, is a legitimate role for government: to make and enforce laws (1) that require observance of contracts, and (2) that safeguard persons and property from encroachment.

Those two precepts—fulfilling contracts and refraining from encroachment upon other people or their property—are fundamental to a society of free people. They are fitting matters for a government to legislate because they constitute the underpinnings of a free society.

Moreover, such a society would encourage the self-reliance that forced redistribution policies have done so much to discourage. As Leonard Read pointed out in *Accent on the Right*: “The unprecedented practice of freedom in our country has, one might say, catapulted many millions of ‘the masses’—including you and me—into a state of affluence previously unknown to history. . . . The alleviation of poverty is a by-product—a life-saving benefit—along man's way toward the higher ideal of liberty. . . . Restore and preserve the practice of free market, private ownership, limited government principles; and one of the by-products will be as much removal of poverty as possible.”

The self-reliance that delivers independence is inhibited by government interventions. The more that we can do to stem those interventions and move our societies toward free markets and private ownership, the more we shall help other people to independence.

Helping other people to independence is the true charity. □

Leonard E. Read

“**T**hou shalt not steal” presupposes private ownership. Sharing ideas suggests having ideas to share. Charity is possible only if one has something to give. Plainly, the excellence of our performance as social beings stems from private ownership of our labor and its fruits, whether material, moral, intellectual, or spiritual.

IDEAS
ON
LIBERTY



Pay Television and Property Rights

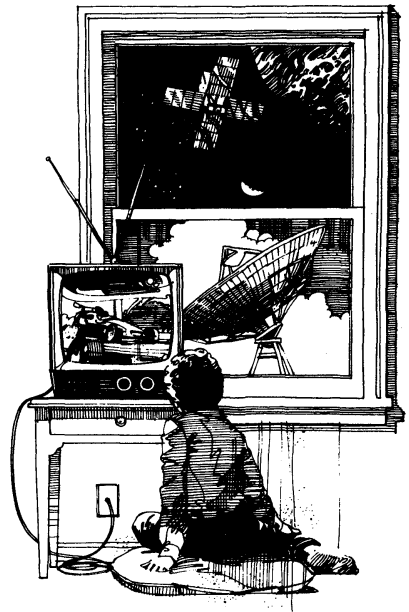
by Joseph S. Fulda

An increasing number of American homes, recently estimated by *U.S. News and World Report* as perhaps 100,000, are now equipped with special antennae, decoders, converters, and other electronic gadgetry capable of receiving the signals from pay television satellites or earthbound microwave transmitters.

Faced with such a large number of potential clients who prefer to freeload, the pay TV industry has begun to fight back. Arguing that the unauthorized reception of their signals is a violation of their property rights, the industry convinced the FCC to issue an injunction prohibiting such reception. A Federal circuit court of appeals upheld the order, thus stamping into law the common notion that these freeloaders are "pirates of the air" or "basement thieves."

Looking at the matter on its face, there is ample reason to be suspicious. First, Federal courts have not shown overmuch concern for the property rights of corporations, preferring instead long and learned disquisitions on "the public good" and the exact meaning of "a taking." As for the regulatory agencies, they have been—until very recently—downright hostile to the very concept of private property (i.e., that ownership implies control). Second, there is no greater protection of personal liberty than the rights of private property. An abridgment of liberty in the name of property rights is thus automatically suspect.

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Examining the matter in more detail, it is clear that broadcast frequencies, commonly referred to as "airwaves," are real property. Like other real property, they are properly acquired by appropriation and continuous possession and use over a period of years, not by government distribution.

Now real property cannot be stolen, but it can be illegally occupied. This is known as trespass, the prevention of which is properly a function of government, part of its mandate to secure our rights.

In considering how one illegally occupies a broadcast frequency, we must distinguish be-

tween transmission and reception. When one transmits on another's frequency, he is indeed a broadcast pirate for he illegally occupies that which is someone else's. It makes no difference that the offender may broadcast from his basement. (Is the man who launches a missile into his neighbor's yard any less guilty because he owns the launch pad?)

When one receives another's transmission in the privacy of his home, however, he neither damages nor occupies the broadcaster's real property and has not violated anyone's rights. If the broadcaster chooses to dump what economists call positive externalities, such as the entertainment emanating from his airwaves, on another's private property, the property owner is free to take advantage of this. One must distinguish between the airwaves, the real property that the broadcaster owns, and the programs, the positive externalities the freeloaders enjoys, despite the fact that the latter originate from the former.

Harvard philosopher Robert Nozick makes a similar point in his landmark *Anarchy, State, and Utopia* in disputing the idea that someone's positive behavior toward me necessarily requires reciprocation or compensation, even when he acts voluntarily and without my contractual agreement to pay. The core of this idea is that all freeloading is theft, an idea that can be easily adapted to justify all manner of anti-libertarian state endeavors. Nozick asks whether a man who throws books into my yard from his can demand payment. Here it is from his yard (real property he owns) that the books (analogous to positive externalities) enter my yard (real property I own).

Although it may be felt that airwaves and programs are somehow different from yards and books, in practice we are quite ready to grant the similarity. Is there anyone who would claim that a CB radio buff who demands payment after being entertaining for a bit is entitled to use the coercive apparatus of the state to exact it? Pay television companies differ from the CB user only in that they entertain professionally, at considerable expense, and for their livelihood. But if the greater extent of the freeloading is all that separates the two cases, then if one is not theft, neither is the other.

If anything, programs and airwaves present

an even weaker case for mandatory compensation than the likes of books and yards. Consider the case of a man's apples falling into his neighbor's yard. Leaving aside the separate question of whether such placement (of the tree and/or apples) can be enjoined or whether rent (compensation for the negative externalities) can be exacted, the man is entitled to the return of his apples. He has lost personal property which can be restored to him. But programs dissipate as they are watched, and at the show's end the broadcaster has whatever he had before. Put plainly, there is neither anything to return nor anything that was lost. Only when lost income is the result of some rights-violating activity is compensation in order; lost income cannot be used as the basis of a claim for compensation.

At the heart of the confusion lie several mistaken analogies. First, there is the sentiment expressed by Assistant FCC Counsel Norman Blumenthal, "It's like sneaking into the movie theater." Not at all. It's rather like viewing a drive-in movie from your living-room window or watching your neighbor's Fourth of July fireworks display from the comfort of your backyard hammock. In each case, you receive benefits without payment, but without fault, for to be a thief you must positively violate someone's domain by aggressing, intimidating, deceiving, or the like. In none of these cases does any such rights-violating activity occur.

Now there is a parallel to the movie house sneak: someone who attaches a feed to a cable company's line. This we do not defend, for the connection illegally occupies part of the cable. This is *taking* rather than being *given* and demonstrates the possibility of being a bona fide thief in reception as well as in transmission.

Second and quite similar is the notion that our case rests on the ease with which this sort of freeloading may be perpetrated. Again this is not so. We do not plead the liberal notion that "If you leave the door open, you invite theft," but rather the libertarian notion that not all freeloading is theft. If one were to enter an unguarded home, he would illegally occupy another's real property and indeed would be guilty of trespass. That is precisely why the relative ease of basement transmission on owned frequencies is no defense. As we have shown,

however, the case with reception is different: here the "home" has not been entered at all and no trespass has occurred.

But the notion persists that airwaves are somehow different from other real properties. Let us return to the case of the fireworks display. Is there any philosophical difference between a visible air display dumped on you and an invisible electromagnetic-wave display which carries the programs you capture on your screen? The necessary use of complex receiving equipment in the latter case is surely philosophically irrelevant. If your house was some distance away from the drive-in and you watched with a telescope, would you then be a thief or a "movie pirate"? "Do burglars' tools make the burglary?" we might well respond!

By broadening the rights of pay television companies (after many years of deliberately strangling them), the FCC weakens the individual's right to use his property in entirely permissible ways. This is always the case when new "rights" are granted by the state. Why should we expect airwaves to be any different?

Having said this, we should note that service providers with built-in positive externalities such as these are not as defenseless as is often claimed. The drive-in can erect a wall, the next-door neighbor can make his display contingent on his neighbor's contribution, and the pay television companies can and are building increasingly sophisticated and impenetrable electronic "fences."

Should broadcasters shield their transmissions? Morally, the question has no answer: they have the right to do so or not to do so as they choose. Financially, they should do so if and only if the added cost of the protective equipment used in both transmission and reception will lose them fewer subscribers than they will gain by welcoming some erstwhile free-loaders. This becomes a moral consideration only if there is a fiduciary trust, as in a publicly owned corporation. If the market dictates, however, that the shielding is not worth the costs, no one should expect the state to shoulder them. The state already undertakes a multitude of unproductive activities. Why one more? □

Nobody's Property

People do not effectively "own" the airwaves simply because they are public property. While this "people's ownership" may be true in a strict legal sense, it is not true in practice. At present, the airwaves hardly belong to anybody. The government does not really own them fully because their use has been allocated to private broadcasting by the Communications Act. Yet, the private broadcasters are not owners either—they simply have three-year licenses. Thus, everybody's ownership rights have been diluted. It is a stalemate that ought to be broken—and it can be by removing the airwaves from their special "public property" classification.

In discussing the possibility of removing Federal control of the airwaves, one quickly finds himself swept into a narrow "either-or" argument. Either we have Federal licensing and control, the argument goes, or we face broadcasting anarchy. After all, governments have to provide policemen to direct traffic, don't they?

The fallacy of the argument is in its assumption that we have a choice only between Federal control and chaos. Even persons who are quite suspicious of any kind of Federal control of broadcasting cannot see other alternatives. We must remember that this Federal control has existed ever since broadcasting's infancy, so the idea of liberating the airwaves has had little consideration. Ownership of the airwaves has been a government monopoly, to be shared sparingly with others. So long as this monopolistic ownership goes on unchallenged, there is little chance that the roots of broadcasting's problems will be touched.

—MELVIN D. BARGER

IDEAS
ON
LIBERTY



Privatizing Federal Programs

by Hans F. Sennholz

Most attempts at Federal budget cutting fail. Powerful interest groups stand in the way and fight to safeguard their entitlements and favorite programs. By contrast, taxpayers offer little opposition. Program costs are spread thinly among millions of taxpayers, amounting to a few dollars per capita. While the costs are dispersed, benefits are concentrated, providing an important guidepost for politicians. It indicates that they have nothing to gain, but much to lose from opposing particular spending programs.

Because of all the pro-spending incentives, few programs are ever terminated or even reduced. Federal spending rises continuously and Federal debt increases with no end in sight. Some observers despair over the democratic process, but many are convinced that there is a better tactic for spending control—"privatization."

Privatization transfers services from government agencies to private producers. The efficiency gains that flow from competitive enterprise are to be used to cut spending.¹ Privatization is also said to pay rich political dividends. It creates powerful groups of providers and beneficiaries who profit from the programs. They may be mobilized to support privatization and build a coalition for decisive spending cuts.²

At the present there is no coalition for spending reductions; but we do sense a pow-

erful movement for privatization in all corners of politics, from the extreme right to the radical left. On the left, it may spring from the search for new government programs and the need for new sources of revenue. On the right, it may be a new version of the old vision of individual freedom and enterprise, or merely a natural reaction to more than ten thousand off-budget government enterprises that have sprung from local, state, and federal governments in recent years.

No matter what the motive powers may be, the movement should ring an immediate alarm with all friends of genuine privatization and put them on the alert about the actual meaning of privatization. If so many reformers agree on an economic program, it is likely to be either empty and meaningless or vague and fuzzy. In this case, "privatization" has at least seven different meanings and many more connotations that permit everyone to endorse it:

1. Federal assets may be sold at market prices to individuals who acquire unhampered ownership and control of the assets.
2. Federal assets may be sold at bargain prices to favored individuals.
3. Federal assets, such as Amtrak, may be sold to individuals who remain under the jurisdiction of regulatory authorities.
4. No assets are sold, but private contractors are engaged to bolster expensive and unsatisfactory services of government enterprises, such as the Postal Service.
5. Private contractors are engaged to assist

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transfer and welfare agencies and make their programs more effective, from public housing to the administration of Medicaid and Medicare benefits.

6. Privatization may take the form of a wide system of vouchers that give low-income people access to competitive markets, such as the education and housing markets.

7. Privatization may place loan assets in the hands of private investors, such as the portfolios of the Farmers Home Administration and the Export-Import Bank.

All but the first of these versions of privatization are bound to be disappointing in the end because they do not really reduce Federal expenditures; they merely seek to make the present system more efficient. In fact, some are likely to cause government expenditures to increase as they call upon private contractors to supplement government services, or create new classes of beneficiaries who hope to profit from government largess. Experience also teaches that the new classes of beneficiaries will not replace the old classes, but instead can be expected to take their places in line with the others.

Wherever these versions of privatization make the present system of transfer and entitlement more effective, they give it new vigor and strength and cause it to grow. Surely, a successful voucher system that provides better housing is likely not only to offer better homes for more people and cause the housing industry to profit and expand, but also to boost the demand for ever more housing vouchers and generate a demand for vouchers for other goods and services. Such privatization is likely to extract more income and wealth from taxpayers, lead to more deficit spending, and pave the way for more collectivization and socialization.

Genuine Privatization

The only privatization worthy of its name is the sale of government assets at market prices to individuals who acquire clear and unhampered title to the property. For example, until the beginning of this century it was public policy to sell Federal land to homesteaders. Unfortunately, in recent decades the policy has

been to take land from private owners and use it for "public purposes," such as irrigation and flood control, power projects, wilderness areas, or any number of programs. The federal government now owns more than 30 per cent of all the land within the continental U.S., and its holdings are increasing steadily. It now owns more than 69 per cent of the area of Arizona, 71 per cent of Utah, 85 per cent of Nevada, and 90 per cent of Alaska.

It is rather difficult to assign present-day market values to Federal real property, consisting of public domain property, donated property, and properties under the supervision of the Architect of the Capitol. But this writer is willing to conclude that, at the height of the real estate boom in 1978-79 when the Federal debt was less than one trillion dollars, the market value of more than one million square miles of Federal land probably exceeded the Federal debt. Unfortunately, the debt has doubled since then while real values have fallen substantially, which no longer permits us to draw this conclusion. But it is fair to assume that a "privatization" of Federal land not only could be made to cover the budget deficits and reduce the mountain of Federal debt, but also would substantially enlarge the real base of individual income and wealth.

Many other Federal assets and enterprises could be liquidated and the proceeds allocated to the reduction of the Federal debt. In many cases the sale would represent significant losses by government, which usually manages to acquire assets in most inopportune moments and at exorbitant prices. In 1979, for example, when oil prices exceeded \$35 a barrel, the federal government established the Strategic Petroleum Reserve (SPR). At the end of 1986, when the price stood at less than \$15 a barrel, more than 600 million barrels of crude oil were in storage. Plans call for a 750 million barrel stockpile that is to be maintained in standby readiness, providing protection against supply disruptions.

Genuine privatization would liquidate the stockpile immediately because its continued existence only makes matters worse. At the outset, its accumulation lent aid and comfort to OPEC, purchasing huge quantities of oil when OPEC was restricting world supplies and

boosting prices. When OPEC finally succumbed to market pressures and oil prices retreated to recession levels, the SPR stockpile depressed prices even further. The stockpile as well as current SPR policies continue to disrupt the oil market, as did Federal controls over U.S. oil production before 1981. SPR should be abolished immediately and its assets liquidated forthwith.

The Synthetic Fuels Corporation (SFC), another glaring folly of Federal politicians and officials, provides subsidies for "nonconventional" fuel production. With world oil prices declining since SFC was created in 1980, prospects for commercial use of synthetic fuels have diminished substantially. A program of genuine privatization would terminate SFC operations and liquidate its assets immediately.

Sale to Favored Individuals

A form of privatization that has been practiced rather successfully by the Thatcher Administration in Great Britain is the sale of assets to favored individuals. Government housing, for instance, is sold at bargain prices to low-income and public-assistance tenants, who are likely to applaud the sale and oppose any future attempt at renationalization. Similarly, government-owned enterprises are sold at bargain prices to their employees, who hope to profit from the sale. To assure highest possible market prices of their shares, the new owners are likely to demand an unrestricted freedom of sale to other individuals.

Obviously, such a policy of asset liquidation pays rich political dividends to the sellers of the property. But it usually overlooks the fact that a sale amounts to just another favor to a pressure group that reaps benefits at public expense. The bargain price that is so attractive to buyers is a distress price to taxpayers who provided the assets in the first place. The fact that the sale may be the lesser evil among several evil alternatives does not change the nature of the taxpayer loss.

This kind of privatization would not find much popular support were it not for the bargains and favors. At market prices most government assets offered for sale probably would be bought by investors and speculators who

would want to safeguard their investments and improve their yields through cost reductions and productivity improvement. Public-housing tenants would strenuously oppose such sales, just as civil servants would reject such a privatization of their places of employment. In final analysis, this privatization program promises to pay political dividends because it enriches some people at the expense of others, just like all other transfer and entitlement programs.

Many friends of the private property system nevertheless favor such privatization because it may reduce the economic scope of government and bring us a step closer to an unhampered market. It may necessitate another handout in the short run, we are told, but will bear economic freedom in the long run. It may even turn civil servants and transfer beneficiaries into staunch defenders of the private property order.

Surely, privatization as an interim step toward unhampered economic freedom deserves our undivided attention and assistance. But such an interim step must not be confused with just another step on the old road of transfer and entitlement. Privatization that safeguards old privileges, grants new favors to old interest groups, and imposes stipulations and conditions on the new owners is a make-believe privatization designed for gullible observers and investors.

Counterfeit Sales

Federal assets may be sold to individuals who remain under the jurisdiction and control of regulatory authorities. Such a privatization unfortunately does not change the employment of the asset in the process of production. Surely the legal title to an asset does change from government to private hands, but its control, which is the economic essence of property, does not change at all; government continues to wield authority over the asset through its agencies.

All sales of assets that have public utility status are likely to be spurious and fictitious. The sale of the northeast corridor of Amtrak to employees and other private interests, as suggested by The Heritage Foundation,³ would merely transfer economic control from the Department of Transportation to the Interstate

Commerce Commission and several other agencies that regulate the use of capital and dispense immunities and privileges to labor unions. Sale of the two Washington airports, National and Dulles, to individual investors, which cost taxpayers some \$2.3 billion to build and millions of dollars every year to maintain, would raise new cash for other Federal programs, but would not alter the economic status of the airports. Government agencies would continue to control every aspect of operation, would limit the maximum investment yield which stockholders would be permitted to earn, but would refuse to give assurance of a minimum yield. Investors may do better by buying Treasury bonds, notes, or bills than to invest their savings in Federal utilities offered for sale.

Private Contractors to the Rescue

The federal government owns and operates some 125 economic enterprises, most of which suffer substantial losses and serve their customers rather poorly. To reduce budget deficits and improve services, the enterprises should be privatized forthwith—their assets should be sold at market prices, without regulatory restrictions, to anyone willing to operate them in competition with other businesses.

But this is not the intent of most privatizers. They would like government to retain ownership and control over enterprises, but would be willing to have private contractors render some of their services. They would assign difficult and expensive tasks to private contractors, but retain profitable services and other activities that are likely to pay political dividends.

The Postal Reorganization Act of 1970 established the U.S. Postal Service as an independent Federal enterprise. Annual appropriations to the Service will reach an estimated \$2.7 billion in 1987,⁴ which include not only subsidies for carrying certain categories of mail at free or reduced rates but also total actuarial costs of employee pensions. The hourly labor costs of some 740,000 Postal Service workers are estimated at \$19.11, which are 33 per cent higher than the wage rate for equivalent work in competitive business. Moreover, USPS labor

productivity lags far behind that of private couriers, which suggests that every phase of the postal service can be contracted out at considerable savings to taxpayers. According to a Congressional Budget Office investigation, contracting out janitorial services alone would save \$980 million annually.⁵

Such a conclusion is based on a simple assumption that must not be taken for granted in government enterprises. It assumes that the transfer of an activity from government to private hands will reduce government outlays. Actually, the transfer may set civil service labor free, but is unlikely to terminate its employment and expenses. Government workers enjoy civil service protection, which bars dismissals no matter how much work is contracted out. Surely it is unlikely that contracting the management of national parks to environmental and conservation organizations would bring any savings to the seven land-management agencies: the Bureau of Land Management, National Park Service, Army Corps of Engineers, Forest Service, Bureau of Reclamation, Fish and Wildlife Service, and the Tennessee Valley Authority. Contracting out undoubtedly would improve the service, but would necessitate additional expenditures.

Similarly, replacement of the Legal Services Corporation with legal services provided through State Bar Associations and contracts with private legal clinics may not bring forth the dismissal of a single Legal Service Corporation attorney and his staff, but merely cause their transfer to other agencies. In recent years, the mere attempt at agency reduction has led not only to frantic interagency shifting but also to the creation of many thousands of off-budget government corporations that have greatly enlarged the scope of government. Surely, they all should be privatized; in reality, they are merely reorganized.

Private contractors may also be called upon to assist transfer and welfare agencies in their service to special beneficiaries. But it is unlikely that such assistance will help to reduce government expenditures. For example, contracting out the management of public housing to tenants' organizations is unlikely to yield any savings. Instead, it is more likely to invite ugly tenant strikes and lead to expensive legal

confrontations between the tenants' unions and public authority. Similarly, it is doubtful if freezing all VA hospital construction and leasing hospital facilities from private owners would effect any savings. Instead, it would make more private capital available for VA use.

Vouchers Expand the Sphere of Government

Many privatizers would introduce an extensive voucher system in order to slash the Federal deficits. They would issue signed or stamped credit documents to beneficiaries who could spend them for purposes designated, under conditions stipulated, and in places clearly defined. They would establish systems of education vouchers, Medicaid vouchers, Medicare vouchers, health benefit vouchers for Federal employees, subsidized housing vouchers, VA health care vouchers, and many others.

But it is rather doubtful that the voucher system would provide any savings to the U.S. Treasury. On the contrary, a system granting educational benefits to certain beneficiaries might not only boost government outlays, but also greatly expand the sphere of government influence and control. It is unlikely to lead to a contraction of public education in any form, but undoubtedly would thoroughly affect private education. Private and parochial schools would have to meet government-imposed conditions to qualify for vouchers. After all, the authority that is issuing the vouchers and spending the money can be expected to set the conditions under which they may be used. In the end, refusal to accede to such conditions might spell financial ruin to the resistor.

Similarly, a voucher system for housing would affect all sectors of public and private housing. The influence of government, which already is very extensive in this industry, would reach ever further and touch every aspect of housing as the voucher authorities would define the official conditions. Moreover, a voucher system would be likely to bring forth new governmental powers of enforcement over recalcitrant individuals who refused to honor and accept the official vouchers. Woe to the

builder who failed to meet the voucher conditions and woe to the house owner or private school that refused to honor the voucher!

A health care voucher system for Federal employees, veterans, or Medicare and Medicaid patients surely would not be permitted to diminish beneficiary services. Nor could it be expected to reduce the present army of health care workers who render services to Federal employees, veterans, and Medicare and Medicaid beneficiaries. Surely the voucher system would not be allowed to close a single veterans hospital. But it would soon permeate the whole industry—as do Medicare and Medicaid—with hospitals, doctors, and nurses scrambling to meet the voucher conditions. Indeed, it is difficult to find a trace of genuine privatization in the voucher system.

Sale of Loan Portfolios

Federal government loan asset sales have gained widespread support on Capitol Hill and on Wall Street. Federal politicians and officials are eager to turn the bulging Federal loan portfolio into cash in order to meet Gramm-Rudman-Hollings deficit reduction targets. Investment bankers are eagerly awaiting the sales; when the Farmers Home Administration recently announced its intention to sell portions of its rural housing portfolio, 39 investment bankers made unsolicited bids to manage the sale. The Administration, too, is ready to sell all new direct loans to private investors. In fiscal year 1986, the total amount of new direct loans is estimated to exceed \$26 billion. In future years it may be much larger.

Some privatizers would like the federal government to sell outstanding assets of the Guaranteed Student Loan Program to private investors. The sales, they tell us, would not only generate deficit-reducing revenue, but would also bring discipline and efficiency to the credit process. They heatedly argue with lawmakers and bankers about the details of the sales, especially Federal guarantees and private insurance. Federal guarantees, they are convinced, would jeopardize the discipline and efficiency of the marketplace by reducing the incentive for private investors to pursue collection. On the other hand, Federal guarantees would bring

higher loan prices in the sale.

It is significant that these privatizers do not advocate an immediate end of the loan program on grounds of political economy and morality. On the contrary, they would like to render it more efficient. They do not question the role of government in credit affairs, nor the economic consequences of the proposed privatization. They merely engage in idle discussions about the efficiency of government in the collection business and the sale of student loans to private companies better suited to the task. Unfortunately, they completely miss the crucial effect of the privatization program: it permits government to tap more private resources that heretofore escaped taxation and borrowing, to consume more private capital, and otherwise extend its influence beyond its previous bounds. This kind of privatization is completely counterproductive. If there were truth in politics, it would be called "the new collectivization-extension program."

At the end of 1986 the outstanding loan portfolio of the GSL program was an estimated \$40 billion.⁶ The portfolio carried over \$2.2 billion in defaulted loans, with the present default rate at 11.7 per cent and expected to rise to 13.6 per cent by 1990. The sale of this portfolio or any part thereof would affect the loan market in precisely the same way as a Treasury bond offering. Both would crowd out private borrowers. It does not matter whether the loan assets are guaranteed and insured or merely left to the play of the market, they all would take the place of cash or other assets in the portfolios of private investors. The student loan might replace a mortgage loan, commercial loan, or just another government loan. In fact, it is even conceivable that such a privatization

might permit government in time to pre-empt the entire loan market through massive credit activity and simultaneous portfolio sales. With off-budget accounting it would not even show up in the budget, and the deficits would be limited to the defaulted loans not yet sold to private investors.

It is a sad commentary on the state of political and economic thought that conservative organizations and foundations which profess to promote the principles of a sound economy are using their meager resources to promote this kind of privatization. While the battle at the Federal entitlement trough is raging and hundreds of billions of dollars of income and wealth are tossed about by the Washington agents of entitlement, the self-styled defenders of individual freedom and the private property order are proposing the privatization of the buoy maintenance program, the sale of National Airport, and the opening of rural postal delivery to private carriers. "Please support our national grassroot campaign," they urge their readers, "to help the President gather support for privatization."

Privatization is the new catchword that fires the imagination of many believers in political salvation. If they would only stop and listen, they would hear the persistent calling for more government and more spending. □

1. Stephen Moore, editor, *Slashing the Deficit, Fiscal Year 1987* (Washington, D.C.: The Heritage Foundation).

2. *Ibid.*, p. x.

3. *Ibid.*, p. xviii.

4. *Budget of the United States Government, Fiscal Year 1987*, pp. 5-64.

5. Congressional Budget Office, *Curtailing Indirect Federal Subsidies to the U.S. Postal Service*, August, 1984.

6. *Budget of the United States Government, Fiscal year 1986*, pp. 5-93.

Worse Than Thieves

When your money is taken by a thief, you get nothing in return. When your money is taken through taxes to support needless bureaucrats, precisely the same situation exists. We are lucky, indeed, if the needless bureaucrats are mere easy-going loafers. They are more likely today to be energetic reformers busily discouraging and disrupting production.

—HENRY HAZLITT
Economics in One Lesson

IDEAS
ON
LIBERTY



Defending the Rich

by William H. Peterson

Listen. The winds of egalitarianism still blow. . . . Listen, for example, to Rep. David R. Obey of Wisconsin, then chairman of the Joint Congressional Economic Committee, issuing last summer a Committee report (later withdrawn as incorrect) alleging that the so-called "super-rich" have become 38 per cent richer in the last 20 years:

"This study is proof that the rich get richer. A continuation of this trend erodes the basic confidence of the American public in our entire system. It increases cynicism, and adds to the us-vs.-them attitude about all institutions, economic and governmental."

Or, listen to economics professor David M. Kotz of the University of Massachusetts last fall writing à la Robin Hood in *The New York Times* on the annual *Forbes* listing of the 400 richest people in America: "How many billionaires are enough? The share of income and wealth flowing to the rich has been expanding at the expense of the poor. The free-market policies that lie at the heart of the Reagan program have produced this redistribution, while conferring no compensating economic benefits. Instead, we have the worst of all possible worlds: rising inequality amid sluggish growth."

Or, listen to Professor David Gordon of the New School for Social Research and co-author of the newly released Democratic Party study, "Democratic Alternative to Economic Decline": "The most important story about the U.S. economy in the '80s is the economic warfare that the wealthy and powerful have been waging against the vast majority of Americans." His proof: "The real median income of

families in the U.S. dropped by 5.7 percent from 1979 to 1984."

Handling charges like these has been my lot in a professional teaching career spanning almost four decades. As an ingrained supporter of freedom and free market policy, I have long found myself having to defend what many critics deem the undefendable: the rich. Or, having to put down personal innuendos, usually getting them second- or third-hand, that I am perforce a lackey, a sycophant for the rich.

Sometimes my defense is technical. To Messrs. Obey, Kotz, and Gordon, for example, let me remind them of a new Joint Economic Committee study by Ohio University Professors Lowell Gallaway and Richard Vedder. Professors Gallaway and Vedder note family erosion in America and accordingly think that income per family or household *member* is the appropriate measure. They then show a "real household income growth per household member of nearly 5.9 percent" from 1980 to 1984.

Moreover, a recent U.S. Census Bureau Survey on Household Wealth and Asset Ownership finds a long-term *declining* trend in family wealth concentration. This finding ties in with those of University of Chicago economist Yale Brozen. Brozen determined from U.S. Government statistics that in 1929 employee compensation amounted to 60 per cent of national income while the top 5 per cent of all families received 30 per cent of national income. In the next 40 years the share of the top 5 per cent steadily eroded while the employee share rose. By 1969 the employee share reached 72.5 per cent while the top 5 per cent share dropped to 16.5 per cent, almost down to half of what it was in 1929.

To be sure, employee share improvement has slowed since 1969. But Brozen notes a declining U.S. savings rate (net national savings as a percent of net national product) from 15.2 per cent in the 1961-1970 decade to 11.7 per cent in the 1971-1980 decade. Thus the pace of business investment also slowed, with the upshot of much slower growth in labor productivity. Output per manhour fell from a postwar annual average of around 3 per cent through 1970 to under 1 per cent in the 1971-1980 decade.

Dr. Peterson, the first holder of the Scott L. Probasco, Jr. Chair of Free Enterprise at the University of Tennessee at Chattanooga, has just formed with his wife a Washington research consulting firm.

With such data as this, Yale Brozen has unabashedly formulated Brozen's Law: *Whenever the government attempts to redistribute income from the rich to the poor, it creates more poor people, impoverishes the nation, and decreases the portion of the tax burden borne by the rich.*

I concur, heartily.

Why does more investment lead to a more equal distribution of income? The reason: Capital, mainly in the form of plant and equipment, complements labor: more capital per employee means greater employee productivity—and higher pay. Thus capital, Karl Marx to the contrary, turns out to be labor's best friend, with labor exploiting capital rather than the other way around. Indeed, the greater the capital investment relative to labor the lower the return to capital and the higher the return to labor. This is the history of the "exploited" working man with his ever-rising living standards under capitalism.

But sometimes my defense of the rich is less technical and more philosophical. I have to remind my critics that eventually rich entrepreneurs like Henry Ford, Andrew Carnegie, John D. Rockefeller, and Thomas Alva Edison, as well as more recent commercial pioneers like David Sarnoff (RCA), Edwin Land (Polaroid), Ray Kroc (McDonald's), and Sam Walton (Wal-Mart—Mr. Walton, who started from scratch, is *Forbes'* No. 1 billionaire), helped make America great, that they forged millions upon millions of jobs, that they mightily boosted capital formation and thereby advanced America's living standards, that, accordingly, they belong in America's pantheon of heroes. It follows that all incomes are not created equal—nor should they be. Equality of opportunity, yes, equality of outcome, no.

I have also to remind my critics of the wisdom of my graduate teacher, Ludwig von Mises, whom I lucked into at New York University in 1950 as a result of his being a refugee from Hitler's *Festung Europa* (Mises escaped in 1940, working his way to New York City). Said Mises in his *The Anti-Capitalistic Mentality* (1956):

Nobody is needy in the market economy because of the fact that some people are rich. The riches of the rich are not the cause of the

poverty of anybody. The process that makes some people rich is, on the contrary, the corollary of the process that improves many peoples' want satisfaction. The entrepreneurs, the capitalists and the technologists prosper as far as they succeed in best supplying the consumers.

Moreover, critics, hear this: Investment inevitably involves risk, while pushing up all incomes, including those of the poor. Stocks, bonds, real estate, and so on are ever subject to the vagaries and risks of the market, and a number of historians have propounded the thesis of "from shirt-sleeves to shirt-sleeves in three generations."

Hence, Mises argued in *Human Action* (1949) that wealth is in reality a "social liability," very much subject to loss:

Ownership of the means of production is not a privilege, but a social liability. Capitalists and landowners are compelled to employ their property for the best possible satisfaction of the consumers. If they are slow and inept in the performance of their duties, they are penalized by losses. If they do not learn the lesson and do not reform their conduct of affairs, they lose their wealth.

One more thing: Is there a hidden agenda in the attack on the rich? Is envy, one of those ancient Seven Deadly Sins, at work? Scores of Latin, German, Russian, Polish, Spanish, Chinese, and Jewish proverbs tell us, *inter alia*, envy has never made anyone rich, envy cuts its own throat, envy makes life bitter, envy envies itself, envy sees faults rather than virtues, the envious die over and over before they finally keel over, and so forth and so on. Dryden put it this way: "Envy, that does with misery reside/ The joy and the revenge of ruin'd pride."

To me, the attack on the rich ties in with the theology behind the progressive income tax—with the opposition toward flatter tax rates. Interestingly, the first modern supply-sider was not Ronald Reagan but John F. Kennedy. In pushing for a reduction of tax rates from a top bracket of 91 to 65 per cent and a bottom rate from 20 to 14 per cent, enacted into law in 1964, President Kennedy voiced a simple truth: "A rising tide lifts all boats." □

Banking Before the Federal Reserve: The U.S. and Canada Compared

by Donald R. Wells

The recurring financial panics in the U.S. during the 19th and early 20th centuries led Congress to establish the National Monetary Commission in 1908 to study the problem and recommend a solution. After several years of study and debate, Congress passed the Federal Reserve Act in December 1913. Even though the Federal Reserve did not prevent the Great Depression, and even though it has permitted substantial inflation since World War II, many observers still believe that some Federal control over private banking is needed to prevent the bank suspensions and failures that brought such instability to the economy in the pre-1914 years.

The purpose of this paper is to show that it was only government interference into banking before 1914 that prevented the U.S. from having a stable monetary system. Restrictions on banknote issuance, severe limits on branching, and regulations forcing banks to hold useless, idle cash reserves made the American banking system vulnerable to panics while other nations, such as Canada, avoided these crises. It also will be shown that even though Canadian banks were allowed more freedom of action, the few restraints that did

exist led the Canadian government to intervene further into banking to undo the harm that otherwise would not have existed.

U.S. Banking Before 1863

Only two quasi-governmental banks were allowed to establish interstate branches in this period, the First United States Bank (1791-1811) and the Second United States Bank (1816-1836). The federal government owned one-fifth of the capital of each bank, causing political resentments which resulted in neither bank's twenty-year charter being renewed.

When the charter of the Second United States Bank was not renewed, all banks were either chartered by the various states, or given permission to operate without a charter under the so-called "free banking" laws. No banks were allowed to branch across state lines, and some states prohibited branching altogether. This prevented a natural system of nationwide clearinghouses from developing to exchange banknotes and later, deposits. Thus, when these banknotes ended up at great distances from their point of issue, they often fell to a discount. Banknote reporters tried to keep the public informed about the value of these various notes, but some fraudulent issuers were

able to take advantage of the lapse of time until this information was disseminated (Rolnick & Weber, p. 14).

Some banks, particularly in cities along the eastern seaboard, were able to maintain a stable value of their notes. The best known was the Suffolk system, which operated in the Boston area. The Suffolk Bank was able to keep smaller regional banks from overissuing by means of a clearinghouse. Banks that refused to join the Suffolk system had their notes collected and immediately presented for payment in specie; those that joined were able to count on their notes being received at par.

One problem with the so-called "free banks" was the requirement that they hold an amount of state bonds equal to the banknotes they issued. These bonds often proved to be an illiquid investment for the banks, preventing them from holding the desired amount of specie to redeem their notes on demand. Since this requirement usually specified par rather than market value of the bonds, these securities in many cases were an inadequate protection for the note-holder (Rolnick & Weber, p. 16). Six states attempted to ease public fears about irredeemable banknotes by establishing a note guarantee system (FDIC, 1953, pp. 45-46) — which might not have been necessary had banks been free to branch and to hold the type of assets they preferred.

The National Bank System

Two of the methods used to finance the Civil War involved money manipulation. One was the issuance of a fiat currency (greenbacks) which was given legal tender status, and the second was the establishment of the National Banking System as a convenient place to sell low-interest bonds. The war led to the federalization of the U.S. currency because national banks were the only issuers of banknotes after Congress taxed the state banknotes out of existence. These new, uniform national banknotes were almost a government currency because they were printed by the Bureau of Engraving and the banks were forced to hold \$100 of these 2 per cent government bonds for each \$90 of notes they issued.

This system proved to be no improvement

over pre-Civil War banking; it was just as prone to panics and to suspension of cash payments. The three main weaknesses of this new system, which were avoided in Canada, were: lack of branching, forced holding of a specific cash reserve, and a government bond-backed banknote. These governmentally imposed restrictions put the U.S. banking system in a strait jacket, making it vulnerable to shocks.

All national banks were forced to be unit banks except for those state banks that converted to a national charter were allowed to retain their intrastate branches. Nationwide branching would have been more stable and efficient, permitting safer bank portfolios through geographical and industrial asset diversification. Unit banks in farm states were at a special disadvantage during agricultural depressions, whereas Canadian banks could carry a non-performing loan to a farmer much more easily (Beckhart, p. 450). Branch banks can be opened more easily in new areas without the trouble of acquiring a new charter and establishing a separate board of directors (Dunbar 1904, pp. 195-197). In addition, branch banks can move reserves to where they are needed more quickly, and at lower cost, since they are held within the same institution and no other bank need profit on the transfer of these funds (Breckenridge, p. 377).

Secondly, national banks were forced to hold a fixed cash reserve against their deposit liabilities, even though any reserve that must be held is no reserve at all, since it cannot be used. The law mandated that country banks hold two-fifths of their 15 per cent reserve in vault cash while the rest could be on deposit in a reserve city bank. These reserve city banks were required to hold half of their 25 per cent reserve in vault cash while the other half could be deposited in a central reserve city bank in New York, and after 1887, Chicago or St. Louis. The latter banks were forced to hold all their 25 per cent reserve in vault cash, which meant gold, greenbacks or other treasury currency. Only state-chartered banks could count national banknotes as part of their reserve.

Since banks could not use these required reserves, they had to carry an excess amount in order to operate; in a crisis, banks often had to suspend cash payments precipitating financial

panics. The pyramiding of reserves in a unit bank system aggravated the problem. When faced with an increased demand for cash, each bank had to think of itself first and would pull its deposits from its correspondents. By contrast, each Canadian bank held its own reserve in whatever amount it felt adequate, with the one provision that government-issued Dominion notes had to consist of 40 per cent of whatever cash reserve the bank chose to hold (Breckenridge, p. 242). The pyramiding of reserves in the U.S. made American bank runs contagious; in Canada, a bank failure did not cause the public to distrust other banks.

The third restriction on national bank behavior that weakened the system was the requirement that each bank deposit with the Comptroller of the Currency \$100 worth of 2 per cent government bonds for each \$90 of banknotes they issued. (In 1900, banks were permitted to issue notes equal to the amount of bonds deposited.) Since these notes were printed by the Bureau of Engraving and were uniform in appearance, they were received and paid out by banks throughout the country. This system failed to test the ability of each bank to redeem its own notes as did the Canadian system with its distinctive banknotes (Dunbar 1917, p. 228). Yet underissuance rather than overissuance was the problem with national banknotes because of the government bond restriction.

Liquidity Crises

The value of these special bonds, rather than the demand for banknotes, became the constraint on banknote issuance. Some national banks never issued notes at all while others charged higher interest rates to borrowers who demanded loan proceeds in banknotes instead of deposits. The reduction of the Federal debt in the 1880s intensified the problem as evidenced by a decrease in banknotes outstanding from \$325 million in 1880 to \$123 million at the end of 1890 (Dunbar, 1917, p. 232). This underissuance of banknotes led to several liquidity crises which only U.S. banks suffered because they could not exchange one liability for another—banknotes for deposits—as the public demanded. Instead, they had to pay out



legal tender cash from their assets, thus depleting their reserves, which often led to suspension of cash payments.

By contrast, Canadian banks have not suspended cash payments since the late 1830s. All banks were allowed to issue their own distinctive banknotes without holding a legally mandated asset to back them. These notes were subjected to the daily market test of public acceptance as each bank sought to get its own notes into circulation while simultaneously driving home rival notes to their respective issuers through note exchanges. Furthermore, these banknotes were an inexpensive till money because they were not a liability until issued (Beckhart, p. 377). This reduced the cost of establishing branches in newly developed areas.

Canadian banknotes also had excellent elasticity, expanding and contracting as the demand for them changed. This was especially evident during the autumn when crops were moving to market and the demand for banknotes sometimes increased as much as 42 per cent of the yearly minimum (Curtis, p. 20). During the Panic of 1907, some Canadian banknotes even circulated in parts of the U.S. after American banks suspended cash payments (Johnson, p. 78).

The only government restriction on the issuance of Canadian banknotes was an unnecessary one that proved to be harmful in the early 20th century. No bank was permitted to issue notes in excess of its paid-in capital, which excluded the surplus account. When passed in 1871, no bank had approached that limit, but by 1908, some had. But instead of removing this unnecessary restriction, Parliament passed a special law that year permitting banks to issue notes to an amount 15 per cent over their combined capital and surplus accounts during the crop moving season if banks paid a 5 per cent tax on this excess issue. Banks obviously disliked this tax so in 1913, Parliament passed another law which allowed banks to avoid the tax if their excess issue were fully banked by de-

posit of gold in the newly-created Central Gold Reserve in Montreal (Neufeld, p. 108). Banks in Canada had only about a year's experience operating under these new provisions before World War I broke out which saw the Canadian government undertake inflationary wartime measures, such as suspending the gold standard and permitting banks to borrow fiat base money from the Minister of Finance.

Emergency Currency: The Illegal Clearinghouse Loan Certificate

In times of crisis when U.S. national banks were forced to suspend cash payments, these banks cooperated through their respective clearinghouses to issue a free market money which, though illegal, worked quite well in preventing the contagious runs that were to implode the whole system in the early 1930s. The clearinghouse allowed unit banks to put up a united front in times of panic by marshaling the resources of all the members, thereby stretching the scarce supply of currency. The clearinghouse would authorize the issuance of loan certificates which banks with deficits could use instead of regular currency to settle their balances after these banks pledged acceptable securities as collateral. Banks holding surpluses accepted these loan certificates as payment to earn the 6 per cent interest that was paid on them (Timberlake, pp. 4-6). If a deficit bank failed and the collateral was insufficient to cover the loan certificates, the members of the clearinghouse had to share the loss.

During the Panics of 1893 and 1907, clearinghouses used small denomination certificates for hand-to-hand currency in addition to large denominations to settle their balances (Noyes, pp. 20-22). The public obviously preferred legal currency to these small certificates as evidenced by the fact that the makeshift currency usually fell to a discount until suspension of cash payments ended (Andrew, pp. 507-509). Yet these free market arrangements mitigated each panic by preventing the fractional reserve collapse that was to occur after the Federal Reserve was in operation. On the other hand, it is possible that these crises would not have occurred at all if U.S. banks had been allowed to

issue banknotes without restrictions, to branch where they wanted, and not made to hold a useless cash reserve.

Emergency Currency: The Legal Aldrich-Vreeland Banknote

In the aftermath of the Panic of 1907, Congress passed the Aldrich-Vreeland Act of 1908 which authorized national banks to issue a legal emergency currency until a permanent solution could be found. This law, which was to expire on July 1, 1914, attempted to overcome two of the three shortcomings of the national bank system: the lack of branching and the rigid restrictions on issuance of banknotes. Any ten or more national banks with an aggregate capital of at least \$5 million could form a national currency association to issue notes backed by commercial paper or other securities, rather than just the 2 per cent government bonds to which banks had been restricted. These new banknotes, for which all banks in the association would be liable, could not exceed 75 per cent of the market value of the securities backing them and, in addition, could not be issued until the banks in the association had regular government bond-backed banknotes outstanding equal to 40 per cent of their capital stock. Congress further imposed a 5 per cent tax on this emergency currency for the first month of its circulation and this tax was to increase by 1 percentage point a month until it reached a maximum of 10 per cent (Comptroller 1908, pp. 73, 75).

Even though 21 national currency associations were formed during the next 6 years, no emergency currency was issued, either because the tax was considered to be excessive, or no occasion warranted it. Congress passed the Federal Reserve Act on December 23, 1913, but the new System did not begin operating until November 16, 1914. However, the Federal Reserve Act extended the provisions of the Aldrich-Vreeland Act for one year, until July 1, 1915. Ironically, had it not been extended, the Act would have expired before the need to use it arose. Congress also reduced the tax on the emergency currency to 3 per cent for the first 3 months it was outstanding, after which

the tax was to rise by half a point each month until a maximum of 6 per cent was reached (Comptroller 1914, p. 12-13).

The occasion for using the new currency was the crisis following the outbreak of World War I in August 1914. Foreign holders of American securities tried to liquidate them for gold, and depositors tried to convert their deposits into currency, both of which put extreme pressure on bank reserves (Sprague, p. 517). Before banks could issue the new currency on demand, however, Congress had to repeal the restriction that banks could only issue it if they had bond-backed banknotes outstanding equal to 40 per cent of their capital. Congress responded quickly, even increasing the aggregate amount of notes that could be issued (*Wall Street Journal*, August 5, 1914, p. 6).

For the first time national banks could issue banknotes for deposits on public demand, thereby preventing suspension of cash payments which were so characteristic of past American crises. Even though only 1,363 of the 2,197 banks in the 45 currency associations in existence at that time actually issued the emergency currency, it was the immediate response to public demand that prevented the panic (Comptroller 1915, pp. 92, 99). Only \$386.4 million was taken out during the emergency that lasted into the spring of 1915, but \$368.6 million, or 95 per cent of the total, was issued by the peak period in October (*Wall Street Journal*, November 3, 1914, p. 1). By the first week of January, 60 per cent had been retired; the remainder was retired by the end of June, except for \$200,000 in a failed bank (Comptroller 1915, p. 101).

Less than a fourth of the legal maximum was ever issued, with banks in New York City taking out 37.5 per cent of the total; these banks were the first to issue the currency and the first to retire any and all of it (Comptroller 1915, pp. 100-101). This Act allowed national banks to act as Canadian banks would under stress, issuing banknotes as demanded and saving their gold and treasury currency for use as a reserve. State chartered banks could use the emergency currency as part of their reserves, but as often happens, once they realized this currency was readily available, they, along with the general public, stopped demanding it.

Much of the emergency currency sent to the interior was later returned to New York in its original wrappings (*Wall Street Journal*, November 14, 1914, p. 8).

Conclusion

From hindsight we know that both legal and illegal emergency currency outperformed the Federal Reserve during the credit implosion of the early 1930s. Banks can respond to market forces if they are allowed to issue banknotes, which are an "inside money" just as are deposits, but they cannot issue "outside" Federal Reserve Notes. When the public found out that currency was not available, they demanded it all the more, precipitating the fractional reserve collapse during the depression.

The problems of pre-1914 banking in the U.S. involved too many government restrictions, not too few. Politicians may have believed that private banking was unstable, but had they looked to the Canadian model as a guide, they could have concluded that market forces can give us a successful banking and monetary system just as it provides us with food, clothing, and other necessities. □

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Out of Step: An Unquiet Life in the Twentieth Century

by John Chamberlain

Sidney Hook's *Out of Step: An Unquiet Life in the Twentieth Century* (New York: Harper and Row, 628 pp., \$29.95) is the story of an inspired career that has been responsible on more than one occasion for saving the United States from the disaster of a too trusting agreement with the Soviets.

A professor of philosophy at New York University in the Nineteen Twenties and after, Hook was a foremost disciple of John Dewey. This committed him to a credo that has always seemed to me to have its porous aspects. But porous or not, it never kept Sidney Hook from taking positions that were firmly against totalitarianism of any sort.

Before going into the subject of Hook's lifelong career in fighting for freedom as a pragmatic good (which it certainly is), I should perhaps indicate the source of my own differences with Hook and Dewey himself. My trouble with Hook is rooted in the Deweyite use of the word "intellectual."

Midway in his book Sidney Hook breaks off to state his own secular humanist credo. "I have held the lifelong conviction," he says, "that faith in the existence of an all-powerful and all-loving god has no more intellectual justification than faith in the existence of a cosmic Santa Claus, and I agree with Marx that the critique of religious abstractions is strategic to the critique of all reified abstractions."

Bringing in Santa Claus and raising the question of a god's lovingness are distractions from



Sidney Hook

the issue of the so-called argument from design, which is a wholly intellectual construct. Since Hook is committed to a defense of the human mind, he should think twice before rejecting the argument from design as something rooted in mysticism. Either the universe is the result of a series of unpredictable accidents, or it has some preordained order. It is only logical to suppose that some guiding presence that is otherwise completely mysterious is behind the creation of our world. Hook is free to reject any particular logic, but he can't say that the intellect is not involved in tilting toward acceptance of the argument from design.

As it turns out, Hook is perfectly willing to discount the importance of his own credo about ultimates. He says that religion is a private matter. Dismissing arguments about divine purposes, he says "I just as strongly hold that freedom of religious belief (or unbelief) is integral to any morally acceptable schedule of human rights. I am therefore prepared to make common cause with believers in religious freedom against every form of totalitarianism, religious or secular."

This brings matters back to the real importance of Sidney Hook's autobiography. He has been "out of step" with the events of seven or eight decades in the matter of temporary response. But fortunately for all of us, events have always worked out in a way to justify Hook's expectations.

Hook is amusedly rueful about this business of being "out of step." "I was prematurely anti-war in 1917-1921," he writes. He was also "prematurely anti-fascist, prematurely a Communist fellow-traveller, prematurely an anti-communist, prematurely (in radical circles) a supporter of the war against Hitler, prematurely a cold warrior against Stalin's effort to extend the Gulag Archipelago, prematurely against the policy of detente and appeasement, prematurely for a national civil rights program and against all forms of invidious discrimination, including reverse discrimination."

Foreseeing World Conflict

Hook might just as well have entitled his book "Ahead of the Game." He was not the first to see that German nationalism would take an ugly turn in the Nineteen Thirties. But his experience in Munich and Berlin on a Guggenheim grant in 1929 convinced him that the thoroughly justified German animus against the Versailles Treaty would, in the absence of intelligent action by the League of Nations, result in a new world conflict.

He didn't manage to foresee the course of Stalinism when he was in Moscow at the end of the Twenties, but he sensed that something was amiss when Stalin struck against both the Left and the Right in order to rid himself of any opposition in the Politburo. The starvation of the kulaks in Stalin's man-made Ukraine famine of

the late Twenties and early Thirties was no surprise to Hook. Nor were the Moscow trials of the mid-Thirties an unexpected thing.

Where other people may have anticipated Sidney Hook in identifying and reporting trends, nobody could beat him in the business of mobilizing intellectual opinion against totalitarianism in constructive ways. Hook put together many intellectual coalitions (the American Committee for Cultural Freedom and the international Congress for Cultural Freedoms are two examples.) His most important work was in rallying American intellectuals to the defense of Trotsky's right to an asylum in Mexico. He persuaded John Dewey to head a committee that not only established the right to asylum, but also absolved Trotsky of charges made against him and his son Leon Sedoff in the Moscow Trials. The importance of the Dewey "preliminary commission of inquiry at Mexico City" had little to do with the question of Trotsky's revolutionary theories. What John Dewey was after was an opportunity to prove that the right to a fair trial should belong to anybody, revolutionaries included.

Hook persists in being a socialist in a time when more and more intellectuals (the neo-conservatives) are finding new justifications for capitalism. But he has learned from recent history that the property right cannot be dismissed with impunity if there is to be individual freedom in the world. I remember the day when Sidney Hook, when challenged, defended the right of possession with some heat. "Not my little place in Vermont," he said when a heckler sought to challenge his possession of a few acres of Green Mountain vacation ground.

Hook commends Norman Thomas for coming around to the belief that if the State has too big a role to play in economic planning, the potential for totalitarian takeover is vastly enhanced. But the question of how to limit a mixed economy in a way to preserve fundamental property rights is not resolved in Sidney Hook's book. When Hook comes up against a contradiction in the terms of discourse he often heads for the nearest exit.

Intellectual inconsistency, however, has not kept him from writing a magnificent chronicle of our times. He not only recalls such vivid figures as Max Eastman, Bertrand Russell, and

Robert Hutchins, he also resurrects many interesting minor characters such as Sol Levitas and V. F. Calverton, whose magazines provided a forum for radical dissent beyond the leftist orthodoxies of *The Nation* and *The New Republic*.

There is richness in everything that Hook writes. As Jeane Kirkpatrick says, his book is required reading for those who care about freedom. □

REGULATING GOVERNMENT: THE POSITIVE-SUM SOLUTION

by Dwight R. Lee and Richard B. McKenzie

Lexington Books, D. C. Heath and Co., 125 Spring Street,
Lexington, Massachusetts 02173 • 1986 • 206 pages, • \$22.95

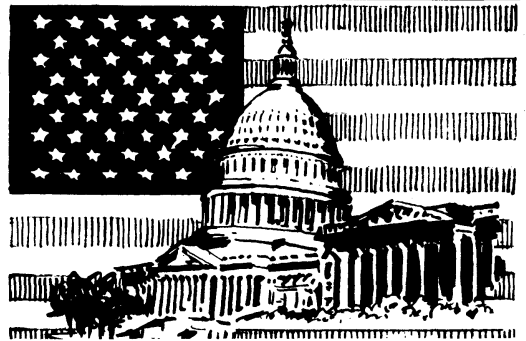
Reviewed by William H. Peterson

Quite a few journalists and intellectuals were bewildered late last year when James Buchanan won the Nobel Prize in Economics for his theory of public choice.

James Buchanan? Public choice? What goes on? Fortunately, a book comes along which applies, in a timely and illuminating fashion, the ground-breaking yet commonsensical work of Buchanan and his fellow thinker, Gordon Tullock, both of whom are professors at George Mason University and distinguished members of The Mont Pelerin Society.

The book is *Regulating Government*, a valuable study by two students of Buchanan and Tullock at their Center for the Study of Public Choice. Dwight Lee holds the Ramsey Chair of Private Enterprise at the University of Georgia; Richard McKenzie serves as professor of economics at Clemson University and senior fellow at The Heritage Foundation.

The Lee-McKenzie thesis is plain: Public choice theory assumes, rather persuasively, that voters, legislators, and bureaucrats act mainly in their own interest, that political science and economics are thereby tied together in terms of incentives, that accordingly what we Americans need now is not regulation by government but regulation of government.



For government today, point out the authors, is a lot more than a referee; to quite an extent it is a participating player. It educates our children, aids foreign nations, delivers the mail, runs Amtrak, pensions the old, and much more. In the case of agriculture, government forces citizens to pay for unwanted or “surplus” farm goods—making them public goods—which it proceeds to buy, store, and hand out in the form of school lunches, senior citizens nutritional programs, low-income surplus butter and cheese distributions, and Public Law 480 “Food for Peace” foreign donations.

Professors Lee and McKenzie thus clarify some of the vital distinctions between private goods and public goods. Private goods engender conservation and positive-sum trade—trade which synergizes mutual gain. Public goods engender waste if not plunder—zero- if not minus-sum “solutions” to social opportunities which hence become social problems.

Cows and chickens, for example, are private goods, and nobody sees any chance of shortages or “endangered species” in such goods. Snail darters and blue whales, on the other hand, are declared to be endangered species and thereby, in effect, public goods. Accordingly, people who otherwise place high value on individual freedom urge not privatization of whaling (which is technically possible) but government controls on whalers.

Drs. Lee and McKenzie are anything but anarchists; they are Lockean, holding that the end of law is not to abolish or restrain but to preserve and enlarge human liberty. In this year of our Constitutional Bicentennial, these two Public Choicers make the point that the *raison d'être* of constitutional constraints on government is to prevent people from doing through government that which they would not do in the absence of government. The very purpose of

constraints on government is the same as the purpose of government. Here they echo James Madison who, in arguing for ratification of the U.S. Constitution, wrote in *The Federalist*:

If men were angels, no government would be necessary. If angels were to govern men, neither external nor internal controls on government would be necessary. In framing a government which is to be administered by men over men, the great difficulty lies in this: you must first enable the government to control the governed; and in the next place oblige it to control itself. □



Frances Kendall and Leon Louw, authors of *After Apartheid: The Solution for South Africa*, were visitors to Irvington last December, where they spoke to a gathering of FEE Trustees.

AFTER APARTHEID: THE SOLUTION FOR SOUTH AFRICA

by Frances Kendall and Leon Louw

ICS Press • 243 Kearney Street, San Francisco, California 94108
250 pages • \$17.95 hardcover.

Reviewed by Bettina Bien Greaves

South Africa's situation is desperate. English, Afrikaners, blacks, coloreds, Indians, and other minorities are fearful. Many blacks, resenting the restrictions imposed on them, resort to violence. In view of the fact that so much power is centralized, the demand for radical reform has become a struggle for control of the national government. World opinion, incensed at the immorality of apartheid, threatens economic sanctions, or worse.

The white minority in power in South Africa makes *some* concessions to the black majority, but is reluctant to shift to a one-man, one-vote democracy. Given the prevailing climate of opinion, it is feared that this would mean one man, one vote *once!* If such a vote resulted in a more tyrannical central government, the rights of minorities would inevitably be further impaired. The chances for bringing about social change by peaceful means would also then be lost.

The South African crisis led Leon Louw and Frances Kendall, a husband and wife team, to write a remarkable book about their native land. A quote from black leader Allan Boesak

became their text: "Change does not roll in on the wheels of inevitability. It comes through the tireless efforts and hard work of those who are willing to take the risk of fighting for freedom, democracy, and human dignity."

The Louw-Kendall book offers a radical, but realistic, proposal for a new kind of constitution. The authors blame the currently depressed situation of the black South Africans on the fact that they have been forced to live under socialist restrictions. In the past, when blacks were free to embark on enterprises as they chose, their accomplishments were so impressive that the white minority strove purposively to restrict their efforts. And then the whites made sure that the central government remained under their control.

Laws were enacted over many decades making it difficult or impossible for blacks to succeed in farming or other enterprises. Legislation deprived them of their rights to own, accumulate, and transfer property freely, to make contracts, and to go into business. It is no wonder that the blacks are now desperate. However, Louw and Kendall maintain that most blacks are not fiery militants who refuse to listen to reason. Rather, Louw and Kendall believe most blacks are moderates who would be willing to live at peace with their neighbors if assured that their lives and property would be protected and that they would not be constantly harassed by "blacks-only" rules and regulations.

Louw and Kendall suggest a completely new political arrangement for South Africa—a confederation patterned more or less on the Swiss model. The central government would be limited drastically; many small cantons would be entrusted with most of the matters that concerned the people. The crux of the Louw-Kendall proposal is a powerful bill of rights, granting freedom to own property, to make contracts, to trade, to move, and so on. Under the Louw-Kendall scheme, all citizens of voting age would have the franchise, but the power of the central government would be so limited that national elections would be relatively unimportant. The important votes would be those at the canton level, for it would be in the cantons that matters affecting individual rights would be decided.

The Louw-Kendall book has become a best seller in South Africa and it is now being released in a new, slightly revised U.S. edition.

Because of the authors' success in introducing free market ideas in the small poverty-stricken black homeland, Ciskei, the fellow countrymen of the authors are beginning to take their suggestions seriously.

The change Louw and Kendall recommend is a radical one, but it is a reasonable one which should appeal to reasonable men and women—blacks, whites, coloreds, Indians, and every other fair-minded person. Certainly, any reasonable alternative that offers hope for reducing the strife in South Africa is well worth considering. □

(Mrs. Greaves is on FEE's senior staff.)

Freeman readers may order copies of *After Apartheid* at \$17.95 each (includes shipping) from Laissez Faire Books, Department FEE, 532 Broadway, New York, NY 10012, (212) 925-8992.



Ludwig von Mises

LIBERALISM: IN THE CLASSICAL TRADITION

LIBERALISM: In The Classical Tradition by Ludwig von Mises is a book-length essay that sums up the ideas and principles of classical liberalism as they apply to the twentieth century. First published in Germany in 1927, it was published in the United States under the title *The Free and Prosperous Commonwealth* in 1962 and reissued in the mid-seventies by The Institute for Humane Studies. It has just been republished by The Foundation for Economic Education in association with the Cobden Press.

230 pages • \$9.95 paperback

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IDEAS ON LIBERTY

244 Property Rights and the First Amendment

Lance Lamberton

Freedom of speech rests upon the right to hold private property.

248 Amelioration

Philip J. Bowers

Toward a progressively better world.

251 Productive Advances: Who Benefits Most?

Joseph S. Fulda

How inventions, discoveries, and improved production methods benefit the poor.

252 The Pursuit of Happiness

William C. Dennis

Have we lost the spirit of adventure possessed by earlier generations of Americans?

259 Lessons in Liberty: The Dutch Republic, 1579-1750

Robert A. Peterson

When freedom flourished in Holland, a great civilization resulted.

265 China's "Free Enterprise" Experiment

Donald J. Senese

Is Communist China embracing capitalism?

270 World Resources and Economic Exploitation

M. W. Sinnott

Market processes create resources out of raw materials.

275 Third World Development: Foreign Aid or Free Trade?

John Majewski

The path from poverty to prosperity.

279 Book Review

"A Conflict of Visions" by Thomas Sowell.

CONTENTS
JULY
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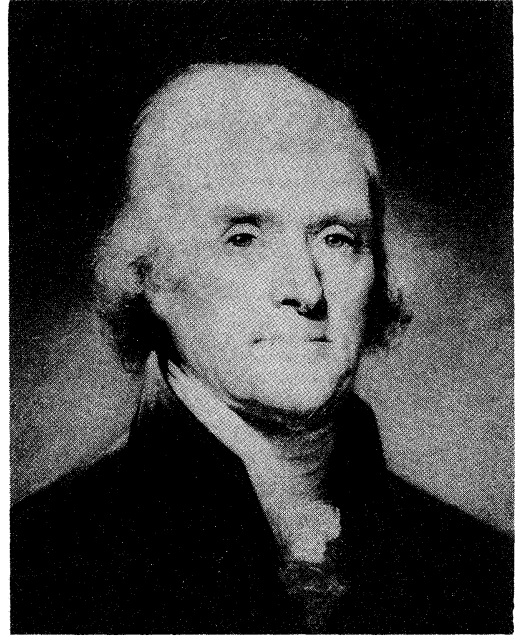
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PERSPECTIVE



Thomas Jefferson

A Fourth of July Pledge

“. . . [T]he mass of mankind has not been born with saddles on their backs, nor a favored few booted and spurred, ready to ride them legitimately, by the grace of God.” Thomas Jefferson, who wrote those words on June 24, 1826, was the author of our Declaration of Independence.

He had been invited to attend the festivities in Washington on the occasion of the 50th anniversary of the signing of the Declaration. Jefferson, then 83 years old, regretted that ill health prevented his accepting. “I should, indeed, with peculiar delight, have met and exchanged there congratulations personally with the small band, the remnant of that host of worthies, who joined with us on that day, in the bold and doubtful election we were to make for our country, between submission or the sword.”

Jefferson rejoiced “that our fellow citizens, after half a century of experience and prosperity, continue to approve the choice we made. May it be to the world, what I believe it will be, (to some parts sooner, to others later, but finally to all,) the signal of arousing men to burst the chains under which monkish igno-

rance and superstition had persuaded them to bind themselves, and to assume the blessings and security of self-government. That form which we have substituted, restores the free right to the unbounded exercise of reason and freedom of opinion. All eyes are opened, or opening, to the rights of man. . . . These are grounds of hope for others."

This was the last letter Thomas Jefferson wrote. He died on that Fourth of July.

Since that 50th anniversary of the Declaration's signing in 1826, the rights of countless millions to life, liberty, and the pursuit of happiness have been tragically snuffed out and violated. Yet today, as in Jefferson's time, many "eyes are opened, or opening, to the rights of man." Progress is being made in some respects. As Jefferson wrote, "These are grounds of hope for others."

It is fitting and proper to join Jefferson, especially on the Fourth of July of each year, in reaffirming our dedication to individual freedom under limited government. In Jefferson's words, "For ourselves, let the annual return of this day forever refresh our recollections of these rights, and an undiminished devotion to them."

—BBG

Chinese Revolution

"Nobody gives up power willingly. The Communist Party isn't going to give up power. I don't know what shape another revolution might take. The Cultural Revolution [launched by Mao in the mid-1960s to regain power within the party] was a revolution from above. We need one from below." (from an interview with a Peking University student, reported in *The Wall Street Journal*, January 8, 1987.)

For more on the subject, see Donald J. Senese's "China's 'Free Enterprise' Experiment" on page 265.

Freedom Is the Antidote

A recent study of deaths due to man's inhumanity to men tells just how elusive the goal of "Peace on earth, goodwill to men" has been.

R. J. Rummel of the University of Hawaii calculates 35 million people have been killed by wars so far this century. Over three times that number, however, 119 million, have been killed by their own governments. Of that total, 95 million were killed by communist governments. Only 800,000 were killed by democracies, and a major part of that was refugees repatriated to Russia at the end of World War II by the democracies.

Nikolai Tolstoy's book, *Stalin's Secret War*, confirms in vivid detail how Stalin killed millions in his lust for power, and the killing continues. Up to two million Cambodians were killed when the communists took over. Millions are being starved in Ethiopia today, just as Stalin starved ten million in the Ukraine to eliminate dissident factions.

Rummel's conclusion from his study is that "Absolutism, not war, is mankind's deadliest scourge." He also concludes that "Absolutist governments . . . are themselves the major factor causing war . . ."

Absolutism is defined as "The political doctrine or practice of unlimited power . . . vested in a monarch, dictator, or oligarchy," and tyranny is a synonym. That definition certainly fits communism as practiced by the Soviet Union today.

The opposite of tyranny (absolutism) is, of course, freedom. If tyranny is mankind's greatest scourge, then freedom is the antidote to promote "Peace on earth, goodwill toward men."

—Elmer Fike

President, Fike Chemicals, Inc.
Nitro, West Virginia

Property Rights and the First Amendment

by Lance Lamberton

The First Amendment to the U.S. Constitution has long been regarded by practically every hue of the political spectrum as the most sacred and revered of all political rights and guarantees provided the American people; as indeed the cornerstone upon which all other rights are based. Yet despite this broad consensus, application of the First Amendment has been uneven, to the point where there is now a plethora of views within American jurisprudence as to what constitutes an appropriate constitutional exercise of freedom of speech. How is it that such a seemingly straightforward and articulate statement of this most basic freedom has become so mired in controversy?

To answer this question, and to find a way out of the perplexing confusion which surrounds the First Amendment, it is necessary to determine the proper philosophical underpinnings upon which it is based. The First Amendment, as with all political institutions and ideas, does not exist within a void. It is based upon a view that freedom of expression is a positive good; that without it citizens are defenseless against capricious and tyrannical acts of government—which by having a monopoly on the legal exercise of force—will be able to stifle dissent against actions which violate the rights of its citizens. So in essence, freedom of speech exists to enable the exercise of rights which the founding fathers regard as unalienable; the rights to “life, liberty and the pursuit of happiness.”

In the course of human history, the idea that

citizens have the unfettered right to express themselves is relatively new, owing its genesis to Age of Enlightenment philosophers. Prior to that, it was generally assumed that either the state or the church had ultimate sovereignty over one’s life, liberty, and property, and that the individual had no a priori claim over such rights. Thus, the great struggles which bloodied the pages of history before the Age of Enlightenment were between the conflicting claims of church and state over the soul and property of man.

It was the English philosopher John Locke who first made popular the idea that it was neither the church nor the crown who had first claim upon the life and property of man, but that those rights resided in the individual himself. In laying the foundation for his startling theories, he maintained that private property rights are the cornerstone of all other rights. By “mixing one’s labor” with the soil the individual obtained a property in the product of his labor. Thus, any state or religion which abrogated that property was engaged in theft and violation of the conditions necessary for life to have meaning, fulfillment, and efficacy. To the extent that the individual was not free to enjoy the fruits of his labor, he was unfree and a slave.

Property Rights Antecedent to Free Speech

It was out of this philosophical heritage that America’s founders created a new nation, based on the principle that each individual is a sovereign within his own right, free to enjoy the blessings of liberty, and free to realize his

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true potential without interference from church or state. Property rights then became the acknowledged foundation upon which other constitutional freedoms rested, including freedom of speech. It was not until this century, when private property came under relentless ideological assault, that the First Amendment was subjected to ambiguous and convoluted contention.

Indeed, it is the failure to recognize property rights as the antecedent of free speech that has led to uneven, conditional application of the First Amendment in the twentieth century. Why is this so? First we need to look again at what "life, liberty and the pursuit of happiness" really means. By having the right to "life," we own, from the moment of birth, our life, which no one has the right to take away. Since infants and children cannot sustain their lives without support from adults, parents and/or guardians have an obligation to sustain that life with their labor. That does not mean, as it would with inanimate objects and animals, that adults, by mixing their labor for the maintenance of children, have a "property" in the child. That would make children slaves, and would deny them their unalienable adult rights to liberty and the pursuit of happiness. However, it does give parents and guardians the right to restrict a child's freedom until the child reaches sufficient maturity where it is possible for him to make decisions about his own welfare and where he at least has the potential to be self-supporting.

Once a child evolves to maturity, he can then exercise his "liberty"; meaning he can be free to take whatever actions he deems appropriate for his happiness and well-being, provided in so doing he does not restrict the rights of others to exercise their liberty. John Stuart Mill, the nineteenth-century utilitarian philosopher, put it succinctly when he wrote: "The right to swing my arms in any direction ends where your nose begins."

So by "life" man is free from the right of another to take that life without consent, and "liberty" is freedom of action. Unfortunately, many civil libertarians who appear to be in the forefront of defending the First Amendment are content to rest their case for free speech on life and liberty precepts, and look no further, ig-

norning the significance that the "pursuit of happiness" plays in protecting and preserving freedom. For once an individual has liberty of action, it is essential, if that freedom is to have meaning, that he be able to realize the fruit of his liberty. It is a shallow liberty indeed if he is not free to exchange voluntarily with others the product of his efforts on terms that are mutually agreeable.

With a consistent application of property rights, where all property but essential government facilities are held privately, conflicts which currently abound over where the proverbial nose of another begins would virtually cease. Within the confines of private property, the property owner would have undisputed right to determine the kind, extent, and terms by which speech could be exercised. Thus, the irreconcilable disputes over, for example, what speech should be permitted in public schools would become irrelevant. This is because a pure application of private property rights would preclude the existence of public schools, since they are supported by taxes, and taxes are the involuntary expropriation of property by force.

In today's polity, this is a radical statement, yet how else can taxation—and the "public" property on which it is founded—be viewed? For despite the bold pronouncements of Enlightenment philosophers that the individual has absolute sovereignty over his life, liberty, and property, the twentieth century, up until very recently, has seen a resurgence in the statist doctrines which held man in bondage to others. With that resurgence has come an enormous increase in the taxing powers of the state, to the point where the average American surrenders more than forty per cent of his earnings to government.

Not surprisingly, freedom of speech, as with most other freedoms Americans take for granted, is perched on an increasingly shaky foundation. Without a comprehensive philosophical base built on the sanctity of property rights, the vagaries of each First Amendment Supreme Court decision are as uncertain and unpredictable as a loose cannon on a rolling deck, and the task of protecting First Amendment rights in the face of a growing public sector seems to become ever more difficult. As

I shall argue later, a counter-trend is developing which is slowing, and now seems to be reversing this otherwise inexorable process.

Returning to the issue I alluded to earlier, where freedom of speech issues become irreconcilable with the existence of public schools, it is instructive to look at the famous 1962 and 1963 Supreme Court decisions which banned prayer in the public schools. These rulings were made on behalf of a nonreligious minority of parents who felt that religious observance was being forced upon their children without their consent. As contributors to the public school system, and consistent with First Amendment guarantees of separation of church and state, they were within their rights to have the prohibition imposed. Yet what of the rights of the majority of parents who also contribute to the school system, and would like to have prayer in public schools? Are they not entitled to consideration for what they judge to be in the best interests of their children? Given the existence of public schools, whereby the entire community is forced to contribute through the imposition of taxes, there is no way to equitably resolve the inevitable conflicts over publicly held property. No matter how the conflict is ultimately resolved, someone's property rights will be subordinated, without their consent, to the wishes and desires of others.

However, in a society without public schools, First Amendment rights would not become an issue. Parents who wished their children to partake in religious observances in school would be free to choose the school which offered it. Alternately, parents who do not want religion in school, could likewise choose schools which provided that option. Neither the religious nor nonreligious would be imposing their preferences on each other's children, with the rights of both being respected. It can be argued that those options are available today, and that parents can send their children to religious schools, but that does not negate the fact that they are still forced to contribute to schools they neither use nor approve.

Another area where the First Amendment comes into conflict is the right to assemble, march, and speak on public roads and in public parks. In the Supreme Court case, *Clark v. Community*, the Committee for Creative Non-

Violence took legal action against the U.S. Park Service for imposing a ban on camping in Lafayette Park, which is across the street from the White House in Washington, D.C. The Supreme Court ruled in favor of the Park Service, accepting their argument that to allow camping would impose excessive wear and tear on the park, thereby reducing the aesthetic value of the park for visitors who pay for its maintenance through their taxes. Thus, the interest of the taxpaying public was upheld over the interests of those who wish to engage in symbolic speech on land which they have just as much a claim to as visitors and tourists.

Solving the Problem of Rights in Conflict

The same sort of conflict arises whenever the streets are used for demonstrations and marches. While few would want to deny the rights of most groups to use the streets for this purpose, nevertheless, the rights of motorists who pay taxes to maintain the roads are being violated. The problem then arises in trying to determine how often and how long may a group use the streets for protest, versus the rights of motorists to use the streets which their taxes support for commercial and personal use. Would a proper interpretation of the First Amendment permit a given street to be given over to protest once a week, once a month, once a year, or none of the above? What formula could be applied which would equitably and fairly distribute the publicly owned streets between motorists and protesters? For that matter, how about nudity on public beaches? Must the minority of taxpaying citizens who support public beaches and wish to enjoy them in their birthday suits have their wishes subordinated to the majority?

Again, as with the public school illustration, if roads and beaches were all privately held, then protesters and nudists could contract with the owners of such property for usage under whatever mutually agreeable terms could be arranged. Adjudication and rights conflicts would not exist in a society which did not recognize the right of government to seize a portion of its citizen's property without their consent.

Defenders of the status quo will claim it is

possible, under such an arrangement, that some groups, because of the unpopularity of their ideas or behavior, would not have the means to exercise their "freedom" to speak or disrobe because there may be no property holders willing to offer them terms for use of their property; or failing that they may not have the resources to meet the terms which might be offered. Yet do these hypothetical circumstances legitimately constitute an unconstitutional restriction on First Amendment rights?

On the contrary, property rights prevent some individuals from seizing the property of others to promulgate their own views or activities. It is no more a denial of freedom to prevent the use of private property to exercise speech which the property holder does not approve, than it is a denial of freedom to not allow property to be taken from the affluent to the indigent so that the indigent may have the "freedom" to enjoy Iranian caviar or Dom Perignon champagne.

As long as individuals have the rights to life, liberty, and property, they will always have the freedom to obtain the means to exercise their freedom of speech. If the talents and energies of those holding unpopular views are sufficient, they will be able to earn a forum within the marketplace of goods and ideas. Instead of fearing that there would be less opportunity for expression in a society which holds private property as an absolute, there is every reason to expect there would be more.

Take, for instance, the striking contrast between what is available to the public through the printed versus the electronic media. In the United States, where private ownership of the press is widespread, there is no limit to the avenues of expression through that medium. On the radio and TV airwaves, however, where a "property" in airwave channels does not exist, broadcasters are subject to censorship, where airing offensive programming risks the prospect of a license not being renewed. In 1931 the Federal Radio Commission (precursor to the FCC) denied the renewal of a broadcasting license to a Mr. Baker, who operated a station in Iowa. The Commission ruled that Mr. Baker's ". . . cancer cure ideas and his likes and dislikes of certain persons and things [and] his infliction of all this on his listeners is not the

proper use of a broadcasting license." (Decisions of the FRC, Docket No. 967, June 5, 1931)

In a more recent case, the FCC threatened the nonrenewal of a Honolulu radio station's license because the station broadcast libertarian programs several hours a day for two years. When the FCC opened lengthy hearings in 1970 to consider nonrenewal of the station's license, the threatened cost forced the owners to shut down.

Such forms of censorship could be prevented by homesteading the airwaves, and abolishing the restrictive franchises which currently exist with cable TV. In this way, consumers would be offered a greater variety and higher quality of programming instead of the bland, noncontroversial fare now available.

Admittedly, the policy prescriptions advocated here for clearing up conflicts relating to the First Amendment depart so radically from current realities that it may appear pointless to even suggest them. Yet history has shown that ideas are a powerful force for achieving change. When allied with technological advances, the possibilities are limitless.

Already, the remarkable advances in telecommunications and computer technology, combined with a growing appreciation for free market economics, are creating something of a revolution within the FCC, where the emphasis is increasingly upon deregulation and privatization of the airwaves. The provision of services formerly considered the exclusive domain of local government is being increasingly called into question, as are exclusive government-sponsored franchises such as electricity, telephone service, and the exploration of outer space.

Even the sacred cow of universal public school education is coming under indirect assault with the policy initiatives of the Reagan Administration for tuition tax credits. While it would be naive to assume that the public schools or the interstate highway system will be privatized any time soon, the powerful trends toward greater recognition and appreciation for the free market—and the private property concepts on which it is founded—bode well for the furtherance of First Amendment protections over the long term. □

Amelioration

by Philip J. Bowers

In May, 1927, when my father was a boy of 13, a “personage” of his town stopped by to visit one day. It was a time when aviators risked their lives, usually at a loss, to fly the Atlantic for the first time. Reports of plane crashes, aborted flights, and missing pilots filled the newspapers of the day.

My father listened intently to this august visitor, who stridently declared that no one would ever fly the Atlantic. One week later Charles Lindbergh made it to Paris alone—by plane. The visitor’s impromptu speech impressed my father indelibly. The short span between prediction and contradiction provided him with a lesson he carried the rest of his life: never say never.

Dad grew up and lived in an age in which he expected, as a matter of fact, change for the better. I call this expectation amelioration. He watched the automobile replace the horse-drawn milk wagon, he heard the radio bring opera into people’s homes on Saturday afternoons. He saw air mail become a mode of quick delivery, talking movies displace vaudeville. As a boatsman, he benefited from mass production which delivered affordable boats to the man in the street. He saw the outboard motor change from a finicky, noisy, “handyman special” to a quiet, dependable, and easily obtainable means of recreation. He watched racing boats improve their top speeds

from 30 some miles per hour to well over 200 miles per hour. On an experimental basis, he built the first steel-framed houses east of the Mississippi in the late 1930s. At the same time, he built the first garden apartments in New Jersey—a daring venture.

A Shared Experience

That was about the time I arrived on the scene. As I grew, I learned to share Dad’s sense of amelioration. Together, we watched the airplane displace the steamship as the primary mode of travel across the seas. We witnessed the disappearance of polio and smallpox. Together, we realized our dream of actually seeing the man, as he spoke, on the radio. We saw racial discrimination, particularly on the small town, day-to-day level, diminish significantly. We watched plastics become the “wave of the future” in the 1950s and 1960s. And in the summer of 1969, together we participated in Neil Armstrong’s “one small step” upon the moon. In 1971, Dad passed on.

Dad’s legacy was wonderment—the ability to look at the world with kid-like awe, excitement, and caring. He saw the world as basically good, and the people in it, as benevolent. He viewed the Hitlers, Stalins, Mussolinis, and Tojos as mere aberrations—temporary departures from the norm. He kept his focus on the world’s long-term improving conditions. He maintained a benign, loving, custodial watch

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upon his world, of which he took proud emotional ownership.

Dad had handed me the torch of amelioration. Now, the only noticeable difference in a progressively better world is its accelerating rate of change. In the computer industry for 20 years, I've not only seen enormous change, but I've actively participated in it. At IBM in the late 1960s, I continually encountered change—often on a daily basis. The Personal Computer, although predictable, still amazes me. Consider that in 1967 I sold a “small” business computer that was 1600 times less powerful and about 20 times larger than the PC for well over \$300,000.

I wish Dad were around to see, for example, automatic teller machines. Imagine getting cash from an unattended machine on a Sunday evening! Or the skyline of New York City. We're putting up 50-story apartment buildings like they were row houses. I live in a building whose population is half the size of the town where I was born. We truly live in remarkable times.

Part of Dad's legacy of amelioration was his sense of participation in the “American experiment.” I was seven when World War II ended. Dad returned from a devastated Europe. Then America stood alone among the nations of the world as a tower of strength, a far more desirable country in which to live than any place else on earth.

Dad transmitted to me his sense of gratitude for having been born here. His descriptions of what it would have been like to grow up in Nazi Germany, Soviet Russia, or even France, instead of the U.S., stuck with me. I remember late-night air raid practices in which my entire home town turned out all lights. The sirens and visits from our block's Civil Defense warden scared me. And I knew that my four- and five-year old counterparts in Germany, Russia, and France were dying from real bombs. Scared as I was, my heart went out to those children who were suffering so terribly.

At an early age, I knew we held something precious. I wasn't sure what it was, but I resolved to find out. Whereas Dad marked progress with enthusiasm, I also wondered from whence it came. Along the way, I concluded that it had something to do with the ideas

people carried, how people treated each other, and how they organized. I realized, too, that it had something to do with enthusiasm. I noticed that my own enthusiasm could move mountains.

Further on, I concluded that the organization of one's government, particularly with regard to economics, was a key. As a young adult, I began to see the deleterious effects of dictators upon South American, Eastern European, and, later, African countries. I began to see that incentive, a textbook term for enthusiasm, was critically important.

No experiment could have created better comparisons of the effects of contrasting organizations than the real-world differences between East Berlin and West Berlin, East Germany and West Germany, mainland China and Taiwan or Hong Kong, between North Korea and South Korea, between Japan and Cuba, between Switzerland and Albania, between the free and the unfree. There was definitely something to be learned here.

My Amelioration: Freedom

And so it is, now: I see that freedom is all. I see the world constantly striving for it. I see freedom as arising from a fundamental yearning within me and my fellow humans. It is the expression of a desire to create a world in which mutual consent operates maximally and force is kept to a minimum. It is the institutionalized manifestation of the very human desire to express good will and benevolence.

For me, my amelioration, the ability to perceive the world as moving in a direction of being a better place to live, is freedom. As custodian of my amelioration I raise my voice in support as I see the peoples of the world getting more and more freedom. With great delight, I see a vast, unheralded, underlying, and fundamental movement toward more freedom.

As I see it, despite the last few decades' atrocious genocides, the arms buildup, and the heavy-handed tactics of dictators around the world, the man in the street in Jakarta, Shanghai, Havana, and even Leningrad will laugh dictators off the podium. It has already happened recently in Jamaica and the Philippines. For my money, the communist/socialist/

totalitarian/authoritarian/dictatorial ideal has been a philosophical dead letter for decades. As a planet, we are in the process of mopping up the after-the-party debris which may take another couple of decades. The trend reminds me of the wholesale deposition of kings which occurred between the late 1700s and the early 1900s.

Economic Miracles

The prospects are exciting. "Economic miracles" are popping up all over the place. We are inured to their commonplace. West Germany and Japan were among the first. Now there are places in South America, India, and even Africa where similar "miracles" have occurred. In the last thirty years in South America, those who live under elected governments have increased from 20 per cent to well over 90 per cent—unimaginable in the 1950s and 1960s.

Every day brings another example of economic freedom and improving conditions somewhere in the world. France, a socialist country, is "privatizing" industry and removing price and credit controls after their disastrous experiment. Australia, another quasi-socialist country, is loosening up its economy in the direction of economic freedom. In the past year or so, Ecuador has eliminated most price controls, reduced many tariffs, and cut the public sector payroll significantly.

Turkey is liberalizing its economy more than it has done since the Ottomans. Ireland has recently deregulated its airlines with salubrious effects. Austrian socialists are dropping marginal tax rates, just like the U.S. India is a sleeping giant preparing its own bed of liberalization. We have already heard of the un-dreamed of liberalization attempts in China. Eastern European countries and even Soviet Russia are seeking market or quasi-market so-

lutions to their horrendous economic problems.

We have all noticed that the world is "getting smaller." Technology has provided us with instant communications and rapid travel. It is very difficult to reverse (some postulate that technology is irreversible—i.e., you cannot put the genie back into the bottle). This "smallness" of the world allows members of country X to look easily over their shoulders and see what's going on in country Y. It allows people to view "real-world" examples of the effects of contrasting policies.

Not only is it (and will be) more difficult for centralized, authoritarian governments to hide the successes of more liberal governments from their own people, but also it is (and will be) easier to answer "what if" questions with more certainty. If someone were to postulate an extraordinary idea such as privatizing and deregulating, say, the post office, one can (and will) more easily look around and find a country which has already shown it can be done.

This phenomenon is known as the Demonstration Effect and has (and will) put governments in positions of *de facto* competition with each other in serving their citizens' interests. It provides a powerful tool for promulgating the policies which work best at the expense of those which work least. From my point of view, those which will prove to have worked best will invariably be policies which move away from authoritarianism toward the ideal of freedom.

Passing the Torch

This, then, is the dream and the promise. It carries with it Dad's axiomatic view that each generation of humans across the globe has it in its power to ameliorate its conditions and to leave behind a better world for its having been there. With great care, I pass this treasure on to you. □



Productive Advances: Who Benefits Most?

by Joseph S. Fulda

The free enterprise system allows inventors and investors to reap the rewards of creativity and risk. But in a market economy, those who gain *most* from the productive advances thought of by inventors and funded by investors are the poor.

Let us examine several productive advances and see to whom the benefits accrue. Consider first the printing press. The very rich had scribes and private secretaries do their clerical work, but the very poor are now literate in numbers once deemed impossible. Or to move up the centuries, consider the television. The rich had hours of leisure and the funds for private entertainment to fill them. The poor, however, now have an entertainment cornucopia undreamt of in earlier ages. As a third example, consider air travel. The rich were able to afford weeks of travel by land or sea, while their properties continued to generate income. Those less well off, on the other hand, would never see distant lands or relations without air travel. Or consider antibiotics, one of the twentieth century's miracles. The rich who live in sanitary, spacious quarters have had less need of these wonder drugs than those who occupy crowded, unsanitary, slum areas. Finally, consider that mundane appliance, the vacuum cleaner. The rich often have others do their housekeeping. Their housekeepers, in contrast, have had their jobs simplified and their hourly output increased by the vacuum cleaner's invention.

From little things to big things, the principle holds. Productive advances help everyone, but most of all the less well-to-do.

This is hardly limited to inventions and dis-

coveries, but applies to improvements in productive methods as well. Who has been helped the most by specialization, mass production, automation, and robotics? The rich consumer could always afford the work of the skilled craftsman, but the poor shopper depends on the economies of modern technology and productive methods for the wide variety of household items from which he chooses. Likewise, advances in these productive methods may enrich the factory owner, but it is his workers whose jobs over the decades have become lighter, more meaningful, and better paid. Nor is this observation true only of blue collar workers. From the pencil to the typewriter to the electric typewriter to the word processor, the jobs of the lowest-paid, white-collar workers have also become lighter, more meaningful, and better paid.

Nor have all these advances thrust millions into idleness (although there is some temporary dislocation), as the doomsayers have warned. Rather, mankind's energies have been channeled more and more into the good things of life and less and less into its bare necessities.

Government with its power to tax has not been the cause of the remarkable improvement in our standard of living over the years. Only productive advances make the same physical effort count for more and more and only economic growth so arising can truly increase everyone's rewards. And when productivity is enhanced and the economy grows, it is the poor who are most lifted by the rising tide. □

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The Pursuit of Happiness

by William C. Dennis

The occasion of the anniversary of the Independence of the United States of America traditionally has called for a few words about our institutions of Liberty. My few words combine three themes: the settlement of the Rocky Mountain West—a theme appropriate to our location here at Big Sky, Montana; the idea of Liberty—the special interest of our sponsor; and the Declaration of Independence itself—in remembrance of this particular anniversary.

I choose to call this address: “The Pursuit of Happiness.” I think Jefferson intended to suggest by his now-famous phrase, that happiness, if it is to come at all, comes more through the pursuit than the acquisition. Whatever the scholarly debate on the meaning of this phrase may eventually conclude, Americans over the ages have acted rather practically on the implied suggestion of Jefferson that happiness comes from living an active life of freedom.

For most people, through most of human history, change was likely to bring personal hardship—holding on to the little one had was about all that could be expected—and even the *idea* of progress was inconceivable. But self-betterment was a real possibility in America, and the hope of personal improvement was one of the driving forces in American settlement. But it was not so much ease and comfort they

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sought, but opportunity. The restless mobility of Americans attests to the fact that material success by itself brought not happiness but boredom, and that too much security could be debilitating rather than liberating. Or at least so it once was; now times have changed. Perhaps we have lost some of the spirit of adventure in the pursuit of happiness once possessed by earlier generations.

I begin with a few stories of the westward movement. Let us look at *Journal of a Trapper*, by Osborne Russell. Russell was born in Bowdoinham, Maine in 1814 and died in Placer County, California, August 26, 1892. Maine was not yet a state at his birth and California was only an administrative province of the Spanish Empire. In April of 1834 Russell left Independence, Missouri, on what was to become a nine-year journey in the pursuit of happiness, heading for the Rocky Mountains as a fur trapper. Russell wandered all over the northern Rockies on incredible journeys of risk and daring.

Here, in his own words, is Russell’s description of his Fourth of July, 1835, in Jackson’s Hole in what now is Grand Teton National Park:

Here we again attempted to cross Lewis’ fork with a Bull skin boat July 4th Our boat being completed we loaded it with baggage and crossed to the other side but on returning we ran it into some brush when it instantly filled and sunk but without further accident than the loss of the boat we had already forded half the distance across the river upon horse back and were now upon a other shore. We now commenced making a raft of logs



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Sketch from *Journal of a Trapper*.

that had drifted on the Island on this when completed we put the remainder of our equipments about 2 oclck P.M. and 10 of us started with it for the other side but we no sooner reached the rapid current than our raft (which was constructed of large timber) became unmanageable and all efforts to reach either side were vaine and fearing lest We should run on the dreadful rapids to which we were fast approaching we abandoned the raft and committed ourselves to the mercy of the current. We being all tolerable good swimmers excepting myself, I would fain have called for help but at this critical period every one had to Shift for himself fortunately I scrambled to the shore among the last swimmers. We were now on the side from whence we started without a single article of bedding except an old cloth tent whilst the rain poured incessantly. Fortunately we had built a large fire previous to our departure on the raft which was still burning

I now began to reflect on the miserable condition of myself and those around me, without clothing provisions or fire arms and drenched to the skin with the rain

I thought of those who were perhaps at this moment Celebrating the anniversary of our Independence in my Native Land or seated around tables loaded with the richest dainties that a rich independent and enlightened country could afford or perhaps collected in the gay Saloon relating the heroic deeds of our ancestors or joining in the nimble dance forgetful of cares and toils whilst here presented a group of human beings crouched round a fire which the rain was fast diminishing

meditating on their deplorable condition not knowing at what moment we might be aroused by the shrill war cry of the hostile Savages with which the country was infested whilst not an article for defense excepting our butcher Knives remained in our possession—(18-19)

Despite these miserable prospects, Russell did not expend much effort feeling sorry for himself. Indeed, his whole journal is laced with expressions of confidence and optimism in the face of adversity, of a sort all too lacking in today's far more comfortable world. For instance, here is from Russell's description of winter quarters 1836-37, located where Clark's Fork joins the Yellowstone River 11 miles west of Billings, Montana:

We all had snug lodges made of dressed Bufaloe skins in the center of which we built a fire and generally comprised about six men to the lodge The long winter evenings were passed away by collecting in some of the most spacious lodges and entering into debates arguments or spinning long yarns until midnight in perfect good humour and I for one will cheerfully confess that I have derived no little benefit from the frequent arguments and debates held in what we termed The Rocky Mountain College and I doubt not but some of my comrades who considered themselves Classical Scholars have had some little added to their wisdom in these assemblies however rude they might appear.(51)

Crossing the Snake

Russell knew that he was engaged in a risky business and knew from experience that things could go quickly and dramatically wrong, that life was never secure. For instance, listen to this passage from an earlier crossing of the Snake on 21 June 1835:

Here we were obliged to cross Lewis' fork which is about 300 yds. wide and might be forded at a low stage of water, but at present was almost overflowing its banks and running at the rate of about 6 mls per hour. We commenced making a boat by sewing two raw Bulls hides together which we stretched over a frame formed of green willow branches and then dried it gradually over a slow fire during the night 22d Our boat being completed we commenced crossing our equipage and while 5 of us were employed at this a young man by the name of Abram Patterson attempted to cross on horse back in spite of all the advice and

entreaty of those present his wild and rash temper got the better of his reason and after a desperate struggle to reach the opposite bank he abandoned his horse made a few springs and sunk to rise no more—he was a native of Penna. about 23 years of age. We succeeded in crossing our baggage and encamped on the East side for the night. (14-15)

Russell was not insensitive about the loss of his young companion but he simply was aware that free men must accept certain risks, sometimes large risks indeed, if they were to accomplish anything of lasting interest with their lives, if they were to follow their dreams in the pursuit of happiness.

In Russell's world a man could act relatively freely on behalf of what he conceived to be his best interests. The gains of good decisions were largely his to reap. Errors in judgment were likely to be dramatically and swiftly brought to his attention. There were no licenses to be obtained, no regulations to comply with, no Environmental Impact Statement to file, no OSHA inspectors to appraise the risks and dangers of the trade, no Workers' Compensation for on-the-job injuries, and certainly no comprehensive medical and life insurance policies provided by his employer, the Charles River Fishing and Trading Company. Further, there were few records to be kept and no taxes to be paid. One wonders if the Rocky Mountain fur trade could be accomplished under today's regulatory regime.

Of course, Russell was an exceptional man in his own day. Most people did not head west; most did not willingly assume the risks of a fur trapper.

But Russell was not unique either—a spirit of daring, adventure, and risk acceptance was abroad in the land in America in the mid-nineteenth century. Here is another vignette of the trip west, of people out on the road in the pursuit of happiness—the Charlestown (Virginia) Mining Company, on the way to California in 1849. Some members of this company wrote of their Fourth of July in the following words:

Wednesday, July 4th

This is the glorious Fourth. The first dawn was ushered in by a noise from our six pounder, which reverberated, echoed & reechoed from hillock to hill, until the very earth itself seemed to tremble

in fear at such strange noises. We determined to remain upon the banks of Green River to spend the Fourth. (134)

* * *

We rested all that day engaged in cooking, sewing, and washing. Tom Moore, from Harper's Ferry, Virginia, was selected as orator of the day. He stood on a large stump and had an Indian pole in his left hand to steady himself with. He had his right one free to make gestures with. Being the Fourth of July, our quartermaster issued whisky rations. Some had more or less, and some didn't have any. Those are the ones that didn't drink. We hadn't had our little cannon out of the wagon since we started, and we concluded that we would take it out that day and chain it to the stump. Moore felt pretty good, feeling the effects of his whisky, and everytime that he would say anything patriotic would touch the little cannon off, and the echo would bellow up and down the valley. The Indians, when they heard that cannon, would not come anywhere near us. (134-135)

Not mentioned in these particular journals was that this Fourth of July saw the convening of court to try a company member for murder. Not mentioned either on this holiday occasion were some of the risks they had already faced on the road. On June 20, for example, on their crossing of the North Platte River in eastern Wyoming:

Wednesday, June 20th

A very cold & unpleasant morning. Roads good & our course was along Platte. In about 5 miles we reached Deer Creek, a small stream of clear, good water. Crossed & went down to the [Platte] River, where we found several hundred wagons, which were to be crossed there. Our Captain determined on crossing at this point. We lashed our two sheet iron bodies together, & after unloading our wagons, commenced crossing the river with our luggage &c. It took us until after night, several times our boat washing below the landing. A young man named Drenner, from St. Clairville, Ohio, in attempting to swim a mule over the river, was thrown off & drowned. Seven men have been drowned in attempting to cross the river in the last week. One wagon went on a raft several miles before it could be stopped. Caught some fine fresh fish today. Several hundred wagons here, busy at work crossing day & night.

[Distance, 7 miles. (111)]

Similar illustrations could be taken from the records of other nineteenth-century adven-

turers, from tales of the cowboy and the cattle baron testing their skills against the droughts and the blizzards of the high plains of Wyoming and Montana; of the miner trying to follow down a promising lead into the side of a mountain; of the sodbuster eking out a living on a lonely homestead on land better suited to sheep grazing; of the entrepreneur, whether bringing irrigation water across the Front Range to the farmers' fields, running a wagon line across the prairies from Leavenworth to Denver, or speculating in town sites and dreaming of the Caspers and Bozemans of the days to come. What Floyd B. Streeter, in his now classic *Prairie Trails and Cattle towns*, said of the wagoners could be said about most of these people: "The rougher and more dangerous the road the better it seemed to suit them" (p. 10).

These were free men and women, I think. But they were not atomistic individualists isolated from the society-at-large. The fur trapper was the representative of great private firms engaged in tough international competition for the trade, a competition which brought the Rocky Mountain country to the attention of the western world. The trapper's lines of communication stretched back over the plains to St. Louis, his capital came from the east, his markets were in Europe. He was the representative of the expectant capitalist on the march. Mining operations quickly turned from the lone prospector to the organized corporation once the rich veins and easily panned creeks were exhausted. The famous Swan Land and Cattle Company outside of Laramie was a British corporation. Horace Greeley wrote of the wagon freightline firm of Russell, Majors, and Waddell, in 1857: "... Such acres of wagons! such pyramids of extra axle trees! such herds of

oxen! such regiments of drivers and other employees! No one who does not see can realize how vast a business this is, nor how immense are its outlays as well as its income. I presume this great firm has at this hour two millions of dollars invested in stock, mainly oxen, lumber and wagons. (They last employed six thousand teamsters, and worked forty-five thousand oxen)."

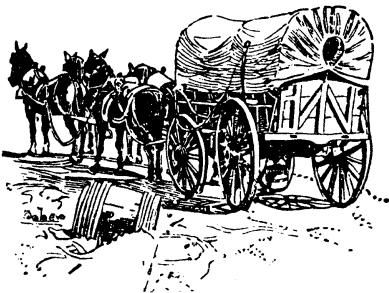
Terry Anderson and P. J. Hill in their article "The Not So Wild Wild West" (*The Journal of Libertarian Studies*, Vol. III, No. 1) show how self-designed systems of law and order characterized western settlements as well. Americans in those days were willing to take the burdens of organizing their lives on their own shoulders and they established a number of creative formal and informal institutions to help manage social problems.

Solving Problems of Marketing and Supply

The rendezvous system of the fur trade solved problems of marketing and supply as well as providing what only can be called a helluva good time. Settlers claim clubs enforced informal rights to particular tracts of land and aided members in getting around the inefficient restrictions of Federal land law. Stockmen's associations grew up to deal with problems of allocating the open range, organizing roundups, running the livestock market, establishing brands, and policing ownership rights.

Justice as well as economic efficiency, and equity, was a concern of these informal systems. Here is one of my favorite descriptions of justice in action from an account of a wagon train to California in 1852:

At about 11 A.M. we passed the camp where on Saturday, July 3, some emigrants hung a man for murder. We did not learn the names. The company chose a judge to preside over the trial, and a sheriff, who empaneled a jury of twelve men, who heard all the evidence, after which the judge charged the jury. The jury retired a short distance from camp, under the charge of the sheriff chosen by the company for the emergency, for their deliberation. In about twenty minutes they returned and informed the court that they had decided on a verdict. The foreman then handed their written



verdict to the court, which read as follows: "We, the jury, do find the defendant guilty of murder in the first degree, as charged." Signed by all the jurors. The court immediately passed sentence on the defendant, to be hanged by the neck until dead, dead, dead, and may God have mercy on your soul. The company ran two wagons together, elevating the tongues in the shape of a letter "A," tying them together. On this improvised gallows the defendant was hung until life was pronounced extinct. Near by two graves were dug, one for the murdered man, the other for the murderer. Their burial being completed, the company started on their way. (170-171)

All this was done in just a few hours. Sometimes a hat would be passed among the wagons to provide a grubstake for the widows before the trains moved on.

The Charlestown Mining Company even had a constitution to guide their enterprise over the trail and on into the mining country. It provided for strong, even military, rule in time of crisis and set down rules for such diverse matters as the disbursement of funds, maintenance of moral standards, the admission and expulsion of company members, and the dissolution of the company—all in 22 articles.

Mining companies developed elaborate rules for allocating claims, settling disputes, establishing water rights, regulating mining activity, and electing officers to enforce the agreement. These rules were often so effective that they provided the basis for state mining codes.

On Their Own

Like most Americans these western pioneers were not averse to Federal aid when they could get it on their own terms—free grants of land, protection from the Indians, tariffs on sugar and beef imports, subsidies for transportation. But even so, their more typical view could be described as: Leave Us Alone. They accepted the risks of the pursuit of happiness and also the challenges of leading lives of free and, generally, responsible individuals capable of devising institutions to meet the needs of new environments without resort to central control and authority.

Only by the turn of the century, frustrated by the inability to acquire Federal land in econom-

ically efficient-sized tracts, and sharing to a degree in the largely unwarranted fears of the Progressives about monopolies, speculators, and the exhaustion of resources, did some westerners turn to the federal government for further aid—particularly in dealing with questions which continue to be of special concern to westerners.

It would be an exaggeration to claim that the western spirit of individualism and adventure, so characteristic of nineteenth-century Americans, no longer lives today. Despite burdensome regulations, over bearing bureaucracies, and high marginal tax rates, the willingness of Americans to dare greatly in the Pursuit of Happiness on their own terms seems alive and well, at least in certain parts of the nation.

The high tech industries of the computer revolution and the wonderful creations of the personal service and retail industries attest to the genius of the American entrepreneurial efforts. American scientists still garner a disproportionate share of Nobel Prizes. American agriculture, often to its own embarrassment, remains the productive envy of the world. The fields of both high culture and mass entertainment are growth industries that leave the lives of few Americans untouched by their creativity and it is hard to imagine another place in the world where more interesting creative achievements can be found. Scholarly researchers diligently labor in a huge variety of fields publishing their findings in a bewildering array of journals. At the newsstands the racks are laden with magazines to suit every conceivable taste and interest, a great material demonstration of freedom of the press.

Amateur and professional sportsmen continue to reach new heights of personal achievement, and an ever-increasing proportion of Americans include some athletic activity in the regular course of their lives. One of the activities of particular interest to me, that of mountaineering, seems to represent well some of the old virtues. In terms of physical conditioning, technical skills, mental discipline, and personal daring, American climbers continue to push forward the frontiers of possibility. This is an activity which especially requires its own society of free and responsible individuals where one must necessarily take charge of one's own

life in an endeavor which, like the exploits of Osborne Russell, seems to most people to be foolhardy indeed.

Many of these developments are what one would expect from a successful and prosperous country in which the people still remain remarkably free to pursue their own interests. It is a good and pious act on the Fourth of July to remember how free and fortunate as a nation we are.

But I also sense another force at work in the land, less fortunate, less encouraging for the long run survival of Liberty. Some of our wealth increasingly seems to be used in an effort to develop an impossible sort of dream based on the belief that happiness is a static condition of security, that risks are somehow unfair, or at least now unacceptable, and that the costs of living should be widely shared through the mechanisms of political compulsion.

Once happiness becomes not a quality to be pursued and earned with one's talents and opportunities at some cost and with certain trade-offs, but rather is seen as a condition of security, there is a great temptation to use political means to assure that security through a transfer of wealth. Further, the temptation grows to blame others when things go wrong and the desired security proves to be elusive. Such a social order will become not one of free and responsible individuals living in relative harmony with each other but instead a society characterized by irresponsibility and the fostering of contentious behavior.

The desire for security in and of itself is not unreasonable. We might differ where the line of reasonableness lies, but as long as each individual decides for himself what measure of security to purchase with his own resources, no problem exists. So it is not surprising that in a relatively rich country more security, just like more amenities, more luxuries, and more leisure, might be a desirable good. Therefore we find more resources devoted to good health, to insurance of various kinds, to contracts spelling out responsibilities for the reduction in occupational hazards, to safer mechanical equipment, to better warning and protection systems. But what is troubling is that as a nation we have gone beyond a reasonable purchase of reduced

risk based on an individual's own evaluation of the costs and benefits of greater security. In certain circles these days, critics of U.S. foreign policy have claimed, rightly I think, that absolute security *vis à vis* other nations is not possible. But neither is absolute security from the dangers of life itself. After nine years of residence in what he called a "wild, inhospitable region," Osborne Russell moved on to the settlements in Oregon where he was nearly killed in a construction accident. As he wrote: expecting now to live "in comparative security free from the harassing intrigues of Dames Fortunes Eldest daughter but I found it was all a delusion for danger is not always greatest when most apparent. . . ." (126) Precisely so—and, I would add, apparent dangers are not always the most serious ones.

I have used up most of my available time commemorating the heroes of past ages—and by implication urging us on to embrace in our own lives their spirit of adventure. So now only a few minutes remain to develop this thought on the current misguided quest for security. But just look at recent headlines: the national campaign to raise the drinking age; compulsory seat belt laws; flood relief for farmers and emergency crop loan programs; new warnings on cigarette packages; compulsory cost-of-living pension demands; truck drivers shooting each other over rises in fuel prices; reduced speed limits on interstate highways; compulsory insurance taxes; unreasonable testing standards imposed on drug companies; the national cancer scare; the regulation of workplace conditions without regard to costs, risks, or contractual arrangements. One could go on. Your list would probably be different. And some of these examples, I confess, are more personal piques than matters of great national concern.

But just to push this point a bit further—and without making any judgments on the underlying difficult moral questions—here are a few more examples of what seems to be a growing interest on the part of many to avoid bearing the costs of their own interests and decisions: using abortion as a form of birth control; turning to the State for retirement programs for the elderly and child care for the young; petitioning the International Trade Commission for relief from foreign competition; passing the social cost of



A nineteenth-century Independence Day celebration.

burning high-sulphur coal on to the nation at large; using public funds to promote recreation, aesthetic, and intellectual amenities for the few who enjoy them at the expense of many. Each of these examples illustrates a failure of people to take charge of their own lives—each reveals people acting, in effect, like children instead of adults, by denying the reality of cause and effect or by failing to act responsibly. Each violates the historic principles of the American version of the pursuit of happiness.

If the cost of all risk is going to be borne socially instead of individually and if society grows more “risk averse,” if no one is truly accountable for his acts, and if, as it is said in *Alice in Wonderland*, “All have won the race, and all must have prizes,” then the next step must be an increasing social regulation of behavior itself in an effort to control the costs of individual activity—the prohibition of tobacco, the requirement of seat belts and air bags, compulsory communal physical exercise, the political regulation of numbers of births, the rearing of children by the collectivity in order to save them from irresponsible parents, compulsory insurance participation of all sorts, child-safe medicine bottles, flame retardant sleepwear regulations, land use planning. Some of these examples are already in effect, others merely dreams in the mind’s eye of “progressive” reformers. Hardly a day passes without the discovery of a problem somewhere and the decla-

ration in high dudgeon at the existing situations, “There Ought To Be A Law!”

But as Osborne Russell said, the effort to escape all danger is a delusion which leads more to the loss of Liberty than to real personal security. We know that free societies have been rare throughout history; we know that Liberty can be eroded by incremental changes on the margin of action; we know too that the unfree society is the truly dangerous society, where productivity is limited, human misery high, and progress nil. Seeking security, rather than pursuing happiness; treating citizens like children, not adults; failing to protect the institutions which support Liberty and responsibility—these are dangers worth worrying about; these are dangers we know how to handle if we have the political will to do so.

Evelyn Waugh has an outrageous story entitled “Love Among the Ruins”—not, I fear, one of his better works—about a socialist Britain where everything is provided for and where all risks are socially managed. Life is secure, risks are minimal, but life is not happy. People are, literally, bored to death. But the State-managed economy is so inefficient that it cannot keep up with the demand for the services of the Public Euthanasia Centers and Crematoria by people seeking escape from the socialist Utopia. In Waugh’s exaggerated satire we see a possible vision of the future to come.

On this occasion of the Anniversary of National Independence it is worth reminding ourselves once again that for the founding fathers the great historic division of the social order was not the rich and the poor, the black and the white, the educated and the ignorant, the lucky or the misfortunate, nor the healthy and the miserable, but rather the responsible and the irresponsible or, otherwise, the freeman and the slave. They stood then for Liberty. We should ask ourselves: Do we still stand solidly with them today? □

Note: Quotations in the text are from the following sources: Osborne Russell, *Journal of a Trapper* (Lincoln: University of Nebraska Press, 1955). *Trail to California: The Overland Journal of Vincent Geiger and Wakeman Bryarly*, ed. by David M. Potter (New Haven: Yale University Press, 1945), Floyd B. Streeter, *Prairie Trails and Cattle towns* (New York: Devin Adair Company, 1963), Herbert P. Eaton, *The Overland Trail to California in 1852* (New York: G. P. Putnam’s Sons, 1974).

Lessons in Liberty: The Dutch Republic, 1579-1750

by Robert A. Peterson

“The Dutch must be understood as they really are,” wrote Daniel Defoe, “the Middle Persons in Trade, the Factors and Brokers of Europe . . . they buy again to sell again, take in to send out, and the greatest part of their vast commerce consists in being supplied from all parts of the world that they may supply all the world again.”¹ What Defoe was describing was perhaps the freest society in Europe, the Dutch Republic. While Puritans and Cavaliers were still fighting each other in England—the nation we think of most as laying the foundation for freedom in the modern world—Holland served as a haven for refugees from both sides.

The modern world provides us with hundreds of examples of what happens when a nation adopts the philosophy and practices of socialism. Certainly we can learn from bad examples—about what not to do—but we can learn equally well from good examples. Unfortunately, such positive “role models” are few and far between. History does provide us with some, however,—Hong Kong comes to mind, as do nineteenth-century Britain and America. The Dutch Republic is one example that has been often overlooked.

Newly freed from Spanish oppression, the Dutch built one of the world’s great civilizations. In art, it was the age of Hals, Rembrandt,

Vermeer, and deHooch. Of this period historian Peter Gay has written, “Never in history has one country—and so small a country!—produced so many painters of such high caliber in such short time.”² In science and philosophy, it was the age of Huygens and van Leeuwenhoek, and of Descartes and Spinoza. Finally, in commerce, it was the golden age of Dutch influence, as Dutch ships plied the oceans and explored the Tasman Sea and Barents Straits. By 1625, The Netherlands was engaged in more shipping than all other countries of the world combined. Yet, unlike many other nations, her prosperity was not built on military adventurism or expropriation from others, but on an underlying philosophy of freedom.

The prosperity and freedom that the Dutch enjoyed in the sixteenth and seventeenth centuries were largely the result of the interplay of various ideas which came together at the right time. First, through their constant struggle with the sea, the Dutch had developed into one of Europe’s most disciplined and hard-working peoples. Second, the Dutch had recently experienced the tyranny of government intervention under the Spanish—and they found out that they didn’t like it. After an epic struggle for freedom, the Dutch weren’t about to allow their new rulers to govern with the same heavy hand. In Holland, old priests became new regents writ small. Third, there was the influence of Calvinism. Like most of Northern Europe, Holland had been deeply touched by the

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teachings of the Reformers. The Bible came to affect nearly every area of Dutch life, including politics and economics. Of the Bible's influence in creating the free society John Chamberlain wrote in *The Roots of Capitalism*:

[O]ne needs no paraphernalia of scholarship to know that the commandment against murder is simply the other face of Locke's and Jefferson's "unalienable" right to life. "Thou shalt not steal" means that the Bible countenances private property—for if a thing is not owned in the first place it can scarcely be stolen. "Thou shalt not covet" means that it is sinful even to contemplate the seizure of another man's goods—which is something which socialists, whether Christian or other, have never managed to explain away. Furthermore, the prohibitions against false witness and adultery mean that contracts should be honored and double-dealing eschewed. As for the commandment to "honor thy father and thy mother that thy days may be long," this implies that the family, not the state, is the basic continuing unit and constitutive element of society.³

Although Chamberlain was thinking primarily of Great Britain and America, his words apply equally well to Holland. And as Max Weber pointed out long ago, there seems to be a direct relationship between the Calvinist idea that every man has a "calling"—not just in religious professions, but in business ones as well—and the "spirit of capitalism." According to Weber, Calvinism's emphasis on sobriety, thrift, upright conduct, and dedication to one's calling led, as a side effect, to capitalist accumulation and investment. In Holland, Calvinism's emphasis on thrift had its effects even on the rulers—the Princes of Orange lived in a large house rather than a palace, and DeWitt, the Grand Pensionary of Holland, had no entourage and chose to walk rather than ride in a carriage.

We need not accept Weber's thesis as a complete explanation for the rise of capitalism, for we know that free economies have existed in small pockets throughout the history of the world. Ideas that make for liberty transcend national boundaries, as is illustrated by the fact that many of the institutions that made capi-

talism possible—marine insurance, double-entry bookkeeping, and modern banking—came from Catholic Italy. But it cannot be denied that all through modern history there has been a strong correlation between Calvinism—or rather, its practical outworking—and capitalism.

The Dignity of the Individual

Calvinism also served to strengthen and nurture a deeper Western tradition—the idea of the dignity of each individual. Not only did all Western creeds believe that man is created in the image of God, but Martin Luther gave further impetus to the idea by emphasizing the "priesthood of the believer." When one accepts the idea that every man has a right to both read and interpret the Scriptures for himself, it's just a short intellectual journey to believing that every man has a right to make economic and political decisions for himself as well. Along with respect for the individual came respect for property, for without property the individual cannot be sustained.

In addition to the emphasis on the dignity of man, economic freedom was further promoted by some of the lowest interest rates in Europe. In the fifteenth century, interest rates fell from 14 per cent to 5 per cent; by the sixteenth century, they were 3 per cent in the Netherlands—the lowest in Europe. In England, where interest rates were twice what they were in Holland, the London merchant Josiah Child saw how important they were in producing the Dutch economic miracle. "This in my poor opinion," wrote Child, "is the causa causans of all the other causes of riches in that people; and if interest of money were with us reduced to the same rate as it is with them, it would in a short time render us rich and considerable in trade as they are."⁴

Although governments can manipulate interest rates through a central bank and by increasing or decreasing their fiat currencies, such policies always cause serious economic dislocations. True interest rates are a reflection of a society's basic philosophic and moral outlook. If a given society is rife with anarchy, pessimism, and rulers who try to do everything but enforce contracts and protect the citizenry

from lawbreakers, the price of money will be high. People with money will either send their money out of the country, or spend it immediately. It is this kind of “eat, drink, and be merry for tomorrow we die” philosophy that causes high interest rates.

On the other hand, if a society encourages thrift, self-government, hard work, and morality, and the government performs its proper function of protecting citizens from criminals and contract-breakers, there are fewer risks in lending money. In such a society, people are more likely to forgo present consumption, since the stability all around tells them that there will be a future to be enjoyed.

This was the kind of attitude that prevailed in seventeenth-century Holland. Spain was no longer a threat, businessmen played a part in the nation’s councils, and disputes were settled peacefully and rationally. It was this kind of society that gave the Dutch such low interest rates. And this in turn helped to make The Netherlands, for a time, Europe’s greatest economic power.

A Government Limited to Protecting Life and Property

What were the results of all these “roots of capitalism”? First, the Dutch allowed only the most limited of governments. The new government was limited to protecting life and property. Of the Dutch Republic immediately after the Revolt, historian Charles Wilson has written: “The constitution of the new state seemed to many supposedly wise and experienced contemporaries elsewhere to be an impossibility. How could a motley collection of tradesmen, salt dealers, fishermen, and tallow chandlers hope to govern themselves without even royal or even noble guidance? The Dutch were in no way perturbed.”⁵

According to the Dutch legal scholar Hugo Grotius, the basis of The Netherlands’ limited government was individual self-government: “He knows not how to rule a kingdom, that cannot manage a Province; nor can he wield a Province, that cannot order a City; nor can he order a City, that knows not how to regulate a Village; nor he a Village, that cannot guide a Family; nor can that man govern well a Family

that knows not how to govern himself; neither can any govern himself unless his reason be Lord, Will and Appetite her Vassals: nor can Reason rule unless herself be ruled by God, and (wholy) be obedient to Him.”⁶ Grotius understood that there were other “governments” besides civil governments—family governments, personal government, etc.—and that when these governments were healthy, they formed a powerful bulwark against the growth of the State.

Because of the laissez-faire policies of the Dutch government, Holland became the most liberal society in the seventeenth century. It was the only society where Jews were treated as equals, and the torture and execution of witches and wizards ceased in Holland a century before it did in any other European country—including England.⁷ Moreover, as the great Dutch historian Johann Huizinga has pointed out, “The history of Holland is far less bloody than that of any of the surrounding countries . . .”⁸

Seeking religious freedom, Protestants from Belgium and France fled to The Netherlands. France and Belgium’s loss was Holland’s gain as thousands of hard-working and skilled emigrés came to Amsterdam, Rotterdam, and other cities to lend their talents to building the Dutch Republic. Perhaps the most famous Protestants to find refuge in Holland were the Pilgrim Fathers, who later left Holland to go to America, not because of any lack of freedom there, but because they feared their children would become more Dutch than English. At one time there were over forty English churches in Holland, served by more than 350 ministers from England and Scotland.

When the Puritans went home in the time of Cromwell’s ascendancy, it was the Anglicans who became the exiles of the 1640s and 1650s. Even the University of Leyden was filled with Englishmen: between 1575 and 1675, over 950 students poured through this great university’s doors.⁹ Thus, while England was still rife with civil war, her next-door neighbor provided freedom for both factions.

Even John Locke found temporary sanctuary in Holland during his enforced exile from England. While in Holland, the free flow of ideas, as well as the influence of Huguenot refugees

“The final end of the State consists not in dominating over men, restraining them by fear, subjecting them to the will of others, but, on the contrary, in permitting each one to live in all possible security—that is to say, in preserving intact the natural right of each to live without injury to himself and others.”

—BENEDICT SPINOZA
(1632-1677)

from France, helped to make Locke the philosopher we know today. Other famous thinkers who benefited from Holland’s liberal atmosphere included Descartes and Spinoza. Spinoza, a member of the Jewish community that had settled on the Jodenbreestraat (Jewish Broad Street), described Amsterdam in glowing terms. It was a city “whose enjoyment of this freedom has made it great and admired by the whole world . . . In this flourishing state,” he continued, “this city without a peer, men of every race and sect live in greatest harmony . . .”¹⁰ Despite the growing capitalist economy, Spinoza could not find a market large enough for his ideas, and had to subsidize his work in philosophy by grinding and polishing optical lenses. And even though this trade may have hastened his death from phthisis, through the absorption of glass particles into his lungs, he was a philosopher who was not beholden to the state for his income.

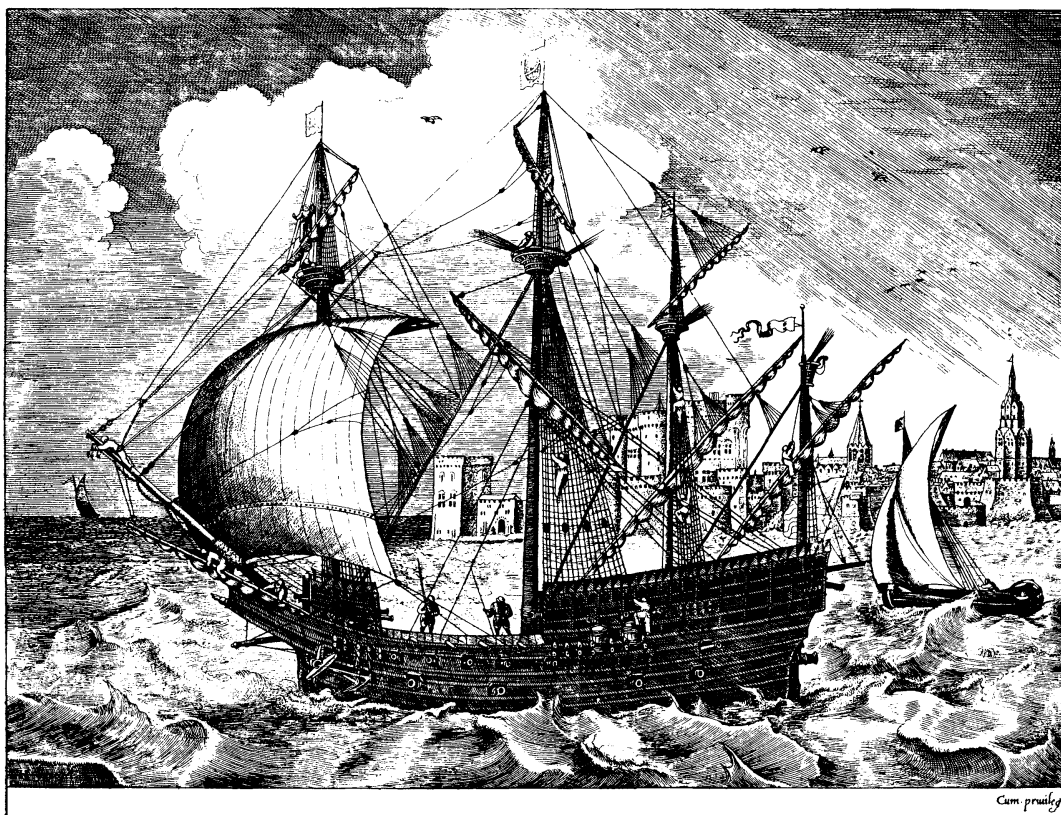
By 1685, there were so many immigrants in The Netherlands that a French observer calculated that they comprised half the population in the province of Holland. What brought them there was the tremendous opportunity that Holland’s free market offered. When Adam Smith published his *Wealth of Nations* in 1776, Holland was beginning to wane as an economic power. Yet there was still enough freedom there for him to cite it as an example to his British readers: “Though there are in Europe,” he wrote, “a few towns which in some respects deserve the name of free ports, there is no country which does so. Holland, perhaps, approaches the nearest to this character of any, though still very remote from it; and Holland, it

is acknowledged, not only derives its whole wealth, but a great part of its necessary subsistence, from foreign trade.”¹¹ With few natural resources, save for her own sturdy people, Holland was the Hong Kong of the seventeenth century.

Freedom of the Seas

Dutch dependence on open markets and free trade led to one of the first formulations of the doctrine of freedom of the seas. Although many believe this doctrine to be of British origin, it was first formulated by Hugo Grotius. Taking aim at the overbearing claims of Spain and Portugal, Grotius wrote: “Between us and the Spaniards the following points are in dispute: Can the vast, boundless sea be the appanage of one kingdom alone, and it not the greatest? Can any one Nation have the right to prevent other nations which so desire from selling to one another, actually from communicating with one another? Can any Nation give away what it never owned, or discover what already belonged to someone else? Does a manifest injustice of long standing create a specific right?”¹² The doctrine of the freedom of the seas, so important for the unhindered flow of world trade even to this day, was primarily a Dutch contribution. Upon the oceans, the Dutch plied not only their wares but those of other nations, and thus made their fortunes.

As the Dutch economy grew, nurtured by the “first principles” of freedom, so did the middle class that depended on such a philosophical climate. This rising group of entrepreneurs, in turn, helped to foster one of the greatest eras in the history of art. The Dutch masters painted everything—portraits, landscapes, still-lives—not just the subjects chosen by a few wealthy patrons. Rich merchants, shopkeepers, and yes, even peasants bought pictures to furnish their homes and for investments (in lieu of land, perhaps, since it was in short supply). Had there not been this expanding market for paintings, Van Goyen may very well have had to sell more tulips than he did, while Jan Steen would have had to expand his inn. Dutch money also found its way into Europe’s most elaborate private welfare system. “It is doubtful if England or any other



A sixteenth-century Dutch sailing ship. An engraving by Peter Bruegel the Elder.

country,” wrote Wilson, “could rival the scores of almshouses for old men and women, the orphanages, hospitals, and schools maintained by private endowments from the pockets of the Dutch regent class.”¹³

Unable to contain their economic activity to their own country, Dutch capital and ideas went to work all over the world. In Russia, the Dutch exported caviar, tar, hemp, oil, salmon, and wool. In Scandinavia, they drained swamps, cleared forests, built canals, and opened mines. They introduced the cabbage to England, and planted the first pineapple on English soil. All over Europe they taught farmers how to grow crops that took salt out of the reclaimed land, as well as how to rotate crops.

As Dutch ships reached into the far corners of the globe, Dutch mapmakers incorporated these new discoveries into their work and at the same time became the best mapmakers in Europe (Mercator was a Fleming). And to help their ships pick their way across uncharted seas, the Dutch produced the best telescopes, binoculars, spectacles, and navigational instru-

ments in Europe (the telescope was a Dutch invention). Peter the Great paid the Dutch lasting tribute, for when he wanted to learn how to build a “real” ship, he went to Holland. Liberty, not coercion, brings out the best in man’s industry and creativity.

Eventually what was working in practice was soon defended in print. Although written chiefly as a tract against the house of Orange, *The Interest of Holland*, written by Pieter de la Court, is filled with the kind of policies that make for freedom. A self-made man, he supported the practices which made social mobility possible for others as well as for himself. His arguments went something like this: war is perhaps the most devastating thing to the Dutch economy, so it ought to be avoided at all costs. Peace is the most beneficial of all conditions for Holland. Since Holland’s wealth is based upon the sea—and the bulk of her property consists of ships, cargoes, and stocks in warehouses—it is always at risk in wartime. Holland should never start an offensive war, and should promote freedom within her own

borders. The most important freedom to be promoted is religious freedom, since it involves the right to own one's thoughts and beliefs. Immigration should continue to be encouraged, and taxes should be as low as possible. The main purpose of taxes should be to defend Holland's merchant marine by a strong navy. Finally, let the flow of precious metals be as free as possible.¹⁴

The Dutch experience from 1579 to 1750 clearly shows that a nation's wealth rests not so much on population, for England and France had many more people, nor on natural resources, for Holland had few, but on an underlying philosophy of freedom. In Holland's case, this state of relative freedom was not so much the result of a deliberate government policy of laissez-faire as it was a natural outgrowth of people acting freely in the marketplace under certain conditions. Certainly Holland in the seventeenth and eighteenth centuries was not a society of Friedrich von Hayeks or Ludwig von Miseses. Inconsistencies were legion. Grotius was forced into temporary exile in Sweden, and it was a Dutch ship that brought the first slaves to America. But it was, for its time, the world's freest society, and the result was the Dutch Golden Age.

Had The Netherlands continued to move in the direction of freedom, it might very well have become the "Hong Kong" of twentieth-century Europe. Instead, Holland took a left turn somewhere along the path of history. The trend toward more government was evident even in Adam Smith's day. "In Holland the heavy taxes upon the necessaries of life have ruined, it is said, their principal manufactures," Smith wrote in *The Wealth of Nations*, "and are likely to discourage gradually even their fisheries and their trade in shipbuilding."¹⁵

Today, The Netherlands stands knee-deep in a flood of socialism and government intervention, a force against which her famous dikes have proved defenseless. Even the heirs of the great Dutch painters are subsidized by the government, and warehouses are full of paintings that are bought up by the government through a guaranteed income program for artists. Yet it would be unfair to single out Holland and neglect to mention most of the other nations in the

West. One would be hard-pressed to find a nation today that is not overgoverned. All over the world, government regulations on businesses and individuals "hang like ice on a Dutchman's beard," as Shakespeare put it. Only in the past few years has the debate begun to change, and people in the West are seriously talking about stopping the growth of government.

One of the most famous stories that has come down to us from Dutch history is that of the little boy who discovered a leak in one of the dikes. All night he held his finger in that dike, until others could arrive to make the necessary repairs. Through his heroic action, his town—his "civilization"—was saved from destruction. Today, those of us who believe in liberty stand, like that little Dutch boy, with our fingers in the dikes of freedom all over the world. But holding back the forces of coercion is not enough. Each year we must work to reclaim new territory for freedom. If there is a shift beginning to occur in today's philosophical climate, it is because there are men and women who continue to stand for the great principles of liberty, and who encourage the ideas and institutions that worked so well for the Dutch in the seventeenth century—self-government, morality, free markets, limited government, and free men. □

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China's 'Free Enterprise' Experiment

by Donald J. Senese

Chinese college and university students marched in protest at the end of 1986 and in early 1987, demanding political freedom and democracy. These internal disruptions have provided an opportunity to probe into the recent changes in China, including the decentralization and decollectivization of parts of the economy introduced by China's current ruler, Deng Xiaoping. How significant—and how lasting—will be the efforts to introduce free enterprise principles into China's Marxist economy?

Deng Xiaoping came to power shortly after the death of Mao Zedong. He introduced a program called the "Four Modernizations" which called for the development and modernization of agriculture, industry, science and technology, and the military—seeking to make China a major world economic power by the 21st century.

Deng's program has been called "pragmatic" by Western journalists, many of whom have contrasted it with Mao's plan of rigid Marxist autarky. Orville Schell, an author and China traveler, wrote enthusiastically about China's changes under Deng Xiaoping, noting that "old style Chinese Communism was beginning to be consumed by change."¹

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Mao Zedong (1893-1976) was one of the original members of the Chinese Communist Party. He was elected chairman of the newly established Soviet Republic of China in 1931. After several battles with the Chinese Nationalist forces, Mao and his followers fled on the famous "Long March" (1934-1935). Japan's invasion of China placed the Nationalists on the defensive—fighting Japanese militarism and Chinese Communism at the same time. Mao's forces finally drove the weakened Nationalist forces from the mainland on October 1, 1949.

The writings of Marx foresaw the triumph of Marxism in the industrialized nations. However, Lenin developed a theory of national liberation which sought to carry the Marxist struggle to the Third World. Mao built on this theory, seeking to develop a peasant base for the Communist revolution. It was his peasant-based revolutionary group which brought Mao to power.²

Mao's Economic Mecca

Mao began an immediate communization of the Chinese economy. He seized private property and placed the Chinese government in control of all economic sectors. Businessmen and landlords were arrested, put on public trial, and in some cases, executed. Businessmen lost their businesses and landlords lost their land. Those whose parents had been active in the Chinese Nationalist government, business, or as large landholders were considered the enemy

class; economic benefits were showered on peasants and Communist Party officials. Mao exercised brutal political and economic control to bring China under the yoke of Communism.

Mao's most serious economic failure was the "Great Leap Forward" (1958-1960). Mao collectivized agriculture, splitting up peasant families as he moved them from small plots into massive communes. He abolished the last traces of free enterprise in the villages—the private plots where the peasants could grow extra grain, and the markets where they could sell their grain, pigs, and chickens.³

Chinese in both rural and urban areas were urged to contribute to industrialization by setting up "backyard steel furnaces"—a "great leap backward" for the division of labor. Scrap iron from pots and pans was collected to provide raw materials. Despite the exhortations of Party leaders, agricultural production declined, famine spread, and the products of the "backyard steel furnaces" were found useless.⁴

Mao became even more insistent on his doctrinaire economic course after the split with his Soviet allies in the 1960s. When Soviet technicians left China, Mao pushed his program of mass indoctrination, hoping that the cult of Maoism would bring economic miracles. Instead, his program brought misery to the Chinese people.

However, an even greater social disaster would soon afflict China—Mao's "Great Proletarian Cultural Revolution," which lasted from 1966 to 1976. Faced with the economic failure of the Great Leap Forward, some of Mao's supporters urged that incentives be brought into the economy to foster economic development. Mao denounced those favoring such changes as "capitalist roaders," and prominent Communist leaders such as President Liu Shaoqi were purged while others such as Deng Xiaoping lost positions of power. The Cultural Revolution plunged China into economic and political chaos as colleges and universities were closed, prominent leaders were arrested, and millions of Chinese were moved from the cities to the countryside to labor with the peasants. The youthful revolutionaries, known as Red Guards, destroyed cultural monuments while persecuting parents, professors, government officials, and even Communist

Party leaders. Mao called in the army to restore order, but China's economy had been reduced to ruin.

Deng's New Direction

When Mao died in 1976, his widow Jiang Qing and her followers, the "Gang of Four," tried to continue the Maoist policies of centralized economic control. This group soon was arrested and the power struggle continued until Deng Xiaoping emerged as the new Chinese strongman. Deng had the advantage of hindsight in seeing the failure of socialist economics.

In announcing the "Four Modernizations," Deng steered a new course from Mao's rigid central controls. This departure made Deng seem more pragmatic and willing to introduce incentives to spur growth. Mao had insisted that "Red is Expert" and that the Chinese masses could accomplish anything in politics and economics. Deng rejected doctrinaire slogans in favor of a more realistic approach, stressing that, "It does not matter if a cat is black or white as long as it catches mice." Was Deng abandoning Karl Marx in favor of Adam Smith?

Deng announced a new program for economic development, calling for (1) abolition of the collectivized agricultural system, (2) encouragement of private peasant plots to raise agricultural products to sell in the marketplace, (3) reduction in centralized economic planning, making local economic units responsible for the acquisition of raw materials, (4) encouragement of technology to increase productivity, and (5) the use of joint ventures with foreign firms (e.g., the United States and Japan) to bring additional funds and investment to China. To support the latter program, special economic zones were developed in areas such as Shenzhen, near the Hong Kong border, and Zhuhai, near Macao.

Yet Deng made it clear that this program was not an abandonment of Marxism but rather an interpretation of Marxism which fit the particular economic circumstances in China. He dubbed it "socialism with Chinese characteristics." Deng stressed that four essential characteristics still remained central to any Chinese

From "Peking" to "Beijing"

For many years Westerners were accustomed to the spellings of Peking, Mao Tse-tung, and Chou En-lai. In January 1979, however, the Chinese government introduced a new system of transliteration—the "pinyin" system. Since then, the U.S. government has adopted the pinyin system for official use in all names and places relating to the People's Republic of China. Here are some examples of the old spellings, followed by the pinyin updates in italics: Peking, *Beijing*; Mao Tse-tung, *Mao Zedong*; Chou En-lai, *Zhou Enlai*; Teng Hsiao-ping, *Deng Xiaoping*.

policy: leadership by the Chinese Communist Party, the dictatorship of the proletariat, socialism, and the primary of Marxist-Leninist-Maoist thought.

Deng has stressed that China will learn from other countries, but will not mechanically copy their systems. He has expressed the following view on many occasions: "We must integrate the universal truth of Marxism with the concrete realities of China, blaze a path of our own and build a socialism with Chinese characteristics—that is the basic conclusion we have reached after summing up long historical experience."⁵

The Chinese people have become restless under a totalitarian system which has denied them a better life. Their aims are getting higher. Under Mao, they wanted wristwatches, bicycles, and footpowered sewing machines. Under Deng, they want television sets, refrigerators, and tape cassette players.⁶ However, this change in material objectives may not signal a significant change in the long-range prospects for economic and political freedom.

Restrictions on Deng's Program

The adoption of limited incentives in the Chinese economy is more a recognition of the failure of socialist economics than a conversion to free enterprise. While China has experienced economic growth since 1981 as a result of de-

centralization and the flourishing of markets in urban and rural areas, major economic decisions are still made by the Chinese Communist Party.

Although decision-making has been decentralized from Beijing, it has been switched to provincial and local officials. Unlike Japan and Korea, where Western businessmen can deal directly with entrepreneurs, in China Western businessmen must deal with a government bureaucracy slow to make decisions and at times uncertain in direction.

The most impressive advances have been in the rural areas where incentives have allowed the Chinese to raise some of their own agricultural products, sell them in the market, and then purchase needed equipment with any surplus received. Yet the farmers, who operate under a so-called responsibility system allowing them to use the land for fifteen years, realize that this program can be reversed at any time.

Less impressive have been advances in the industrial sector. Allowing provincial and local officials a greater voice in determining projects led to an overexpansion of major capital projects without an understanding of the market decisions needed to allocate raw materials and energy sources. There are about 100,000 major projects under construction, which is far beyond the nation's economic and managerial capabilities.

China's economy grew at 12.3 per cent rate in 1985, with the industrial sector expanding at 18 per cent. However, economic growth slowed to 9.2 per cent in 1986 and industrial growth fell to 11.1 per cent. China continues to suffer from poor distribution networks for its products, and while some efforts have been made to increase the number of enterprises outside the control of the central government, the bankruptcy law and the management-responsibility system have strengthened the control of the state.⁷ Yet, China's leadership has expressed concern about the economy expanding too fast, and it has placed brakes on the rate of growth.

Even the development of special economic zones such as Shenzhen has raised doubts about China's ultimate commitment to free enterprise. These zones were created to attract for-

eign investment and capital to China. However, only the Shenzhen zone has lived up to earlier expectations while the zones in Zhuhai, Xiamen, and Shantou have not performed as well. Moreover, the central government still exercises continual oversight and decision-making powers over these zones, and problems such as the development of special currency, stability of the governmental organization, enactment of commercial laws, and coordination with the other zones limit the efforts toward true free enterprise in these experimental regions.⁸

The Economy and Political Crises

Advocates of freedom realize that there are strong links between economic and political freedom. Despite concessions in the economic sphere, recent actions of the Chinese government have made it clear that there are no compatible efforts to provide for political liberalization.

China watchers saw a hopeful sign when the Chinese allowed the existence of "Democracy Wall," on which political posters were put up to encourage discussion and debate. When the student Wei Jingsheng put up his poster demanding a "Fifth Modernization," namely democracy, he was arrested, tried, and sentenced to a long prison term as an enemy of the state. "Democracy Wall" was shut down.

The campaign in the early 1980s against "spiritual pollution" was directed against practices which the Chinese leadership felt had come with capitalism to China. And during the student demonstrations in late 1986 and early 1987, Deng dismissed the calls for political freedom as "bourgeois democracy" and stressed that China would not give in to such Western ideas. Both Deng and his critics, who want a more centralized economy, agree on the need to keep the Chinese Communist Party in control. And without a system in which political control is lessened and individuals can experiment, a market economy cannot exist for long in China.

Chinese leaders have called on farmers and factory managers to show more initiative. However, the recent political restrictions may

cause the more industrious farmers and factory managers to hold back and play it safe rather than take a chance on being accused of "bourgeois liberalism."⁹

A political struggle is taking place in China. Party General Secretary, Hu Yaobang, was forced to resign. Two intellectuals who dissented from the Communist Party line, Fang Lizhi and Wang Ruowang, were expelled from the Party. The campaign against "bourgeois liberalism" is taking place in earnest as a continuing struggle prevails in anticipation of the 13th National Congress of the Communist Party scheduled for October.¹⁰ Any efforts to bring further Western reforms to China—either a lessening of government control over the economy or more freedom in the political sphere—seem destined to meet strong opposition from both the supporters of Deng and long-time followers of Mao who seek a return to more centralized economic control.

Those steeped in history can recall that whenever Marxist governments get into economic trouble, they seek support from capitalist nations and at the same time allow economic incentives to bail out the failures of socialism. Even Lenin, faced with economic difficulties resulting from his socialist policies, adopted the "New Economic Policy," which allowed elements of free enterprise to enter the Soviet Union's economy. When the economy began to grow, Lenin clamped down on this limited economic freedom, returning to socialist/communist policies while initiating a further tightening in the political sphere.

There is nothing to indicate that the Chinese experience will be any different. The limited reduction of economic controls may not last beyond the rule of Deng, who turns 83 this year.

The Challenge Ahead

China is better off under Deng Xiaoping with limited economic freedom than the doctrinaire policies of Mao Zedong. But already Western investors, sensing the struggle between Deng and his critics as the 13th National Congress of the Communist Party approaches, are unsure of the future investment climate for China. Those who have called for more freedom, especially in the political realm, have been silenced, im-

prisoned, and/or expelled from the Communist Party. Deng's economic policies have fallen far short of initiating a free market economy in China.

The great irony in China's development is that Mao Zedong called the centralized economic system in China the wave of the future for the development of Asia as well as the Third World. His prediction was wrong and his policy failed. The nations which did develop were the ones which followed the Western model of relatively free enterprise and political freedom such as Japan, South Korea, and the Republic of China. After almost forty years of Communist rule, China finds itself borrowing lessons from its free enterprise neighbors to keep its economy afloat.

While China has reduced some of its harsh revolutionary rhetoric on the international scene, there is evidence that China, once it has acquired Western technology and expertise, may once again resort to a more militant foreign policy and use its technology, like the Soviet Union, to strengthen its control over its own people and other nations.

The Chinese people have benefited from the limited steps toward free enterprise, but they lack the political power to advance this

freedom. The Chinese Communist Party monopolizes the political sphere. It is unlikely that any additional economic freedom will be granted unless it is seen as posing no threat to the continued dominance of the Communist Party. We can only hope that this taste of economic freedom will some day bring about an advancement of political freedom so that a true free enterprise can develop in China. □

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In Future Issues . . .

August

- "Which Liberalism?" by Tyler Cowen
- "Take Back the Environment" by Jorge E. Amador
- "One Complaint per Customer, Please" by Jane M. Orient
- "A Balanced Budget Amendment" by Hans F. Sennholz

September

- "Superstars as Slaves" by Jerome Ellig
- "Socialized Stadiums" by Robert A. Baade and Diane Carol Bast
- "Public Choice Theory: Not the Whole Story" by Tibor R. Machan
- "The Hungarian Illusion" by James Bovard

World Resources and Economic Exploitation

by M. W. Sinnett

“**T**he United States, with x per cent of the world’s population, is consuming y per cent of the world’s resources.” This is the general form of a class of statements which reach us from a variety of sources and with various specifications. Whether it is the “United States” which is specifically mentioned, or the “Western world,” or the “developed nations”; and no matter the particular values of “ x ” and “ y ” (just so long as y is considerably larger than x); the message is always the same: a small minority of the world’s population is “consuming” a large majority of “the world’s resources.”¹

The real significance of these types of statements, however, does not lie in their strictly factual nature, but in the inference of economic inequity, or exploitation, which is almost universally drawn from them. It just seems to follow immediately that the situation is unjust in which x is less than y , especially if x is considerably less than y , and it is precisely this lurking inference of inequity, with its reinforcement of what we may call the *will to planning*, that we wish to examine in this essay.

How has this situation come upon us? How has this inference of inequity come to occupy such unchallenged pre-eminence in public discussion? This situation has arisen (as is so often the case) from the presence of a hidden premise, which we may state as follows: “Resources are part of the physical endowment of the earth, and all people have a right to consume their fair share of them.” It now remains to show, through a critical analysis of its terms,

that this premise, far from being obviously true, is rather spectacularly false. We will then be in a position to conclude that, far from constituting injustice or exploitation, the unequal consumption of the “world’s resources” is a result of developments which should be particularly welcome to the inhabitants of developing nations.

Virtually every rendering of the facts of resource distribution employs the language of consumption. It is said that “the United States . . . is *consuming* y per cent of the world’s resources,” and against the alleged injustice of this circumstance, it is urged that “all people have the right to *consume* their fair share” of these same materials. Very rarely will the fact be volunteered that before firms and individuals in developed countries consume resources they also *buy* these resources. Nor, in our opinion, is this merely an oversight. For it seems clear without further analysis, that the assertion, “The United States, with x per cent of the world’s population, is *buying* y per cent of the world’s resources,” is a relatively more innocuous statement, and one less to be relied upon to motivate the conclusion of economic exploitation, than the one with which we began.

Why does the change of this one word have such a dramatic effect? One reason might well be that we immediately recognize the legal (and moral) right of the purchaser to “consume” the materials he has purchased. Far more importantly, however, our recognition of the purchase, and not the mere consumption, of natural resources opens our minds to the existence of the seller, as well as to his reasons for choosing to participate in the sale.² Even

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without knowing the concrete details of any particular transaction, the mere recognition of an exchange should serve to remind us of the precondition of any market transaction; namely, that buyer and seller have placed different relative values on the goods exchanged. It should serve to remind us, that is to say, of the fact of "subjective valuation."³ Indeed, as we shall now see, subjective valuation takes on an extremely dramatic form in the context of resource economics.

The Meaning of "Resource"

The inference of exploitation depends upon the idea of the objective value of resources. For, if resources have an objective value—that is, a value independent of person or place—and if manufacturers in developed economies are profiting by "consuming" them, then, so the argument goes, the exporters are not being justly rewarded for their contribution to this process; that is, they are not being paid for what their resources are "really worth." Thus, in what amounts to another "surplus value" argument,⁴ exploitation is inferred from the simple fact of the importers' profits.⁵

This appearance of objective value, in turn, is achieved by representing a resource's "utility" (i.e., its "usefulness" in various manufacturing processes) as itself an objective characteristic of the material in question. The utility of the resource comes to be viewed as a property which is inherent to the material as a physical substance, and which is independent of the person who uses the substance and of the circumstances in which it is used. It is then as if the term "resource" belongs to the technical vocabulary of geology (as in the first half of our previously mentioned hidden premise, where "resources are part of the physical endowment of the earth"); and as if "utility" denotes a physical characteristic possessed by a given material along with its density and specific gravity, so that anyone physically possessing the material in question just as surely enjoys the "utility" of that material (as in the second half of the "hidden premise," where the universal "right to consume" resources presupposes the universal *capacity* to consume resources).

Now, in fact, "resource" is part of the ter-

minology of *economic* science (instead of *geologic* science) and it is to the formulations of economists that we must turn in order to gain a proper understanding of it. In the first place, the concept of "resource" is what F. A. von Hayek calls a "teleological concept." That is, it is a concept which "can be defined only by indicating relations between three terms: a purpose, somebody who holds that purpose, and an object which that person thinks to be a suitable means for that purpose." A resource, therefore, is "defined not in terms of [its] 'real' properties, but in terms of opinions which people hold about [it]."⁶

This teleological emphasis can be more directly applied to the questions at hand by means of a distinction made by Ludwig von Mises, the distinction between "objective use-value" and "subjective use-value." The former, says Dr. Mises, is a "technological notion" referring to "the relation between a thing and the [objective] effect it has the capacity to bring about." The latter, on the other hand, is a "praxeological notion"—a notion pertaining to human action—and "is tantamount to [the] importance attached to a thing on account of the belief that it can remove uneasiness."⁷

By way of illustration, "It is to objective use-value that people refer in employing such terms as the 'heating value' or 'heating power' of coal."⁸ The capacity of coal to burn and give off heat is a constant of the material and certain physical conditions, but the opinions which people hold of this capacity can vary almost arbitrarily from circumstance to circumstance, and from user to user. Thus, the objective use-value of coal is the same on a sultry summer afternoon in Houston as it is on a blustery winter evening in Boston, but the subjective use-value in the two situations is likely to be conceived quite differently by most people.

It is clear that the two concepts are related. Subjective use-value will often be predicated by people on the basis of their recognition of objective use-value. Particularly in discussions of resources, the concept of objective use-value will be a *necessary* one, but it will not be *sufficient*. An adequate understanding of the nature of a resource must take into account subjective use-value as well, particularly as this is manifested in market demand for the material in

question. As a bare minimum, it must take into account (1) the process of technical and entrepreneurial development by which the status of a material as a resource is first constituted; (2) the many uses of the material in the market which constitute its exchange value, but which, for the most part, will lie beyond an observer's technical knowledge; and (3) the multiple substitutions made for the material, by which people achieve given purposes through different means, and of which, once again, an observer will know very little.⁹ We may summarize this by saying that *an adequate concept of "resource" must involve us in the process of the market.*

An Example from Adam Smith

The question now arises as to how something as static as a "concept" can possibly "involve" us in something as dynamic as "the process of the market." As is so often the case in social theory we may best proceed by means of a concrete example; in this case, a situation described by Adam Smith in *The Wealth of Nations*. Smith observes that, in the British Isles of his day, "timber for building is of great value . . . and the land which produces it affords a considerable rent." At the same time, however, "in many parts of North America" the materials of lodging and shipbuilding were so excessively abundant that "the landlord would be much obliged to any body who would carry away the greater part of his large trees." And he points out that, while such materials afford the North American landlord no rent at all *from within his own country*, "*The demand of wealthier nations . . . sometimes enables him to get a rent for it*"¹⁰ (emphasis added). In other words, it seems, a material (timber) of no exchange value at all within the "developing" economy of North America brought great revenue when placed in contact with the "wealthier," more highly developed, economies of Europe.

What does the foregoing analysis allow us to understand about this situation? In the first place, we see the crucial importance of distinguishing objective from subjective use-value. From an objective point of view, timber is the same whether it is stacked on a New England

farm, say, or in a Liverpool shipyard (just as coal-in-sultry-Houston is objectively equivalent to coal-in-blustery-Boston). But from the differing subjective perspectives of participants in the economies of North America and of Great Britain, it is almost as if we have to deal with two completely different substances. The New England farmer, eager only for more cleared land to cultivate, viewed "his large trees" as merely *timber-in-New England*: they were a waste-product and a considerable nuisance. To the commission agent of a Liverpool shipyard, on the other hand, this same material was viewed as *timber-in-Liverpool*: it was a valuable *resource*, for which he was prepared to pay good money.

It is now easy to see why the farmer might well have been willing to sell "his large trees." His options, after all, were: first, to accept coin of the realm in exchange for the trees to which he otherwise attached no value at all (or, if anything, a certain disvalue); or, second, to disdain the shipyard's money and retain his valueless trees! It is difficult to imagine him deliberating too long over such a choice as this. Indeed, his only point of confusion might have come in persuading himself that the Englishman was in earnest in offering money for something he regarded as being utterly worthless.

This example gives us further insights of what it means to "consume." Our normal use of this word seems to connote an activity of the utmost passivity. As it is used in the statement with which we began (as well as in the "hidden premise"), it would seem to imply that an economy "consumes" resources in the same casual way in which a person "consumes" the food on his dinner plate. Quite to the contrary, however, in the case at hand this consumption required the techniques of eighteenth-century naval architecture as well as the enormously complex demands placed upon the shipbuilding industry by the global reach of British commerce. Once again, it was precisely the economic process represented by the shipyard's capacity to consume the farmer's trees by which they were constituted a valuable resource (timber-in-Liverpool); and it was precisely the farmers' incapacity to consume "his large trees" which rendered them worthless (mere timber-in-New England) in his eyes, and which

made him more than willing to sell them to anyone foolhardy enough (from his perspective) to buy them.

Our results may be generalized as follows. It is the market processes of the developed economies which *create* resources out of raw materials which are completely valueless when viewed strictly within the context of underdeveloped economies.¹¹ Indeed, as we have been implicitly asking all along, if developing nations did not enjoy, or chose not to exercise, the option of selling their raw materials *what would they then do with them?* What is it about the possession, merely as such, of materials which have no subjective use-value—which *are not resources*—within an underdeveloped economy, which would compensate that nation for the loss of the revenue which would accrue from the sale of these same materials? When one realizes, as is now obvious, that no such compensation is forthcoming, then one also realizes why these nations' representatives are ready to sell these materials to those from beyond their borders who alone are able to regard them as resources and who are therefore willing to pay money for them. It is now clear that there is little to be said for the "hidden premise" which it has been our purpose to analyze.

Exploitation in a Pickwickian Sense Only

It now remains to directly address the charge of "economic exploitation." The challenge which confronts us is not so much that of resolving the issue at hand, but of keeping a straight face while doing so. Indeed, it is interesting to note that the comic possibilities of such a situation as we confront here have already been exploited. In *The Pickwick Papers*, Charles Dickens shows us Mr. Pickwick and his loyal followers journeying through the Kentish town of Cobham. Suddenly, the immortal Pickwick drops to his knees at the foot of a cottage door and announces his discovery of a small stone bearing what he takes to be an ancient inscription. Immediately he launches into negotiations for the purchase of the stone from the cottage's astonished owner, a laboring man by the name of Bill Stumps¹²:



Mr. Pickwick addresses the Club.

"You—you—are not particularly attached to it, I dare say," said Mr. Pickwick, trembling with anxiety. "You wouldn't mind selling it, now?"

"Ah! but who would buy it?" inquired the man, with an expression of face which he probably meant to be very cunning.

"I'll give you ten shillings for it, at once," said Mr. Pickwick, "if you would take it up for me."

Mr. Stumps' astonishment derives from the fact—later publicized by Mr. Blotton, one of Mr. Pickwick's rivals in his own club—that while Mr. Stumps presumed the stone to be ancient, he "solemnly denied the antiquity of the inscription—inasmuch as he represented it to have been rudely carved by himself in an idle mood. . . ." On the other hand, this revelation does not lessen the value of this "antiquarian discovery" to Mr. Pickwick, to whom it brings a pair of gold spectacles (voted him by the Pickwick Club) and membership in seventeen "learned societies" both "foreign and domestic"; and which "remains an illegible monument" to the greatness of Samuel Pickwick, as well as "a lasting trophy to the littleness of his enemies."¹³

Now, is there really any point in asking whether Mr. Pickwick has “exploited” Mr. Stumps? Well, of course, no one will suggest that there is. But is Mr. Stumps’ position with regard to the “antiquarian discovery” really all that different from that of the New England farmer with regard to “his large trees”? The farmer, after all, had as little use for his trees as Mr. Stumps has for his stone. This is why we were so easily able to imagine the farmer’s astonishment at the fact that someone would offer money for them: “Those large trees there: you—you—are not particularly attached to them, I dare say. You wouldn’t mind selling them, now?” says the commission agent. “Ah,” responds the farmer, “but *who would buy them?*”

We conclude that underdeveloped nations, in exporting their resources, are victims of “economic exploitation” in a Pickwickian sense only. Indeed, it is difficult to imagine them having to endure in this process anything more rigorous than *windfall profits*; profits which they have had no role in producing; profits which depend upon technical developments and market demand which have been exclusively the contribution of the developed nations. On such terms as these we will all be anxious to be “exploited” ourselves to the fullest extent possible!

The Creative Powers of a Free Civilization

It is interesting to note, finally, the transformation which has now been worked in our view of the gap between x and y (the gap between America’s percentage of the world’s population and the percentage of America’s consumption of the world’s resources). Whereas, originally, it was somewhat natural for us to see it as a source of shame or embarrassment—whereas, originally, it naturally suggested to us the inference of economic exploitation—it now appears in a different light. Now that we know what a vital role is played by that “x per cent of the world’s population” in *creating* “the world’s resources,” the gap in question is no longer a measure of exploitation, but of undeserved benefits poured out upon less developed coun-

tries. It no longer measures the debt of the United States to the world, but that of the world to “the creative powers of a free civilization.”¹⁴ □

1. Cf., e.g., D. H. Meadows, *et al.*, *The Limits to Growth* (New York: Universe Books, 1972), pp. 56–9, and 67f.
2. Of course, it may be argued that those within less developed countries who make such choices are the beneficiaries of profound inequities in ownership and control of such resources within their own nation. However this may be—and there can be no doubt that the political organization of many Third World nations leaves much to be desired—the applicability of the following analysis is unaffected. For, if resources could be more profitably employed *inside* the exporting nation, then the persons having control of them, no matter who they are, and no matter how they achieved this control, would not choose to sell them *outside* their country.
3. Cf., e.g., L. von Mises, *Human Action: A Treatise on Economics* (3rd rev. ed.; Chicago: Contemporary Books, Inc., 1966), pp. 331–33.
4. Cf., e.g., K. Marx, *Capital*, F. Engels, ed., Vol. 50 of the Great Books of the Western World, R. M. Hutchins, ed. (Chicago: Encyclopedia Britannica, 1952), pp. 13–16.
5. Cf. I. M. D. Little, *Economic Development: Theory, Policy, and International Relations*, Twentieth Century Fund Book (New York: Basic Books, Inc., 1982), p. 220: “One Marxist feature, common to all or most members of [the neo-Marxist school of development economics], is the manner in which they manipulate language. The trick is to define a concept with value-laden connotation in a manner that often bears little relation to ordinary usage—the so-called persuasive definition. Marx’s key persuasive definition was that of the word ‘exploitation’—so defined that any enterprise that pays a worker a wage, and makes a profit, necessarily exploits him.”
6. F. A. von Hayek, “The Facts of the Social Sciences,” in *Individualism and Economic Order*, Midway Reprint (Chicago: The University of Chicago Press, 1980), pp. 59–60.
7. Mises, *op. cit.*, p. 120.
8. *Ibid.*, pp. 120–1.
9. Cf. the distinction between a “technologic” and an “economic” definition of resource supply in J. L. Simon, *The Ultimate Resource* (Princeton: Princeton University Press, 1981), pp. 42f. See also the discussion of this point in M. W. Sennett, “Method versus Methodology: A Note on The ‘Ultimate Resource,’” in *Review of Austrian Economics*, Vol. 1 (Lexington, Mass.: Lexington Books, 1987), pp. 217f.
10. A. Smith, *An Inquiry into the Nature and Causes of the Wealth of Nations*, R. H. Campbell and A. S. Skinner, eds., W. B. Todd, text ed., Vol. 1 (Oxford: The Clarendon Press of Oxford University, 1976), p. 179.
11. Cf. N. Rosenberg and L. E. Birdzell, Jr., *How the West Grew Rich: The Economic Transformation of the Industrial World* (New York: Basic Books, Inc., 1986), p. 10: “. . . a society’s economic resources are not its natural resources as such, but a relation, internal to the society, between its natural resources and its organizational and technological skills in extracting or otherwise acquiring and utilizing those natural resources for advancing its people’s material welfare. Resources that contribute to economic wealth are not simply material; they are a subtle combination of materials present in nature with the human knowledge and social organization required to use those materials (and, by extension, the efforts of human beings) to satisfy human needs. To the American Plains Indian, for example, the oil, coal, iron ore, forests, and farmlands of North America were not economic resources, but the buffalo herds were resources of the utmost importance.”
12. C. Dickens, *The Pickwick Papers*, The Oxford Illustrated Dickens (Oxford: Oxford University Press, 1979), p. 137.
13. *Ibid.*, pp. 148–9.
14. Hayek, *The Constitution of Liberty* (Chicago: The University of Chicago Press, 1960), pp. 22f.

Third World Development: Foreign Aid or Free Trade?

by John Majewski

Third World poverty is one of the most pressing problems of our age, condemning billions of people to lives of hardship and misery. Such poverty has led many Americans to want to help Third World peoples, both for humanitarian reasons and to increase our own trade and national security.

In response to Third World poverty, the U.S. government has provided over \$321 billion in assistance since World War II.¹ As this figure indicates, foreign aid is politically popular. Besides its humanitarian supporters, many special interest groups lobby for foreign aid. For example, American farmers back food assistance because such programs help eliminate politically embarrassing food surpluses caused by agricultural subsidies.²

While foreign aid is a political success, it is an economic and social failure. By increasing government power, destroying economic incentives, promoting unprofitable enterprises, and subsidizing misguided policies, foreign aid increases Third World poverty. In this essay we will examine two types of foreign aid: humanitarian and development assistance. We will then discuss alternatives to aid in helping the Third World, especially the policy of free trade.

Humanitarian Assistance

Humanitarian assistance—aid designed to avert immediate disaster—mainly takes the form of food aid that is allocated through Public Law 480, widely known as the Food for

Peace program. Since the establishment of FFP in 1954, the United States has distributed some \$34 billion worth of food to the Third World, and currently provides some \$1.2 billion a year in food transfers.³ Although it reduces the surpluses of our government farm programs, Food for Peace has actually increased hunger abroad in the long run.

One problem with food aid is that the dumping of free food in Third World countries depresses prices for local farmers, therefore resulting in less domestic production. According to George Dunlop, chief of staff of the Senate Agricultural Committee, millions of Indians may have died of starvation because American wheat dumped in India bankrupted thousands of Indian farmers.⁴ Thousands of Guatemalan farmers were likewise hurt when food aid poured into the country after the 1976 earthquake. For these unfortunate farmers, “the price of domestic crops dropped at a time when farmers desperately needed cash to improve and repair their homes. . . .”⁵ In Bangladesh, the upper and middle classes receive free food from foreign aid programs, thus impoverishing local farmers with artificially low prices.⁶

A second major problem with food aid is that it encourages the recipient nations to adopt policies that discourage production. With food aid to “cover-up” the most grievous results of their actions, Third World governments can pursue such counterproductive policies as forced collectivization and price controls on

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farm products. For example, Tanzanian President Nyerere was able to collectivize farms and engage in massive relocations of peasants because food aid “hid” the consequences of such actions.⁷ In many cases, such as in Bangladesh, food aid leads to the neglect of agricultural production because of the belief that other nations will provide sufficient amounts of free food:

Bangladesh officials are convinced that the international donors will not allow them to starve. Since it is easier to order a shipment of food through the embassy in Washington than to spend time and money on a domestic procurement program, a definite complacency has settled over the bureaucracy. The technocrats who dominate the powerful ministries of finance, planning and food are resigned to continued reliance on American, Canadian, Australian surpluses of food grains. One symptom of the relief mentality is a reluctance to invest too much of the country’s limited resources away from the more glamorous industrial sector and into low profile agricultural projects.⁸

The end result of programs such as Food for Peace is a complete dependence on food aid for many countries. Food aid destroys Third World food production, creating a perpetual crisis that requires more aid to avoid famine. The cycle continues until the country is completely dependent upon free food from abroad. As one analyst put it, foreign aid has become “the opiate of the Third World” that keeps the less developed countries (LDCs) permanently dependent on the West for their very existence.⁹

A third consequence of government-to-government food aid is the destruction of more efficient private efforts. Before World War II, private charities provided hundreds of millions of dollars in emergency aid. Because private food aid is administered directly to the poor—it is an exchange between individuals, not governments—it does not destroy markets through indiscriminate dumping or lead to destructive farm policies. Government food aid hinders private efforts by limiting the feeling of moral responsibility among citizens of more wealthy nations. Even more important, government food aid has “politicized” many private organizations by providing the bulk of the budgets,

therefore destroying their incentives to be efficient. Without private alternatives, Third World nations are quick to accept public aid that increases the likelihood of future food shortages.¹⁰

Development Aid

Development aid attempts to promote long-run growth of the LDCs by building large projects, giving budgetary and balance of payments help, and funding a variety of research and planning efforts. Since 1946 the United States has given over \$131 billion in development assistance.¹¹ Despite the scale of these international transfers, they have not led to sustained growth. Rather, aid has significantly impaired LDC progress by expanding the role of the public sector in the recipient nations.

Development aid is based on the premise that Third World nations don’t grow because they lack financial resources. But financial resources have relatively little impact on growth rates when compared to other factors. As P. T. Bauer argues, “Economic achievement depends on personal, cultural, social and political factors, that is people’s own faculties, motivations and mores, their institutions and the policies of their rulers.”¹² Even if financial resources were vital to growth, the Third World does not lack the means of obtaining international credit. If anything, the more than \$800 billion total debt accumulated by LDCs shows that they may have had too much financial capital, rather than too little.¹³

As with food aid, development assistance politicizes Third World economic life. Aid helps incumbents expand their power through political patronage. According to economist Doug Bandow, “The tendency of ruling groups, particularly in societies where political power is so important, is to use aid, or funds released by aid, to strengthen their own position, reward their supporters, and buy off or crush opposition movements.”¹⁴ By limiting political competition, foreign aid inhibits the implementation of badly needed market-oriented reforms.

Even aid that is not used for overt political repression leads to the growth of large, unproductive bureaucracies. According to a recent

Agency for International Development report: "Many African institutions officially responsible for planning and implementing development are saturated with development assistance, paralyzed by administrative inefficiency, staggering beneath a burden of complex and differing donor requirements, and are themselves in danger of become obstacles to development."¹⁵ Some countries that receive large amounts of development aid, such as Zambia, use over 20 per cent of their GNP to provide civil service employees with a standard of living which is "totally out of synch with the rest of the economy."¹⁶

Through these large bureaucracies, development aid fosters political exploitation. There are many examples of Third World governments using aid to enrich the ruling elite at the expense of the masses. President Sese Seko of Zaire, for instance, used foreign aid money to partly fund the construction of eleven presidential palaces.¹⁷ Foreign aid is also used to build expensive capital cities, such as Brasilia, Islamabad, Abuja in Nigeria, Lilongwe in Malawi, and Dodoma in Tanzania, that benefit few people except the ruling classes.¹⁸ In some of the poorest parts of Africa, government officials are known as "Wabenzi"—men of the Mercedes-Benz.¹⁹ Foreign aid is also used to subsidize expensive Third World airlines. These airlines benefit only the elite of the country, while taking away resources from needed private sector activities.²⁰

Even if development aid didn't lead to political exploitation, it would still foster economic inefficiency. Unlike firms in the private sector, government projects are not subjected to the discipline of profit and loss accounting. Because they operate outside the market, government projects—the kind financed by foreign aid—have low or negative rates of return. In many cases, aid agencies explicitly undertake such projects because the private sector refuses to finance them. Foreign aid thus channels the recipient nation's resources into unproductive areas of investment:

The broadest ill effect of development assistance is that it distorts market signals and incentives. It therefore diverts economic resources from their most productive uses in

developing nations. Whenever resources are made available outside of normal market channels, buyers and sellers in related market activities receive inappropriate signals and change their behavior, reducing locally generated incomes. The resulting distortions may be major or minor, but they always occur.²¹

Without the price system to guide them, Third World nations have attempted to develop by simply building the same type of enterprises that flourish in more advanced countries. Steel plants, aluminum factories, and oil refineries funded with aid money dot the Third World, despite the fact that the markets for these products are already saturated. Because they cannot hope to compete with more established firms, these aid projects drain skilled labor and other resources away from the private sector with no corresponding benefits.²²

Foreign aid not only wastes scarce resources in the very nations which can least afford waste, it also creates international tensions. Foreign aid has united the governments of the Third World into a cohesive unit that has but one goal: secure more aid. To accomplish this, the Third World has found that the politics of confrontation work best. In their eyes, the world is divided between rich and poor, with the former having an obligation to help the latter. The result is international conflict:

The West has created an entity hostile to itself—this is the biggest and most intriguing of the many anomalies of aid. Individual Third World countries are often neutral or even friendly to the West, but the organized and articulate Third World is at best critical and more often hostile. The purpose of the Third World *qua* collectivity is to coax or extract money from the West.²³

Finally, we must note that development aid significantly drains our own resources. Many people support foreign aid because of the perception that it helps our export industries. In fact, there are stipulations on most aid packages requiring the use of American goods whenever possible. Because foreign aid subsidizes American companies which deal with the Third World, it shifts assets from more effi-

cient firms, thereby reducing our overall economic performance. Supporting aid in the hope that some of it might be spent in the United States is like a supermarket giving money away in the hope that consumers will spend part of it in the store—there is always a net loss.²⁴

Another Way?

The basic problem with both types of foreign aid is that they strengthen the institutions which prevent progress while weakening the institutions of the Third World which could bring true prosperity. Aid increases the role of government and bureaucracy in the economic life of the Third World, while it minimizes the role of markets and private entrepreneurship. If we are to help developing nations prosper, we must find a method that creates a bigger role for institutions such as the market.

One way of aiding Third World nations is through free trade. By lowering our import barriers, we can allow the private sectors of the Third World easier access to our markets. With the huge markets of the United States available for their products, entrepreneurs will have the opportunity to develop new industries or expand old ones. As Lord Bauer writes, removing protectionist barriers will allow more Third World countries to experience the success of such Pacific Basin countries as Hong Kong and Singapore:

As for economic development, the West can best promote this by the reduction of its often severe barriers to imports from poor countries. External commerce is an effective stimulus to economic progress. It is commercial intercourse with the West which has transformed economic life in the Far East, South-East Asia, and parts of Africa and Latin America.²⁵

Free trade also has the advantage of helping our own economy. While this is no place to explode the numerous protectionist fallacies, free trade will increase our wealth with a great influx of goods and services from abroad. Like all voluntary exchanges, international trade is a positive sum activity; both America and the Third World benefit from it. Even if we make the heroic assumption that foreign aid actually

helps Third World countries, it would still be only a zero sum activity; it can only help the recipient nation by hurting the donor nation.

Foreign aid fails as a development policy because it destroys the incentives of the marketplace and extends the power of ruling elites. Because it leads the Third World away from the free market, it actually increases Third World poverty. On the other hand, the alternative policy of free trade will give the private sector of the LDCs an opportunity to expand and flourish.

It must be emphasized that free trade alone will not solve all the problems of Third World poverty. Free trade only increases the opportunities of the less developed nations. It will not eliminate the shackles of government regulation and intervention that dominate Third World economies. That task can only be done by the people of the Third World themselves. Yet, eliminating foreign aid and instituting free trade will at least encourage Third World peoples to develop institutions such as private property rights and free markets which will lead to growth and prosperity. □

1. Doug Bandow, "The U.S. Role in Promoting Third World Development," in Doug Bandow, ed., *U.S. Aid to the Developing World: A Free Market Agenda* (Washington: The Heritage Foundation, 1985), p. ix.
2. Daniel A. Sumner and Edward W. Erickson, "The Theory and Practice of Development Aid" in Bandow, *op. cit.*, p. 57.
3. Bandow, *op. cit.*, p. xiii; *Budget of the United States Government: Fiscal Year 1987*, p. 5-20.
4. James Bovard, "The Continuing Failure of Foreign Aid," *Cato Policy Analysis*, January 31, 1986, p. 4.
5. Mark Huber, "Humanitarian Aid," in Bandow, *op. cit.*, p. 7.
6. Stephan De Vylder, *Agriculture in Chains* (London: Zed Press, 1982), p. 46.
7. P. T. Bauer, *Reality and Rhetoric: Studies in the Economics of Development* (Cambridge, Mass.: Harvard University Press, 1984), p. 52.
8. Stephan De Vylder, *op. cit.*, p. 47.
9. Bovard, *op. cit.*, p. 2.
10. Arthur E. Farnsley, II, "Humanitarian Aid in the Twentieth Century: Public and Private" in Bandow, *op. cit.*, pp. 13-24.
11. Bandow, *op. cit.*, p. xi.
12. Bauer, *op. cit.*, pp. 43-44.
13. Bandow, *op. cit.*, p. xvii.
14. *Ibid.*, p. xx.
15. Bovard, *op. cit.*, p. 11.
16. *Ibid.*, p. 12.
17. *Ibid.*, p. 19.
18. Bauer, *op. cit.*, pp. 50-51.
19. Bovard, *op. cit.*, p. 19.
20. Bauer, *op. cit.*, p. 51.
21. Sumner and Erickson, *op. cit.*, p. 57.
22. Bandow, *op. cit.*, p. xix.
23. Bauer, *op. cit.*, p. 41.
24. *Ibid.*, pp. 54-55.
25. *Ibid.*, p. 62.

A Conflict of Visions

Reviewed by David M. Stewart

In debating political and economic issues, we usually take for granted that arguments can be won and lost in terms of the issue at hand. Yet despite much apparently relevant debate, built on theory and evidence, we still find “the repeated opposition of individuals and groups on numerous, unrelated issues.” In *A Conflict of Visions: Ideological Origins of Political Struggle* (New York: William Morrow and Co., 1987, 273 pp., \$15.95), Thomas Sowell explores the philosophical reasons why “the same familiar faces can be found glaring at each other from opposite sides of the political fence, again and again.”

Sowell’s hypothesis is that the major political struggles of our day reflect two dominant and conflicting visions of man’s nature and potential. Yet most struggles are debated on another level, without any acknowledgment of these visions. Thus “those with different visions often argue past each other, even when they accept the same rules of logic and utilize the same data, for the very same terms of discourse signify very different things.”

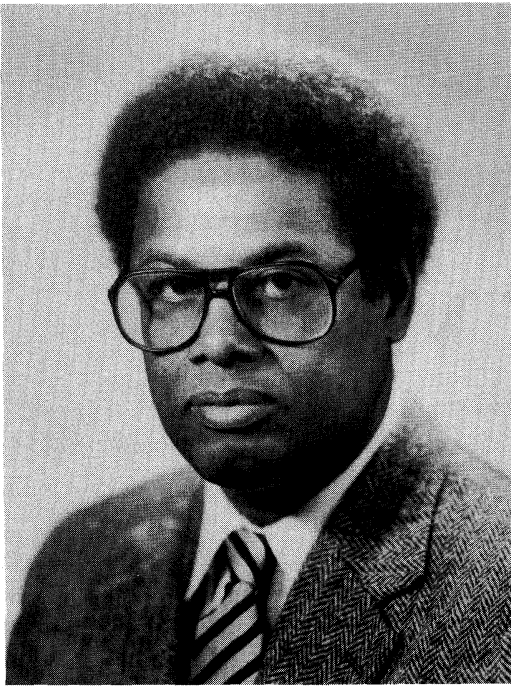
Sowell posits a dichotomy between “constrained” and “unconstrained” visions of man’s moral and mental natures and capacities. In the constrained vision, exemplified by Adam Smith, man has ineradicable limitations. Morally, man is egocentric, each concerned primarily with his own self-interest. This is neither lamentable nor alterable; Smith simply treated it as an “inherent fact of life, the basic constraint in his vision.”

Similarly, “any individual’s knowledge is grossly inadequate for social decision-making.” As F. A. Hayek has long maintained, one person may amass expertise in a certain field, but knowledge on a socially useful scale takes the forms of social experience—traditions, habits, skills, tools. The combination of human frailties makes Utopia unachievable. Edmund Burke summarized the constrained political vision when he wrote of “a radical infirmity in all human contrivances.”

In the unconstrained vision, man’s moral nature is, according to William Godwin (1756-1836), fundamentally “generous and magnanimous.” Man’s intellectual capacity, too, is limited but “indefinite.” In this view, Sowell points out, “knowledge is synonymous with articulated rationality,” the kind of timeless armchair knowledge of humanist intellectuals. With these capacities at man’s disposal, Godwin concluded, “Reason is . . . sufficient . . . for regulating the actions of mankind.”

Despite their contradicting axioms, both visions make the common good paramount, as opposed to individual self-interest. Yet they differ completely on how the common good is to be achieved.

In the constrained vision, social benefits result from the systemic effects of people pursuing their individual self-interests within the limits set by law and custom. Salutory effects emerge largely unintended. Good intentions are likely to be positively dangerous when forced



Thomas Sowell, the author of *A Conflict of Visions*

on society by the overweening confidence of inherently flawed men.

In the unconstrained vision, man's moral and intellectual capabilities allow him to put aside self-interest and to directly produce the common good. Thus George Bernard Shaw wrote that existing society is "only an artificial system susceptible of almost infinite modification in readjustment—nay, of practical demolition and substitution at the will of Man."

The contrast between visions manifests itself politically in the constrained acceptance of "trade-offs" versus the unconstrained insistence on "solutions." For example, the constrained vision accepts "unmerited" economic inequalities in a market economy as a trade-off for the market's systemic production of the common goods of general prosperity and freedom, which would be destroyed by egalitarian central planning. But in pure unconstrained visions, direct intervention can create equality with no sacrifice of freedom and general prosperity. The problem of inequality is solvable.

Given the general outline of such conflicts, it is surprising what these polar visions *don't* nec-

essarily imply. "The constrained vision [is] not synonymous with . . . acceptance of the status quo," Sowell shows. Smith opposed slavery, advocated American independence and proposed numerous domestic reforms. Nor is the unconstrained view necessarily radical. "In supporting private property and a free market," Sowell observes, "Godwin was at one with Smith, with Hayek, and with modern libertarianism."

Hybrid Visions

There are also hybrid visions such as Marxism, which sees man as progressing from heavily constrained to unconstrained economic systems as the dialectic of history unfolds. Some forms of libertarianism, too, combine strong constraints on individual knowledge of market data with broad latitude for rationalistic construction of political systems. When Murray Rothbard, in *For a New Liberty* [1978 ed., pp. 238-239], advocates anarchism with the argument that "When we contemplate *any* sort of new [socio-political] system . . . we must *first* decide whether we want to see it brought about . . . and *then* consider whether the system could work. . . . [Why not] first assume that it has been established *everywhere* and see whether we like it?" he is writing, with Godwin, in the unconstrained tradition of rational constructivism opposed by Hayek, a classical liberal libertarian.

These examples illustrate the tremendous value of *A Conflict of Visions*. Sowell's book helps us to see below the surfaces of others' views and our own; it enables us to understand and question more deeply. Readers familiar with Sowell's other works will know that he is toward the "constrained" end of the spectrum, a strong advocate of classical economic and political liberty. But instead of mangling his opponents, Sowell respects the complexities of their arguments and visions (as well as those with which he is largely in agreement) and treats them without rancor. It is a rare triumph for a philosophical work to clarify so much so well. □

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THE FREEMAN

IDEAS ON LIBERTY

CONTENTS
AUGUST
1987
VOL. 37
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284 One Complaint per Customer, Please

Jane M. Orient

If central planners have their way, traditional fee-for-service medical payments may eventually be outmoded.

286 Free-Market Mail Is on the Horizon

Melvin D. Barger

Mail is far too important to be left in the hands of a government monopoly.

291 A Balanced Budget Amendment

Hans F. Sennholz

It is unrealistic to believe that a balanced budget amendment can dampen the enthusiasm for Federal largess.

295 Poverty: Material and Spiritual

Irving E. Howard

The consequences of turning to government rather than relying on one's own resources.

298 Which Liberalism?

Tyler Cowen

An analysis of the British and French traditions of liberalism.

301 The Economics of Errant Entrepreneurs

Israel M. Kirzner

The great economic virtue of capitalism lies in its ability to stimulate entrepreneurs who create profitable enterprises.

303 The Farm Problem and Government Farm Programs

E. C. Pasour, Jr.

Market forces are superior to other means of achieving resource adjustments in agriculture.

308 A Free Market in Kidneys?

Walter Block

A proposed solution to the shortage of human organs for transplant.

309 Take Back the Environment

Jorge E. Amador

Current policies designed to safeguard the environment encourage pollution, shield the polluter, and leave victims defenseless.

316 A Reviewer's Notebook

John Chamberlain

A review of Lewis Feuer's "Imperialism and the Anti-Imperialist Mind."

318 Other Books:

"The Market as an Economic Process" by Ludwig M. Lachmann. In "Books of Note," John K. Williams reviews works by Roger Freeman, Alejandro Chafuen, and Paul Johnson.

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Non-Developing Nations

Since World War II, more than a hundred new nations have gained independence. Most are primitive, agricultural, and were originally called "backward" or "undeveloped." But now they have a nicer label, "developing." Unfortunately, the label alone does not ensure development. That depends on whether the government welcomes or repels "developers" (entrepreneurs, savers, investors).

Many of these new nations have suffered civil strife, revolutions, and frequent government changes. But the new government that takes over after a coup is usually just as leftist, Marxist, Maoist, Leninist, communist, or interventionist as the previous one. Its officials are interested primarily in maintaining power and controlling the economy. Few of them have any understanding of the prerequisites for development. Property in these poor nations is seldom secure; enterprises are usually harshly controlled and regulated; threats of collectivization and confiscation abound; foreign investors are discouraged; and trade is restricted.

A few examples. One new African nation, Burkina Faso, levied high tariffs on animal-drawn plows and on irrigation pump engines that its farmers needed to produce. Mozambique's Marxist government has destroyed that nation's economy; its capital city, Maputo, lacks virtually everything; soldiering is one of the few steady jobs available as only the nation's army prospers; yet imports of rice, corn, and consumer goods in exchange for oil were banned during a recent economic emergency. Egypt maintains control over her economy, discourages private entrepreneurs, and the country remains desperately poor. Collectivization and a socialist police state have crippled production in Tanzania. Price controls in Ghana have made that relatively rich country poor. In some African countries, according to one report, farmers who sell on the black (free) market, in defiance of the price controls, are routinely shot.

Policies that deter development are not limited to Africa. Massive government intervention in Malaysia discourages foreign invest-

ment and production. In El Salvador, the production of coffee, sugar, and cotton plummeted after the larger landowners were expropriated. The proposal for a joint Chrysler-Mexican truck factory was rejected by the Mexican government lest it lose control of the economy. Stringent labor laws hamper production in Venezuela. The examples could go on and on.

To deserve the label "developing," these poor nations should attract entrepreneurs and investors by protecting private property.

—BBG

Developing Nations

What is the "secret" of developing nations? Let us look at the historical record.

Consider, for example, the German economic "miracle" following World War II. Her cities were in rubble and teeming with millions of displaced persons. The people were hungry, their clothes were in tatters, and many were living in makeshift hovels. There was no food in the stores, so both money and ration cards were worthless.

Then, in June 1948, a fundamental change took place. The U.S. and British military governments replaced the inflated wartime marks with a sound currency. At the same time German economic minister Ludwig Erhard, against the advice of his advisers, abolished price and wage controls. According to one report:

"The black market suddenly disappeared. Shop windows were full of goods; factory chimneys were smoking; and the streets swarmed with lorries. Everywhere the noise of new buildings going up replaced the deathly silence of the ruins. If the state of recovery was a surprise, its swiftness was even more so. . . . Shops filled up with goods from one day to the next; the factories began to work. . . . One day apathy was mirrored on their faces while on the next a whole nation looked hopefully into the future."

For the first time in years, German farmers and other producers began to bring goods to market. For the first time in years they could sell their produce for money that had some value. The post-World War II "German economic miracle" had begun. With fewer eco-

nomie controls to hold them back, the people worked harder and the economy boomed.

Similar "industrial revolutions" have developed also in Japan, Korea, Taiwan, Hong Kong, and Singapore as each has allowed entrepreneurs more freedom. Even India has reduced some controls over agriculture and is now producing enough to feed her huge population.

History shows time and again that people prosper when governments protect private property, when money is sound, and when individuals are permitted to buy and sell at mutually agreeable prices. The free market is the only path to economic development.

—BBG

Socialized Medicine

British correspondent Anthony Lejeune reports in the February 1987 issue of *Private Practice* on the deteriorating condition of Britain's National Health Service:

"[A] 65-year-old mechanic from Battersea in central London had a hernia diagnosed 10 years ago; he was operated on within four weeks. But now he needs another operation, and he has been on the waiting list for a year. At the last annual meeting of the British Medical Association, Dr. John Marks said that at his local hospital, Barnet General in outer London, patients had to wait 10 weeks for an appointment with a dermatologist, 15 weeks to see an ear, nose and throat specialist and 14 weeks to see an orthopedist. 'You're lucky!' cried doctors in the audience.

"A survey of 130 hospitals showed that 70 percent had beds temporarily closed or staff doctors who complained of having to discharge patients early to make room for others. A report from the Office of Health Economics estimated that 1,230 people younger than 65 were dying each year from kidney disease because dialysis or transplant facilities were not available, and that three times more people needed coronary bypass operations than were receiving them."

The British experience with socialized medicine may be a forerunner of developments in the United States. For some disturbing trends in the U.S. Medicare system, see Dr. Jane Orient's article on page 284.

One Complaint per Customer, Please

by Jane M. Orient

Paying for what you get, in the hospital at least, is becoming outmoded. Medicare now pays hospitals on the basis of their patients' diagnoses, and patients receive whatever care their doctors think is appropriate. In other words, Medicare payments are determined *before* costs are incurred, as opposed to traditional fee-for-service payments, which are made after services have been performed.

Medicare payments have been modeled after "diagnosis related groups" (DRGs), which were originally used at Yale to classify patients so that the costs of caring for them could be studied more easily. DRGs suddenly emerged from the obscurity of the laboratory when the government required hospitals to start using them in 1984 for all Medicare patients. The central planners sent out a directive, and hospitals everywhere hastened to install computers, software, and specially trained personnel in order to comply. Few academicians have ever seen their schemes so rapidly implemented, bypassing the normal stages of testing and marketing, despite the most caustic criticism from the people who actually have to "make the system work." Some private insurers also adopted the method because they feared that otherwise they would be burdened with more "cost-shifting" from Medicare patients onto the bills of privately insured patients.

The DRG method of prospective payment—in contrast to fee for service—is based on averages. The hospital receives the average amount that it cost, in past years, to take care of patients with a certain condition. Of course, each patient is different, so the hospital's payment may be substantially more or less than the

patient's care actually cost. A few adjustments are made: for age over seventy, and/or for the presence of one or more complicating conditions. However, if the patient has more than one diagnosis, the hospital is paid only for the one that is considered to be the main reason for admission.

The idea of DRGs is to force hospitals to become more "efficient." However, the term "efficiency" has taken on a new meaning that can best be explained by an example.

Suppose that a patient with an inflamed gall bladder also has a skin cancer on his face. I had a patient like that. I asked the surgeon to remove the skin cancer as soon as he finished with the gall bladder. That way, he'd just have to scrub once. "Sure. No problem," he said. The patient also thought it was a good idea—only one trip to the operating room, and since he'd be asleep anyway, there would be no need to stick needles into his face to give a local anesthetic. The typist added a paragraph to the operative report. The cleaning crew only had to clean the room once. The scheduling clerk put just one procedure on the schedule, allowing five minutes extra. The messenger made one trip to take both the gall bladder and the skin cancer to the pathologist. Pretty efficient, don't you think?

Not according to the new Medicare definition. A doctor from New Jersey recently explained how his hospital managed such a case under DRGs. If the skin cancer had been removed during the gall bladder operation, the hospital wouldn't have been paid for the extra operating room time, or the sutures, or the biopsy. Therefore, they just took out the gall bladder, and scheduled the patient to come back to out-patient surgery at a later time for his skin cancer. Being "efficient" means to concentrate on the main diagnosis. The New

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Jersey hospital was rewarded for its “efficiency” by being paid for two separate procedures, instead of just one (or one plus a little more, as our hospital was paid before DRGs).

This concept of efficiency would be even easier to understand if it were applied to other familiar situations. Imagine that your car needed a new battery, and also had a leaky radiator. If the mechanic could be paid for only one job at a time, he might say that he couldn’t fix both problems at one visit. He might fix the important problem—the battery—and advise you to bring the car back in a month (not too soon, because of the committee for auditing early returns). Meanwhile, he might suggest that you keep a jug of water in the trunk, and one eye on the temperature gauge.

A plumber working under DRGs might have to say “Sorry, a dripping faucet is not a complication of a malfunctioning water heater. I’ll put you on the list for another visit.” Or worse, he might tell you that your Brand X water heater requires parts that are more expensive than average, and he can’t afford to fix it. If it were only five years older, it would fit into a different category that paid better, but as it is, he can’t help you.

“Winners” and “Losers”

That brings up another problem with DRGs. Sometimes the hospital bill is higher than average, not because of inefficiency, but because the patient is sicker than average. Under DRGs, hospitals make a profit on some patients: those who recover quickly and uneventfully from a relatively simple problem or those who belong to a high-paying DRG. Hospitals lose money on patients who develop complications, or recover slowly, or undergo a procedure that isn’t in the computer yet. (Lens implants were in that category in New Jersey when the system was first tried.)

What must the efficient hospital do, in order to assure enough income to pay the nurses and the laundry and the mortgage? Administrators are advised to “manage the case mix.” That means to bring in more patients with profitable diagnoses (so the hospital will get paid for *not* doing things) and reduce the number of patients with multiple or complex diagnoses (so that

fewer things will have to be done without payment).

For help in this management problem, the hospitals seek the cooperation of the doctors. They distribute lists of the various DRGs (with the amount of payment for each) and encourage doctors to make more “accurate” diagnoses. There is now a new kind of continuing medical education conference, called “economic grand rounds,” that concerns how to save money on patients with “losing” DRGs by reducing the number of tests or by ordering less expensive treatments. The utilization review committee has become increasingly vigilant about patients who exceed the “length of stay” criteria. Patients are being sent home earlier.

Doctors are being encouraged to think like members of a large team, rather than like individuals. They must keep the welfare of the hospital in mind. If the hospitals do well, then doctors will do well. To help them become better team players, they receive computer printouts of their cost profiles, which can be compared with those of their colleagues. Those who are costing the hospital too much money may soon face loss of their admitting privileges.

The Next Step

Not surprisingly, DRGs for hospitals have not solved the problem of the Medicare deficit. As usual, the government prescription is “more of the same.” Some have advocated including the doctor’s fee under the DRG, starting with three specialists who are thought to be especially overpaid: radiologists, anesthesiologists, and pathologists. A fourth type of hospital-based physician, emergency medicine specialists, might be added next.

But the real goal of the federal government is to eliminate the bother of dealing with patients as individuals. DRGs may be just a stopgap measure on the way to capitation: payment by the head, rather than by the diagnosis.

Medicare patients are no longer just individual social security numbers. When admitted to the hospital, they become a member of one of 467 groups. Some of them are “winners,” and others “losers.” Soon, they may just be a capitated unit in an undifferentiated mass.

In that event, all of us will be losers. □

Free-Market Mail Is on the Horizon

by Melvin D. Barger

Writing in *The Freeman* in October 1962, I discussed a proposal that seemed hopelessly quixotic to friends and neighbors. This tilt at the windmills was a plea for private operation of postal services.¹ It seemed so radical that the mere suggestion evoked laughter. Post office services had been a government monopoly so long that any alternative seemed ridiculous.

It is pleasing to report, 25 years later, that the battle for private mailing services is all but won. People who would have scoffed at the idea in the 1960s now admit that private mail delivery makes good sense. Sooner or later, this will gain enough public acceptance to win private mail a fair trial. Why is this coming about?

There are several reasons. One is that a few libertarians managed to keep the idea of free-market mail alive. Early champions of the concept included Frank Chodorov and Leonard E. Read, who contended that no one has the right to prevent anyone from providing or using a mail service or, for that matter, engaging in any other peaceful activity. Private enterprise also has regained a respectability it hasn't had since the 1920s. This came in the wake of disenchantment with failed socialist schemes. But another cause of this change is the U.S. Postal Service itself—its performance over the years

has so exasperated Congress and the public that even radical alternatives to the current system can be considered.

Meanwhile, the relentless march of new enterprise has given rise to overnight mail and the promise of stunning advances in electronic communications.

Here's what thoughtful writers have been saying about the U.S. Postal Service. Writing in the January 7, 1987 *Wall Street Journal*, James Bovard called the Postal Service "a mess" and concluded that contracting out mail service to private companies could achieve substantial savings. In *The New York Times* (August 9, 1985) Stuart M. Butler focused on the USPS financial mess and asked if it isn't time to sell the postal service. And a news article in *Business Week* (August 18, 1986) discussed newly appointed Postmaster General Bob Tisch as "a new man to tackle the postal mess"—a tacit way of saying that USPS's troubles are a matter of common knowledge and agreement. Even a group associated with consumer activist Ralph Nader has focused on postal problems, and has published a book by Kathleen Conkey entitled *The Postal Precipice: Can the U.S. Postal Service be Saved?*²

In my view, the answer is that the USPS cannot be saved in the sense of transforming it into a healthy enterprise deserving of respect. As in the past, it can be propped up and maintained indefinitely by frequent subsidies and other assistance. But the mood of the public and the rising tide of criticism suggests that a time for dramatic change is near, that we want

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something besides an outmoded and fumbling postal service. A leap forward into free-market mail could come shortly.

Let the Market Decide

Leonard E. Read thought there could be two phases in the move to free-market mail.³ First he would have repealed the Private Express Statutes that give the government postal service a monopoly over first-class mail, and then he would have stopped Congressional funding for the Post Office. But the second phase should not be needed for an effective beginning. In order to make the move to private mail, all that's needed is to repeal the Private Express Statutes. After the repeal, let the market itself decide who should carry the mail and how it should be handled. As new systems come on stream, Congress could then decide about future support of the Postal Service.

There may be, in fact, good reasons for *not* making any changes in the U.S. Postal Service for the time being. Let private systems coexist with the USPS, just as the United Parcel Service now competes with USPS package shipments. Let users make their own decisions and comparisons. Also, let them have the opportunity to view private mail in operation before making any plans to dismantle the USPS.

One also should not overstate the case for private mail. Private mail offers many opportunities, but it could also force changes upon many who have vested interests in the current system. It would be false and misleading to promise that private mail systems would immediately provide *every* service now being supplied by the USPS. Rural free delivery, for example, would undergo radical change and probably curtailment under private systems. This is an issue that Congress and the public will have to face in due time. But rural free delivery should not be any part of a reasonable plan to repeal the Private Express Statutes and to *let anybody carry mail*. The libertarian goal should be to give private mail services the chance to prove themselves; it is not necessary to deal with political questions about the USPS at the same time.

Meanwhile, there are still a number of arguments which are raised in opposition to private

mail. What follows is a discussion of a few of them:

The Cream-Skimming Argument

One of the most persistent arguments against private mail is so-called "cream-skimming." According to this argument, private mail services immediately would leap into the most profitable categories of mail delivery, leaving the USPS to serve only the high-cost routes and customers. The USPS would then lose revenues which help cover its costs on other services, with the taxpayers being forced to make up the difference.

The cream-skimming argument was dealt with by John Haldi and his associate Joseph F. Johnston, Jr., in a monograph for the American Enterprise Institute.⁴ They point out that the very existence of this argument demonstrates that "some mail users are overcharged under the existing rate structure." In a truly competitive market, they say, such rate-making practices would be self-defeating. They note that "cream-skimmers" in a competitive market are really the "good guys" who cut prices and keep other suppliers honest!

There was a surprising reappearance of the cream-skimming argument during the recent breakup of the Bell System. Unknown to most people, the Bell telephone monopoly had traditionally undercharged for residential phone services while overcharging long-distance and business customers. But this practice was disrupted by the famous 1968 Carterfone court decision. Carterfone opened the way for business and residential use of interconnecting equipment and helped pave the way for MCI's entry into long-distance services. And, needless to say, business and long-distance customers had no desire to pay higher rates to subsidize residential users once they had access to lower-cost systems.

In both the USPS and AT&T examples, the cream-skimming argument is employed to justify what is essentially an unfair situation. It is wrong to impose higher rates on one class of customers in order to subsidize services to another group. Market forces will always move quickly to end such arrangements if suppliers

have access to the market. Postal services need some cream-skimming “good guys” who can help clean up this unfairness!

Improving the Present System

From time to time, there’s been hope that a change in management might bring new life and efficiency to the Post Office. This was the case during the Eisenhower Administration when Arthur E. Summerfield, a successful businessman, was appointed Postmaster General. With considerable publicity, Mr. Summerfield assailed some of the “horse-and-buggy” practices of the U.S. mails and sought to make Post Office practices more businesslike and up-to-date.⁵ He was horrified, for example, to discover that postal clerks in Denver had to sort mail on the street because of cramped building space.

While Summerfield probably made some improvements in the Post Office, he ran into the problems that confront every business executive who moves into government. There is a vast difference, the executive learns, between managing for profit and managing in a bureaucratic, politicized environment. Mr. Summerfield also came into conflict with the postal unions and faced the usual resistance of an entrenched bureaucracy. His proposed changes made barely a ripple in the existing structure.

A seemingly more promising effort to revamp the system grew out of a 1968 report by the President’s Commission on Postal Reorganization, headed by Frederick R. Kappel, a former chairman of AT&T. The report recommended that Congress charter a government-owned corporation to operate the postal service. Mr. Kappel’s great prestige undoubtedly was a factor in Congress’s decision to create the new postal corporation launched on July 1, 1971.

Far from solving the postal problems, the reorganization appeared to make them worse. Within a few years, problems had intensified to such a point that Robert J. Myers, publisher of *The New Republic*, wrote a scathing attack on the new corporation.⁶ Coming from a source that usually favors government involvement in the economy, Myers’ book must have seemed a most unkind cut. Some of his criticisms in-

cluded the charge that postal corporation managers had become a self-serving elite, while postal unions had been able to wring fatter contracts from the new corporation than they had been able to get from the old bureaucracy. Malinvestment was rampant in the new organization, service was rapidly deteriorating, costs were spiraling in all directions, and attempts to mechanize often had proven unsatisfactory.

Although Myers did not understand the basic problems inherent in government management, his book brought attention to the inefficiencies of government corporations. The executives of the new postal corporation had no mandate to make a profit or to heed the other disciplines of the market. They performed as well as might be expected under the circumstances.

Nader’s Proposed Rescue

Another way to save the Post Office has been proposed by Ralph Nader. Writing in 1982, Nader put forth a plan he called a Post Office Consumer Action Group (POCAG). Under this arrangement, a law would be passed requiring the Postmaster General to send a letter twice a year to all household patrons inviting them to join POCAG with a small annual dues payment. “Those consumers who so volunteer can shape the group’s policies and work with its staff to reconstruct an American postal system, from its local roots to the national arena, that would make Franklin proud,” Nader promised in *The Postal Precipice*. “A POCAG with a million or more members would be the representative constituency needed to reverse the decline and possible fall of the Postal Service in the coming generation.”

It’s hardly necessary for a free-market devotee to comment on Nader’s plan, which simply would create a group with a government mandate to hassle and bludgeon postal officials. No single organization could possibly represent the divergent needs and interests of various mail users, and his POCAG probably would serve as nothing more than a platform for Nader’s views. If government ownership and operation of the Postal Service is unsatisfactory, that is not likely to be corrected by a private group of gadflies. At the same time, however, Nader has helped by publishing a re-



Federal Express's "Superhub" sorting facility in Memphis Tennessee. The company, founded in 1973, now handles 730,000 shipments daily.

port which details the continuing problems of the Post Office.

What do we want from our postal services? The fact is, no two people have exactly the same expectations. At various times and in many places, the Postal Service has been unable to perform in a satisfactory manner. Retail business people, for example, are wary of using the Postal Service for deliveries that have time value. A number of important business messages are now sent through express overnight courier service—private firms operating outside the government-owned system.

Recent advances in electronic telecommunications appear ready to make even more changes. Efficient electronic "facsimile" systems already are transmitting documents between business offices, and it's not hard to predict that low-cost units may soon become available on the consumer market. The postal monopoly already has been weakened to such an extent that little objection is raised to electronic "facsimile" systems, electronic mail, and overnight express mail.

The main pressure for these changes has come from business organizations, which need fast communications and already have substan-

tial investments in electronic systems. While the USPS currently is providing express mail, its foray into electronic mail was a flop and was discontinued in 1984 following two years of operation and losses of about \$50 million.

Of course, not all private ventures into electronic mail will succeed. But electronic mail and facsimile transfers offer new opportunities which cannot be ignored. It's not inconceivable that the bulk of printed mail could be conveyed electronically in the early part of the next century.

The Private Express Statutes

The idea of postal service as a government monopoly apparently was something the American colonies inherited from Great Britain. A government postal service was even included in the U.S. Constitution. But many private express companies flourished in the United States during the early 19th century. They were effectively outlawed by the 1845 Private Express Statutes which Congress passed at the urging of the Postmaster General. Even then, the cream-skimming argument had surfaced; the private carriers were operating on the most profitable

routes and leaving the rest for the Post Office!

As with any law, the Private Express Statutes have been tested and interpreted over the years. It has been necessary to define what constitutes a letter, what is a postal route, and what limits should be placed on those who assist in the transfer of mail. Although there's been some slippage, the federal government has been largely successful in maintaining its monopoly over first-class mail.

But private firms have made inroads into the third-class mail market, and the success of UPS in the parcel business has been one of the Post Office's great embarrassments. The latest private breakthrough has been "time-sensitive" mail, a market now being served profitably by Federal Express, Airborne, and a number of other private firms specializing in overnight service. As new companies spring up to meet various communications needs, the pressures are bound to grow for easing or repealing the Private Express Statutes.

The Miller Proposal

The idea of repealing the Private Express Statutes received a recent boost from James C. Miller III, who was chairman of the Federal Trade Commission before becoming director of the Office of Management and Budget. "The postal system is a particularly good source (in the event that one is needed) for evidence that private enterprise performs better than government enterprise and that competitive markets perform better than monopolies," Miller wrote. "The costs of the Postal Service are significantly higher than they should be because the incentive to hold down costs—most notably, labor costs—is limited. Postal workers are paid far more than is necessary to retain their services. Because entry into postal markets is restricted, the Postal Service is able to pass those higher costs along to its customers." After discussing what might be expected to result from an end to the postal monopoly, he concluded that "All the available evidence suggests that competition in the market for first-class letter delivery would create substantial benefits." And he added, "Private enterprise will get the mail delivered—just as it did in the Old West."⁷

The idea of making mail delivery private never had high-level support like this back in 1962 when my article was prepared for *The Freeman*. But times and attitudes have changed, and we even have Congressmen who support repeal of the Private Express Statutes. The only question is when and how this might be managed.

The most likely future, even without repeal, is that the USPS will continue to be prodded by new ventures which threaten its legal monopoly. This will weaken the hold of the USPS over first-class mail. New electronic ventures also will give mail users new alternatives to first-class mail. What would be the impact, for example, of a low-cost (say \$500) facsimile machine which any person could use at home? How will new technologies like fiber optics change communications? And who is to say what might happen even in services such as home deliveries?

How soon will we have a free market allowing anybody to carry mail? There's widespread approval of the idea already. Since the most powerful supporters of the *status quo* are the postal unions, the political problems of repealing the Private Express Statutes are formidable. But with enough competition from electronic messaging and other delivery services, the Private Express Statutes could simply become irrelevant.

It's time something like this happened. Mail is far too important to leave in the hands of a government monopoly. Let anybody carry it, and let the market decide who does it best. That seemed like a radical proposal in 1962. With the help of free-market advocates, technical advances, and the failings of the United States Postal Service, it is becoming a reality. □

1 "Could AT&T Run the Post Office?" *The Freeman*, October 1962. One point of the article was that AT&T's need for profits had helped make it more efficient than the Post Office. AT&T's regulated status, however, has not been without problems.

2 Published by The Center for Study of Responsive Law, Box 19367, Washington, D.C. 20036, 1983, 515 pages.

3 Leonard E. Read, *Anything That's Peaceful* (Irvington, N.Y.: Foundation for Economic Education, 1964), pp. 171-179.

4 *Postal Monopoly: An Assessment of the Private Express Statutes* (Washington, D.C.: American Enterprise Institute, 1974), p. 35.

5 Arthur E. Summerfield, *U.S. Mail* (New York: Holt, Rinehart and Winston, 1960).

6 Robert J. Myers, *The Coming Collapse of the Post Office* (Englewood Cliffs, N.J.: Prentice-Hall, Inc.), 1975.

7 James C. Miller III, "End the Postal Monopoly," *The Cato Journal*, Vol. 5, No. 1, Spring/Summer 1985.

A Balanced Budget Amendment

by Hans F. Sennholz

The federal government has but two ways to balance its budget: raise taxes or reduce expenditures. The former is easy; anyone can contrive new levies. But new taxes may bring forth the wrath of those who are to bear them, which may spell political defeat to the legislators who impose them. A reduction in expenditures may be equally dangerous. To slash popular entitlements and transfer benefits may amount to political suicide.

There is a better way than raising taxes or lowering benefits, many politicians inform us. A *Constitutional amendment* requiring a balanced budget, they maintain, would restore fiscal discipline and mark a new chapter in American history.

The movement calling for a balanced budget amendment came to life in the early 1970s when it became apparent that the federal government was facing seemingly endless deficits. The movement gave rise to a number of bills which received Congressional attention in 1982 and 1986. On August 4, 1982, a bill that would require a balanced budget unless three-fifths of the members of both houses approve a deficit was passed by the Senate by a vote of 69-31, two votes more than the required two-thirds. A few weeks later the House approved it by simple majority, but fell 46 votes short of the two-thirds majority needed to approve a Constitutional amendment. When the Senate voted

again on March 25, 1986, the bill fell one vote short of passage.

Congress was pressed into action by a call of 32 states—just two short of the required two-thirds—for a Constitutional convention to pass such a balanced budget amendment. Because no such convention has ever been convened since the Founding Fathers met to draft the Constitution, the thought of a convention strikes fear in the hearts of most Washington politicians. They are convinced that the convention would become a “runaway convention” that would set its own political, social, and economic agenda. To prevent such a divisive course of events, most members of Congress prefer to debate and adopt their own Constitutional amendment.

The champions of a Constitutional amendment point out that the Constitution permits special interest groups to lobby aggressively for government programs enriching themselves at the expense of all others, but diffuses program costs over millions of taxpayers. They perceive this as a Constitutional defect that needs to be corrected.

The opponents of the balanced budget amendment usually point at the economic problems of our time, such as poverty and hunger, unemployment, business and farm failures. According to AFL-CIO President Lane Kirkland, the proposed amendment is designed to take public attention from these problems. It is a “hypocritical and cynical hoax.”

The advocates of the Constitutional amendment like to cite Thomas Jefferson who, just

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two years after the Constitution had been in effect, argued for a Constitutional amendment: "I wish it were possible to obtain a single amendment to our Constitution. I would be willing to depend on that alone for the reduction of the administration of our government to the genuine principles of its Constitution; I mean an article, taking from the Federal government the power of borrowing." To the advocates of a Constitutional amendment, Jefferson's "single amendment" is the balanced budget amendment.

It is difficult to argue with the wisdom of Thomas Jefferson. But he greatly overrated the ability of one generation to impart its wisdom to future generations, and for drafters of a constitution to guide and direct the destiny of their descendents.

For well over a century the U.S. Constitution revealed no particular defect that granted special interest groups an organizational advantage. Federal budgets were made to balance over a number of years, although wars and preparations for war brought heavy debt. But after peace was restored, the debt was quickly retired.

A Pyramid of Debt

The cornerstone to the present pyramid of Federal debt was laid during the 1930s; it grew rapidly during World War II, increased by leaps and bounds during the 1940s and 1950s, accelerated during the 1960s and 1970s, and reached trillion dollar proportions in the 1980s. At the present rate of growth it can be expected to double every few years.

To point out a Constitutional defect and suggest an amendment is to divert our attention from the true cause of the deficits: the great popularity of political spending. Politicians love to spend and the people love the spending programs. The diffusion of program costs does not explain the lack of opposition, nor does it reduce the costs and alleviate the heavy burden on producers. Most transfer schemes meet little opposition because the electorate approves of the arrangement and partakes of the transfers. The result is chronic deficit spending at ever higher levels.

It is difficult to hold future generations to the

strictures and limitations set by an earlier generation. Even if Thomas Jefferson's "single amendment" had been added to the Bill of Rights, it would be difficult to imagine Abraham Lincoln submitting to its discipline during the heat of the Civil War, or for the Wilson and Roosevelt administrations to abide by its limitation during two World Wars.

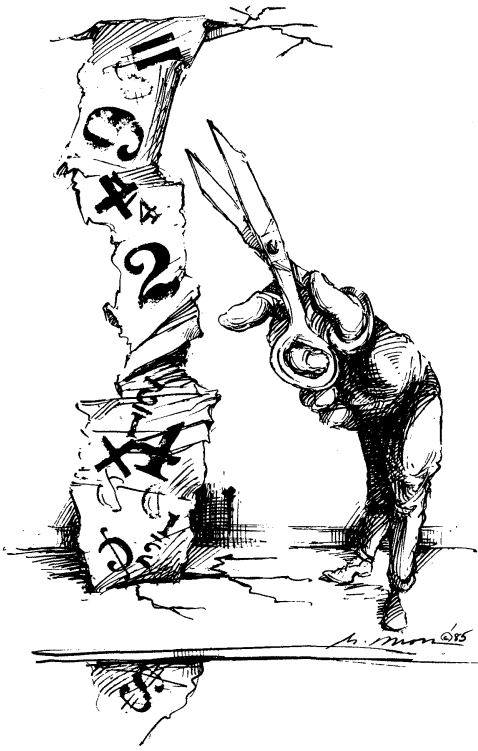
Similarly, it is hard to imagine that the present generation could be barred from acting as it wants to. A Constitutional amendment standing in the way of greater spending would simply be ignored, repealed, or reinterpreted by a clever judge. Or, government expenditures would be hidden from the eyes of outside observers. No Constitutional amendment, no matter how comprehensive, could prevent the granting of benefits by government officials eager to bestow them on beneficiaries anxious to receive them.

In purpose and design, a balanced budget amendment would resemble the eighteenth amendment, which established Prohibition. It did not change human nature; instead it led to abuses and evils far greater than the amendment was supposed to correct. It was abolished by the twenty-first amendment, thirteen years later.

A Constitutional mandate to balance the budget could be interpreted to mandate higher taxes and more government intervention. Most politicians, including the amendment advocates, are likely to opt for boosting revenue rather than reducing expenditures. After all, they themselves launched the expenditures and created the entitlements; they would be rather reluctant to rescind them as long as they can raise revenues through new taxation.

Most mainstream economists are reluctant to raise taxes as long as economic output is low and unemployment is high. In the footsteps of John Maynard Keynes, they prefer countercyclical government spending together with easy money and credit to stimulate economic activity. They are the original deficit spenders; they do not favor a Constitutional amendment to balance the budget.

A few naive friends of the market order may support the amendment in the hope that it will block further growth of entitlement spending. But they would be sadly disappointed if the



amendment merely opened the gates to substantially higher taxation, followed by painful stagnation or even depression. Yet, they continue to cling to the promises of politics when public attitudes and opinions disappoint them.

Other influential economists calling themselves “supply-siders” are convinced that deficits do not matter. They keep their eyes on the rates of taxation, convinced that taxes stifle production, lower labor productivity, and cause unemployment. They would lower income taxes in order to stimulate and invigorate economic output. It is most unlikely that they would cast their votes for higher taxes when faced with the mandate to balance the budget.

And yet, in politics we must brace for the unexpected. After all, Congress has done the unexpected in similar situations. In 1932, in the depth of the deepest depression in U.S. history, Congress doubled the income tax and substantially boosted other taxes; it virtually guaranteed continuation of the depression for years to come. Under the strictures of a balanced budget amendment Congress would find an excuse to boost taxes significantly no matter how they would depress the economy. And just as in the 1930s, the American economy would sink into

a deep depression from which it would take many years to recover.

The prospects for a Constitutional amendment in the foreseeable future are rather slim. The political opposition, which is both vocal and unrelenting, is blocking the way. It draws its strength from the armory of the welfare and transfer state, the very ideology that brings forth the deficits. In its judgment, the boon of benefits and entitlements exceeds by far the potential harm of debt and deficit spending. The amendment movement, which obviously does not share this appraisal, stands condemned for either greedily and covetously begrudging the benefits, or grossly overstating the effects of debts and deficits.

When they do not question the judgments and motives of pro-amendment individuals, the spenders are quick to point at poverty and hunger, depression and unemployment, and countless other undesirable conditions. Farmers lament low commodity prices and low farm income, the elderly moan about sickness and age, labor leaders wail about depression and unemployment. They all are convinced that government spending may provide a solution to their particular problems. Unfortunately, economic reality differs as much from their visions and convictions as it does from the hopes and beliefs of the advocates of a Constitutional amendment.

The economic well-being of all Americans, including that of farmers, workers, and the elderly, depends on American capacity to produce and compete in foreign markets. Economic productivity in turn is a function of productive capital and the investment of capital. When government deficits consume the lion’s share of the capital coming to market, economic progress grinds to a halt. Depleted and exhausted capital markets cause labor productivity to decline and unemployment to rise—especially in capital-intensive industries that are losing their ability to compete in world markets.

Most beneficiaries of government largess, unfortunately, do not reflect upon the adverse consequences of capital consumption. They do not ponder over what they owe to others. They are always looking at the present; the future does not interest them. The golden age is now.

A Constitutional amendment cannot impose temperance, prudence, and self-reliance on people who prefer self-indulgence, folly, and dependence. It cannot bring forth balanced budgets if the people prefer political largess. If an amendment were to be imposed against their wishes, the people bent on deficit spending would find new ways of spending.

No Constitutional amendment calling for balanced budgets could close all potential channels of deficit spending. It is unlikely that it would block the present backdoors that permit Congress to engage in generous spending, not to mention future backdoors that can be constructed. At this very moment Congress is shielding massive entitlement programs, expensive contract and credit activity, and popular off-budget operations.

Federal entitlements are rights, privileges, and benefits to which the beneficiaries—individuals or government agencies—are legally entitled. They range from such massive programs as Social Security and Medicare to relatively minor programs, such as compensation for pollution victims. An entitlement binds the federal government to grant it and authorizes the judiciary to enforce it. It is unlikely that a Constitutional amendment would be allowed to prevail over it.

It is doubtful that a Constitutional amendment could be drafted to cover the numerous agencies that are Federally owned and controlled, but deleted from the budget. The Export-Import Bank, the Postal Service Fund, the Rural Telephone Bank, the Rural Electrification and Telephone Revolving Fund, the Housing for the Elderly and Handicapped Fund, and several other government agencies are removed from the budget, but continue to carry out government programs.

Although it is a part of the Treasury Department, the Federal Financing Bank operates outside the budget. Its lending is not counted as budget outlays; its total loans to Federal agencies and private borrowers presently exceed \$120 billion, which are off-budget. How would a Constitutional amendment be made to cover FFB activity?

The federal government controls a great number of privately owned enterprises that

No political regulation, law, or amendment can impose integrity on people who prefer profuseness, dependence, and debt. The American people may have to learn anew that a society cannot long continue to live beyond its means.

conduct government programs. There is the Federal Home Loan Bank System that promotes home ownership according to Federal plan; the Federal Home Loan Mortgage Association that manipulates mortgage credit and mortgage markets; the Student Loan Marketing Association, the Farm Credit System, and several other such organizations. They presently hold some \$438 billion in loan assets.

In modern terminology, all this spending is "social progress." Most Americans favor it, legislators enact it, and government agents administer it. A Constitutional amendment calling for balanced budgets, enacted under such conditions, may restore balance through significant tax boosts. But it may also lead to massive reorganization of government activity and spending. In particular, it may prompt a Federal rush to the backdoors of government spending, and give rise to countless new off-budget agencies and private enterprises under government control. The possibilities of concealment and just plain trickery are endless. It is naive to believe that a balanced budget amendment, enacted by the masters of subterfuge, could dampen the enthusiasm for Federal largess.

No political regulation, law, or amendment can impose integrity on people who prefer profuseness, dependence, and debt. They may have to learn from their own experience that debts and deficits are designed to serve the wishes of today and deny the needs of tomorrow. The American people may have to learn anew that a society cannot long continue to live beyond its means. □

Poverty: Material and Spiritual

by Irving E. Howard

Poverty is relative. What we describe as “poverty” in the United States would be wealth in most any other country. The relative nature of poverty is illustrated by the so-called official “poverty line.” The higher the average income, the higher climbs the poverty line, which for a family of four is now approximately \$11,000 per year. Keep on changing the definition of poverty and there will always be a segment of society below the officially designated level.

There are many factors that make the accuracy of this “poverty line” suspect. For example: If such government handouts as food stamps, fuel assistance, low cost housing, and the like were added to the income of those below the poverty line, many would be well above it.

Some people are genuinely poor, lacking the means to provide what most of us would agree are the necessities of life. This is statistical poverty and it may be caused by illness, accidents, disabilities of various kinds, drugs, alcohol, or whatever. But these are minor causes, compared to the statistical poverty resulting from the welfare state’s interventions to redistribute, regulate, and control.

The minimum wage law, for example, sounded innocent enough when first proposed. But many people now recognize that the minimum wage creates poverty because it causes unemployment, especially among unskilled teenagers and blacks.

We see the effects of the minimum wage all



around us. For example, there were many small sawmills in Appalachia when the minimum wage law was first adopted. Many of these had to close their doors because they could not afford to pay the minimum wage. Each succeeding increase in the minimum wage caused more marginal businesses to fail, disemploying workers and increasing poverty in the region. In addition to causing many businesses to close, the minimum wage law has caused many firms to cut back, new businesses not to be launched, and businesses not to expand.

A few years ago a Vermont ski wear manufacturer was buying hand-knitted goods from local housewives. It was a convenient home in-

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dustry for housewives who preferred to work at home, but the Labor Department brought suit against the company for violating the minimum wage law. So home knitters were disemployed, their income cut off.

The minimum wage law is only one example of government intervention. Each intervention harms some people and seems to justify further interventions to correct the injuries caused by earlier interventions. The end result is a socialized society, and the record shows that socialism impoverishes any society which adopts it.

Take the case of Cuba. Cuba was the most prosperous country in the Caribbean region before Castro took over. Now, as a communist state, it is a poorhouse. Without assistance from the Soviet Union, Cuba would be suffering famine.

Capitalistic Rhodesia used to export food, but now, as the communist state of Zimbabwe, it must import food. Unemployed Zimbabweans have been fleeing to the relatively free economy of South Africa, where they have found employment and are sending their wages back to their families in Zimbabwe. Since the United States has imposed sanctions on South Africa, that solution is disappearing.

Mozambique was once a prosperous nation under Portuguese rule, but now as a communist state it is also in a famine condition. Like Zimbabwe, its unemployed have been migrating to South Africa to earn wages to send back to Mozambique.

Sweden, long hailed as "the middle way," is no exception to this trend of socialist decline. Sweden has now used up the fat she accumulated by being neutral during two world wars and is experiencing serious economic problems, rising unemployment, and a high suicide rate.

The Socialist Solution

The socialist solution to poverty is to redistribute the wealth capitalism has created. Taking from those who have and giving to those who have less sounds charitable, but it makes the problem worse by destroying the incentive to create new wealth. Welfare state measures cause poverty! Wealth is not static; it

is dynamic and in a condition of continuous creation. Capitalism—the free economy—is productive; it is the only way to bring about prosperity.

There is a need in capitalism for voluntary charity. The Apostle Paul wrote to the Ephesians: "Let him that stole steal no more; but rather let him labor, working with his hands the thing which is good, that he may give to him that needeth." (Eph. 4:28) But before we can practice charity there must be production, else there will be nothing to give. Milton Friedman has echoed the spirit, if not the letter, of St. Paul, by suggesting that there should be an Eleventh Commandment: "Let he who practices charity do it with his own money."

There is no good word to be said for statistical poverty, especially when we bring it on by our own misguided policies; but spiritual poverty is worse. I mean the loss of meaning and purpose in life, the loss of faith and hope.

The nineteenth century was the age of mechanistic materialism. This world view encouraged the theory of Marx that men and women are social atoms whose lives need to be engineered by planners who know what is best.

The Declaration of Independence concluded with a great phrase that reveals a generation of leaders with a very different faith: ". . . with a firm reliance on the protection of Divine Providence, we mutually pledge to each other our Lives, our Fortunes and our sacred Honor." The fact that their lives and fortunes were at stake proves these were not empty words.

Fortunately, there are many Americans today whose "firm reliance" is on "Divine Providence." But that has not been the faith of those who have led us down a socialistic path in government and a humanistic path in education and religion.

When the New Deal was in its heyday, Dr. Harry Emerson Fosdick in one of his radio addresses raised a question regarding its welfare measures: "What if this destroys the American character? What then?" The question was not answered. The American character has not been destroyed, but it has been impaired.

Before the 1930s, the American was buoyant and ever the optimist. Optimists still exist, but a change has taken place. Fear of the future has laid a cold hand upon us. This shows up in our

declining rate of saving. We were once noted for our saving rate; now our rate is exceeded by almost all industrialized nations, especially Japan which is poor in natural resources, but leads the world in her rate of saving. Why save if the future seems so uncertain? So instead of saving we gamble and hope to strike it rich. Even states and towns now finance themselves with lotteries.

Some would like to blame this uncertainty about the future on the atomic bomb, but it began before there was a bomb. Public school teachers frighten young people with horror stories of a nuclear holocaust and then lament that young people are afraid of the future. This fear of the future began when the materialist view that life is meaningless seeped into the American consciousness. The increase in suicides, especially among teenagers, is evidence that such persons have lost this ground for hope. It is evidence of spiritual poverty.

Without that "firm reliance upon Divine Providence" men and women become more and more dependent upon someone or something else. They turn to government instead of looking to their own resources. In the welfare system they become wards of the state clamoring for "rights" which do not exist. Or they become dependent on narcotics, alcohol, or drugs.

We are spending billions of dollars trying to control the drug problem and when we tell a foreign nation to stop selling us drugs, the response is that we should stop demanding drugs! This is a reasonable reply. Drugs are not a problem the police can solve. It is a moral and spiritual problem—a symptom of our spiritual poverty.

Is There a Cure?

How can we cure this spiritual poverty? We used to look to the churches and the schools to inculcate faith in God and a belief in moral values when the home did not do it. Today we cannot count on either institution.

The New York Times recently reported on a New Jersey high school class of 15 who were asked what they thought of a girl who found \$1000 and turned it in. All 15 said she was a fool! The counselor gave no opinion on the

grounds that counselors should not teach moral values. The counselor was only following the policy of modern secular education—that it must be "value free."

Not many years ago moral precepts were printed on classroom blackboards and students were given pieces to memorize which taught moral values, but not in the public schools of today—except in some rural areas or in strongly religious communities.

Many forces today are eating away at the institution of the family. Fewer and fewer families are "traditional" units with the father working and the mother at home with the children. Inflation has forced many wives to enter the work place, leaving the children during the day with no parent at home. Worst of all, however, is the destruction of the moral values which once held families together. Statistical poverty will not destroy a family unless there is also spiritual poverty.

Statistical poverty is a problem for which there is a solution: Less government intervention and more capitalism to create wealth. Spiritual poverty is much more difficult to remedy. It is pathological, rooted in a loss of faith in the purpose and meaning of life itself.

We do not need a government which thinks it knows what is best for us, and so turns citizens into wards of the state. We do not need a court system that launches into an uncharted sea of positivistic jurisprudence. We do not need a school system committed to "value free" education, leaving moral instruction to the home, which in many cases no longer exists as a viable institution. We do not need churches concentrating upon the material demands of man while ignoring his spiritual needs.

If we wish to survive as a nation, we must demand a government that protects life, liberty, and property and leaves law-abiding citizens alone to make their own way. We must demand courts and judges who decide the constitutionality of law in the light of legal precedent, leaving the business of lawmaking to legislatures. We must have independent schools where students study our heritage, and are given genuine heroes to emulate. And the laity must demand that churches proclaim faith in God, and inspire the hope which this faith alone provides. □

Which Liberalism?

by Tyler Cowen

Friedrich A. Hayek, in his famous essay “Individualism: True and False” (Hayek, 1948), draws a distinction between two differing strands in Western thought: skeptical individualism and rationalist constructivism. As Hayek points out, at one time in history or another, each strand has claimed to be spokesman for liberal principles. Hayek argues that the two strands are irreconcilable, as rationalist constructivism will almost invariably lead to centralized planning and state domination. If the prevalent philosophy of an era grants man the ability to consciously redesign institutions in accordance with *a priori* principles, it is only a matter of time before such “rationalist” dictates are enforced through the state. Since the state is the “planner” *par excellence*, a belief in planning usually leads to a belief in extensive state power. Constructivist doctrines are primarily attributed to the French rationalists and are traced back to early seventeenth-century Cartesianism.

According to Hayek, skeptical individualism allows each person to pursue his own self-interest in light of the fact that the “best alternative” for this individual is unknown. Self-seeking behavior within a market framework will ultimately result in socially desirable outcomes. Hayek attributes this tradition to the Scottish Enlightenment and several other thinkers from the British Isles (e.g., Burke).

This raises the question: which liberalism?

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Are the two strands of Western thought that Hayek discusses irreconcilable? If so, which are we to choose? If not, how are they to be integrated?

Hayek makes most of his points with reference to intellectual history—it is in this field that I find a different answer to Hayek’s questions. The two traditions of liberalism (rationalism and skeptical individualism) are related differently than Hayek suggests. For instance, Hayek attributes the idea of spontaneous order almost exclusively to the British Isles (Mandeville, Hume, Burke, Ferguson, Smith, etc.). However, the notion of spontaneous order finds both its roots and its highest development (at least through the nineteenth century) in France—often in the hands of the rationalists.

Hayek attributes the idea of “the result of human action and not of human design” to Mandeville’s “Fable of the Bees” (1705). As Hayek would admit, these notions are ultimately rooted in Judaic, Christian, Hellenic, and Roman culture. However, their more proximate origins can be traced back to sixteenth-century France, before Mandeville’s time.

French Individualism

Nannerl Keohane (1980, p. 83) has noted that “Individualism dominated French ethics and psychology from the end of the sixteenth century well into the seventeenth . . .” Keohane documents this statement not by examining Hayek’s “false individualists” (the rationalists) but rather the skeptical French civic hu-

manist tradition that descended from the Roman Stoics. (See chapters 3-13 of Keohane.) Montaigne is portrayed as the leader of this tradition—not only does he glorify freedom and individual virtue throughout his *Essays* but he also has a critique of “rationalist constructivism” that resembles Hayek’s argument. Montaigne ascribes the ills of the world to man’s attempt to know more than he is capable of—“If it is true, that man alone of all the animals has this freedom of imagination and this unruliness of thought . . . it is an advantage that is sold him very dear, and in which he has little cause to glory, for from it spring the principal source of the ills that oppress him: sin, disease, irresolution, confusion, despair.” (Montaigne, vol. II, 12, p. 336)

Montaigne argues that reason is only a private guide to action (not a public guide) and should be tempered with extreme skepticism in order to avoid forcing one’s will upon other people through coercion. (*Essays*, vol. III, 11, pp. 786-790) Instead, we should rely upon custom and accident for men are like “. . . ill-matched objects, put in a bag without order, find of themselves a way to unite and fall into place together, often better than they could have been arranged by art.” (*Essays*, vol. III, 9, p. 730)

Such notions were not a brief episode in French thought which perished with the onslaught of Cartesian rationalism—“In these observations Montaigne inaugurates a long and fruitful tradition in French social theory, foreshadowing the *libertins* of the early seventeenth century, the Jansenists, and their English disciples such as Mandeville. Montaigne makes explicit the idea that private vices knit society together, that selfish motives lead men to serve the public good.” (Keohane, p. 112)

A strong interest in spontaneous order characterized post-Reformation French thought—especially such thinkers as Pierre Nicole and Pierre Boisguillebert. Even before the Enlightenment this tradition was fairly well entrenched. Under Louis XIV, such thinkers as the Marquis d’Argenson developed ideas quite similar to Hayek’s. (See Ogle on d’Argenson.) Not only was d’Argenson a strong critic of mercantilism and an advocate of *laissez-faire* but he also predated Hayek’s later work on

competition as a discovery process. Since overall or general political truths cannot always be immediately known, d’Argenson argues that the monarch should allow each individual to pursue his own interests in the hope that the resulting patterns of interaction will disclose or “contain” the sought truths. (See d’Argenson’s *Considerations sur le gouvernement* . . .)

Despite the growing sophistication of French thought, there was still a serious weakness in French liberalism—the lack of a well-developed theory of natural law. However, with the growth of science, rationalism, and the oncoming of the Enlightenment this defect was remedied. Such thinkers as Gournay, Turgot, and Condorcet constituted the apogee of eighteenth-century liberalism. These intellectuals and their disciples combined an understanding of the spontaneous development of free institutions and a belief in the ability of reason to know that liberty is the only moral and practical alternative.

British Thinkers

While the British Isles produced many notable liberals during the eighteenth century as well, many of these thinkers were plagued by a sense of overall skepticism that moderated their liberal beliefs. Hume, for instance, thought that reason was incapable of judging the efficacy of legal institutions; therefore a free society was to be justified on the grounds that it had evolved through time and exhibited strong survival traits. This notion may have been plausible in Hume’s day when liberalism was advancing, but it is far more difficult to justify in the twentieth century. Edmund Burke had the same problem—after having rejected natural law he was forced to fall back upon tradition for his justification of a liberal order.

Of course, the British had many thinkers who did not adhere to such views. Richard Price, Joseph Priestley, Thomas Paine, and James Macintosh were all strong advocates of natural law and *laissez faire*. Yet, almost as a rule, these individuals had direct links to the French, considered themselves rationalists, and were strong opponents of Burke. While another group of English rationalists, the Benthamites,

did eventually become collectivists, this outcome can just as easily be attributed to the form of utilitarianism they advocated, rather than to their rationalism.

It was the nineteenth century that saw the full flowering of the French spontaneous order tradition in such liberals as DeStutt de Tracy, Charles Comte, Jean-Baptiste Say, Frederic Bastiat, and Gustav de Molinari. These figures found the proper mix of rationalism and a belief in the spontaneous order. Most of the nineteenth-century French liberals were consistent opponents of state power and defenders of inalienable rights. The case against state interference was explicitly grounded in a rationalist conception of the benefits of human freedom.

Yet, at the same time such rationalists were developing the theory of spontaneous order. For instance, the French economist Jean-Baptiste Say had fairly sophisticated notions of the spontaneous origin of money, money as a market institution, and the dangers of state interference with the money supply (see Say, 1855). Say and his followers had a theory of the market which was far richer and detailed than the arid Ricardianism of the British Isles. Bastiat—with his explanation of the “economic harmonies” of a market economy—was perhaps the leading spokesman for the spontaneous order. When asked how the market could manage to feed all of Paris, Bastiat simply replied that it was only necessary that each man attempt to feed himself.

Eighteenth- and nineteenth-century French rationalism led to laissez-faire liberalism. While many nineteenth-century totalitarians were also inspired by rationalism, Hayek overestimates the importance of this connection. The more critical intellectual relationship that Hayek does not examine is the intertwining of socialist and *feudalist* thought. For instance, nearly all of the nineteenth-century socialist critique of capitalism and the industrial revolution is taken directly from conservative, feudalist-inspired thinkers. In England, these feudal, anticapitalist thinkers included not only Southey and Coleridge, but go at least as far back as the Bolingbroke circle of the early eighteenth century. In addition, there were numerous sixteenth- and seventeenth-century critics of the market economy who argued that it disrupted

the order, harmony, and justice of the feudalist system.

The situation in France was similar, as Kingsley Martin (1962, p. 236) has noted that “Eighteenth-century socialism sprang from a moral objection to the theory that luxury is socially beneficial. It was in origin a Puritan attack on economic hedonism.” For instance, Morelly, the first French socialist to outline his collectivist utopia in detail, explicitly envisioned a feudal conception of society.

Hayek’s thesis does not square with this evidence. To the extent that socialism springs from feudalism, the rationalist attitude must be viewed as strongly antisocialist since the rationalists were stringent opponents of feudalism. While many later socialists were strongly imbued with a rationalistic spirit, this is simply another aspect of the liberal tradition that socialism borrowed (and perverted). European socialists such as Saint-Simon, Auguste Comte, and Marx altered liberal rationalism in the same manner that they twisted the classical liberal concepts of class analysis, progress, and industrialism. It is not rationalism but lingering feudalism—the belief that the market economy is inherently unjust and inharmonious—that is at fault for this transformation.

Both rationalism and an understanding of spontaneous order are an integral part of the liberal tradition. Just as rationalism finds its sphere in choosing the legal order for a society, spontaneous order finds its sphere *within* this legal order. If the rules we choose are just, then free institutions will develop in an orderly, harmonious way which is conducive to peace and prosperity. This view can be considered the central message of Ludwig von Mises’s *Human Action*. Mises, one of the greatest classical liberals of the twentieth century, embraced the best of both the British and French traditions. □

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The Economics of Errant Entrepreneurs

by Israel M. Kirzner

A recent stimulating *Freeman* article by Jane S. Shaw (April, 1987) provocatively drew attention to some of the benefits derived by society from entrepreneurial daring and imagination—even when it turns out that these are expressed in ventures that lose money and eventually fall by the wayside. Ms. Shaw cites a spiffy and charming new restaurant in Bozeman, Montana, serving gourmet seafood. She judged the venture to be “outlandishly extravagant and probably foolhardy,” and suspects that the opportunity she enjoys of contemplating blackened red snapper in a pleasurable setting may turn out to be expensive for the restaurateurs, but is grateful for the opportunity nonetheless. Ms. Shaw recognizes that no business can operate over the long run without making a profit. But, she concludes, “Bozeman’s experience suggests 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.” Ms. Shaw sees this as an illustration of George Gilder’s conception of entrepreneurs as “givers,” as economic agents who “orient their lives to the service of others.”

Ms. Shaw’s piece got me thinking. Most discussions of entrepreneurial energy, daring, and vision see *profitable* entrepreneurial activity as largely responsible for capitalist success. Ms. Shaw is pointing out that *unprofitable* entrepreneurship offers social benefits, too. Should we, then, celebrate capitalism not only because it

stimulates profitable entrepreneurship, but because it stimulates unprofitable entrepreneurship as well? Should we indeed view entrepreneurs who lose money as unselfish benefactors of market societies? Does the “social” perspective suggest that young people should be encouraged to become independent entrepreneurs—even where we judge them likely to lose money—on the grounds that even erroneous entrepreneurs are socially beneficial?

A little thought will convince us, and I believe that Ms. Shaw would thoroughly agree, *not* to arrive at affirmative answers to these questions on the basis of Ms. Shaw’s observations. There may be numerous benefits to society that derive from entrepreneurial error—but such benefits are likely to be far outweighed, in the judgment of most observers, by the *harm* caused by entrepreneurial errors. I shall later argue, in fact, that there 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.

A profitable entrepreneurial venture benefits society in a way central to the logic of capitalist success. If an entrepreneur hires productive services for one million dollars and produces consumer goods that are bought for two million dollars, this means that services that might otherwise have produced goods judged to be worth not much more than one million have, in fact, produced goods that are much more valuable to market participants, as measured by money of-

ferred. An unprofitable venture, on the other hand, 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.

As Ms. Shaw has pointed out to us, however, it should not be thought that *no one* in society has benefited from a losing entrepreneurial venture. Clearly those who voluntarily sold to and those who voluntarily bought from losing entrepreneurs, did well for themselves—as do *all* participants in voluntary exchange transactions. Moreover, Ms. Shaw seems to suggest, not only does one who dines in an excellent, but money-losing, restaurant, gain from the venture, others do too. That is, we gather, because the parade of ever-changing opportunities offered by imaginative entrepreneurs undeterred by the losses of others, is itself a fascinating sight to watch, even if many of them, being unprofitable, are likely to disappear after a brief moment in the sun.

Despite all these benefits derived from unprofitable entrepreneurial ventures, we must recognize that few thoughtful observers are likely to judge that, all in all, the members of society should be grateful for this outpouring of entrepreneurial errors. The truth is that each and every entrepreneurial error represents a tragic waste of resources. For every beneficiary of such error, there are likely to be many whose lives, in consequence of this error, are poorer and less fulfilled than was in fact necessary. These victims of entrepreneurial error may never know that they are being harmed by these errors. In fact no one may ever know what alternative products these unprofitable ventures have precluded. As Henry Hazlitt taught us, the true costs of waste are always unseen—yet are nonetheless real and poignant.

The case for capitalism, for free entrepreneurial entry, does not and should not rest upon the possible residual benefits that some may derive from unprofitable entrepreneurial ventures. The great economic virtue of capitalism lies in its ability to stimulate vigorous and imaginative entrepreneurs who create *profitable* enterprises. In this way resources come to be deployed usefully for purposes whose urgency or feasibility had hitherto been overlooked. The virtues of

capitalism rest not on any supposed altruism evinced by entrepreneurs who lose money while catering to the tastes of a too-narrow group of consumers, but on the daring and judgment of entrepreneurs who see socially valuable opportunities before others do.

In fact, the one really valuable feature of unprofitable entrepreneurial endeavor lies in its crucially important role in stimulating *profitable* entrepreneurship. Only in a society where entrepreneurs are free to make errors, can we expect an outpouring of entrepreneurship to lift its economy to new, hitherto unglimped, heights of prosperity. Only where potential entrepreneurs are free to follow the lure of profits as *they* see them, will there be the unleashing of entrepreneurial vision, daring, and judgment that creates profits in fact—and in so doing, creates new, more valuable ways of utilizing resources.

To be sure, errant entrepreneurs suffer losses, and it is precisely because entrepreneurs with poor judgment are likely to think twice before jumping into dangerous waters, that such erroneous leaps are likely, to some extent, to be discouraged. Moreover, as Ludwig von Mises pointed out, it is likely to be those entrepreneurs who in the past have exhibited sound market judgment, who will have accumulated the capital funds that are now able to be channeled into new entrepreneurial ventures. Hence, the central social gain from losing entrepreneurial ventures is derived not by individuals unusual enough to enjoy the output of these 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 stimulated by the freedom of market participants to follow their dreams and hunches as they, and they alone, see fit.

This freedom will, to be sure, always attract a stream of entrepreneurial fools and romantic optimists. But the incredible successes of capitalism do not depend on such follies; they depend on the stimulus the system provides to farsighted, clear-visioned entrepreneurs who are, at all times, competing away resources from foolish ventures towards more judicious, more accurate, dreams and aspirations. □

The Farm Problem and Government Farm Programs

by E. C. Pasour, Jr.

Current U.S. farm programs were instituted during the Great Depression of the 1930s. Despite dramatic changes in economic conditions over time in the farm sector, the Food and Security Act of 1985 is remarkably similar to farm programs of the past fifty years. Government programs have not solved the farm problem. Indeed, the level of financial stress on U.S. farms is the highest since the Great Depression of the 1930s even though Federal outlays on farm programs in 1986 were at record high levels. Moreover, there is a growing awareness that our domestic farm programs are more and more anachronistic in a world in which agricultural production is increasingly competitive.¹ This paper defines the farm problem, discusses the effects of farm programs, and demonstrates that a fundamental change in direction of U.S. farm programs is long overdue.

The Farm Problem

The farm problem in the United States historically has been considered to be one of relatively low farm incomes. This problem can be traced in large measure to the destabilizing effects of economic growth.² Economic growth leads to a shift of labor and other resources from agriculture to other sectors of the economy as agriculture decreases in *relative*

importance. For example, the U.S. farm population decreased from 25 per cent of the total population in 1929 to little more than 2 per cent in 1985. During this period, however, output per hour of farm work increased more than 15 times.³

For labor resources to be bid away from agriculture, it is necessary that incomes be higher in nonagricultural occupations. Since incomes of farm workers historically were frequently lower than those of nonfarm workers, on average, it is not surprising that agricultural interests perceived this difference as a "farm problem."

Current farm programs, including price supports, conservation and credit subsidies, subsidized crop insurance, and food assistance programs, were initiated during the Roosevelt New Deal to raise farm product prices and farm incomes. Programs to raise (or even to maintain) farm product prices, however, as shown below, are increasingly at odds with falling worldwide prices of farm products brought about by advances in technology.

Falling prices of farm products is not a new phenomenon. Through the years, mechanization, improved seeds, the development of new pesticides and herbicides, and other increases in technology have resulted in the substitution of capital for labor, thereby dramatically increasing the supply of farm products. The demand for farm products, influenced mainly by gradual increases in population and consumer

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incomes, on the other hand, has increased much more slowly than supply.

The downward trend in farm product prices has implications for government expenditures on price support programs. The more product prices decrease, the higher the taxpayer cost of supporting agricultural product prices at any given level.

Incomes: Farmers, Nonfarmers, and Commercial Farmers⁴

Average income per U.S. farm in 1984 was \$28,600. This is somewhat higher than the median income of \$22,400 for all households.⁵ There are a number of problems, however, in making farm versus nonfarm income comparisons of this kind.

First, the concept of "average income" has little meaning since income per farm operator varies widely, depending on farm size. Almost half of all farms, as measured by sales of farm products, have annual sales of less than \$10,000, and these farms account for only about 6 per cent of gross farm income. On the other hand, the largest 5 per cent of the farms (annual sales of more than \$250,000) account for almost half of gross farm income.

The average U.S. farm family earns roughly 40 per cent of its income from farming and the other 60 per cent off the farm. However, the importance of off-farm work varies widely with farm size—with off-farm income decreasing in relative importance as farm size increases. On small farms with sales of less than \$40,000 per year, most income is now derived from non-farm sources. Thus, discussions of "average" farm income generally are highly misleading because the farm is not the primary source of income for many farmers, including most small farmers.

Second, any meaningful comparison of farm and nonfarm incomes must consider differences in worker productivity. Indeed, much of the observed inequality in income is due to differences in education, training, and experience.⁶

Third, in making comparisons of living levels for farmers and nonfarmers it is important to make adjustments for differences in

costs of living and taxes. For example, the buying power of a given level of money income is somewhat higher for farmers because of income tax advantages and lower costs of living in rural areas. In addition, the individual satisfaction gained from working in the outdoors and of being one's own boss are high enough for some farmers to substitute for a substantial amount of money income. When all of these factors are taken into account, it is questionable whether incomes are now lower in agriculture.

As suggested above, attempts have been made since the 1930s to increase farm incomes—mainly through government programs that raise farm product prices. The effect of these programs is to make incomes within agriculture more unequal, since the benefits of farm programs are tied to the volume of farm sales and vary with farm size. Farmers with sales of less than \$40,000 per year, for example, constituted 70 per cent of the farms but received only about one-tenth of the total direct government payments.

On the other hand, the one per cent of the farmers having sales of more than \$500,000 per year received more than 10 per cent of the subsidies (which averaged \$33,000 per farm on these large farms in 1984). Farm program payments go primarily to farmers whose incomes are far above the median household income for the country as a whole.

However, the largest farms do not always receive benefits from farm programs. Many large farms produce commodities, such as livestock, poultry, nursery products, and fruits and vegetables, that are not covered by price-support programs. Also, there is a \$50,000 per producer payment limitation that limits to some extent the benefits of government programs to large farmers. However, exceptions frequently limit the effectiveness of the payment restriction and subsidies to individual producers sometimes exceed \$1 million.

There is a growing awareness that the income transfers of farm commodity programs cannot be justified. Even Willard Cochrane, long-time proponent of farm commodity programs and former farm adviser to President Kennedy, now agrees that there is no defensible reason why the nonfarm sector should be called upon to pay higher taxes and food prices

to finance these programs that redistribute income to higher income farmers.⁷

Financial Stress and Government Payments⁸

The “stabilization” of the farm sector is another commonly stated reason for government price support programs. During the 1980s the debt/asset ratio of U.S. farms, a widely used measure of financial stress, has risen to levels unseen since the Great Depression. The rapid decline of agricultural land and machinery values has been a major reason. Land values nationwide decreased an average of 19 per cent from 1981 to 1985 and the decrease was much larger in regions with the largest land value declines—the Corn Belt, the Lake States, and the Northern Plains.

About 12.5 per cent of all farms are “financially distressed,” but financial stress is higher on commercial farms. Despite the fact that commercial farmers receive the lion’s share of government payments, most farm subsidies are not targeted toward those farms in financial distress. Indeed, only 17 per cent of the payments in 1984 went to farmers in financial distress who relied primarily on farming for their livelihood.⁹

Other Commodity Programs

Direct payments are not the only means through which commodity programs affect farm income. Some commodity programs raise prices to producers through production or import controls. The sugar program, for example, which holds domestic sugar prices well above the world market level, yields huge benefits to the 12,000 to 13,000 domestic sugar producers. The producer benefits, averaging \$120,000 to \$145,000 per farm, are achieved through a system of sugar import quotas.¹⁰

Similarly, the tobacco program raises prices to producers with a system of producer acreage allotments and marketing quotas. In this case, the farmer does not receive a direct government payment as in wheat, cotton, rice, and feed grains programs. Instead, product prices are increased through government-sanctioned and -enforced producer restrictions on production

and marketing. The tobacco program is viewed by some agricultural cartel advocates as a model for other farm commodities because the budget outlay is small.

In a still different manner, the dairy program raises milk prices received by dairy producers through government purchases of butter, cheese, and nonfat dry milk. The government purchases enough of these milk products to raise the price of milk to the price-supported level set by Congress.

Outlays on dairy and other price support programs in fiscal 1986 were at record high levels—some \$26 billion. However, an analysis of recent trends in net farm income and USDA outlays demonstrates that farm commodity programs do not ensure farm prosperity.

Farm Income and Outlays for Farm Programs¹¹

The income derived from farming operations is quite variable from year to year depending upon weather, product prices, and so on. However, net farm income, adjusted for inflation, is considerably lower in the 1980s than it was in the 1960s and 1970s. For example, inflation-adjusted net farm income in 1985 was less than two-thirds the level in 1975. The decrease in farm income has been accompanied by calls for government to “do more.” The extent to which Congress has responded is not fully appreciated.

In a recent paper, the author calculated USDA expenditures separately for (1) price support programs, (2) food stamp and other food assistance programs, and (3) “other” programs that include outlays for conservation, subsidized credit, crop insurance, research, and extension.¹²

There has been relatively little increase in real terms in USDA outlays for the latter two categories, i.e., for food assistance or for “other programs” during the past decade. The dramatic increase in USDA outlays since 1980 has been in price support programs. Outlays in current dollars for price supports (including foreign assistance programs) increased more than four times from 1980 to 1985 (from \$4 billion to \$19.4 billion). And the end is not in sight. Outlays for price support programs in

fiscal 1986 were \$26 billion, and there is growing concern that expenditures will establish new records under the 1985 farm bill. Thus, the record suggests that price support programs are no panacea for the problems plaguing the farm economy.

Why Farm Programs Do Not Ensure Farm Prosperity

In one sense it is ironic that farm financial stress and farm program expenditures are simultaneously at record levels. A closer analysis, however, shows why huge outlays on government farm programs do not provide a long-run solution to problems confronting commercial agriculture.

Income assistance from agricultural price support programs designed to boost farm income is transitory. Benefits from these programs are quickly incorporated into higher prices of land, production and marketing rights, production facilities, and other specialized farm resources that do not show up in farm income. Moreover, the short-run gains from price support programs go mainly to owners of these specialized farm resources and not to farm operators.¹³ Furthermore, it is the first generation of owners of farm resources, not farm producers as such, who receive the benefits. After price support programs are initiated or benefit levels increased, benefits of higher producer prices are largely offset by higher production costs. And, once farm commodity programs are begun and the benefits are incorporated into higher input prices, there is no way to terminate or reduce benefit levels for dairy, wheat, rice, cotton, feed grain, and other commodity programs without imposing losses on *all* affected owners of land and other farm assets, regardless of whether they received the original gain.

Moreover, as in the case of price support payments, when increases from farm programs are capitalized into higher prices of land and other inputs, those who own more farm resources receive more benefits. Here again, it is likely to be the higher income commercial farmers who benefit most from increases in prices of land and other farm assets.

In the inflationary environment of the late 1970s, government-subsidized and -sponsored

credit programs operated by the Farmers Home Administration and the Farm Credit System created an incentive to expand the size of farm operations through borrowing. The easy government credit policies of the late 1970s was a contributing factor to the farm bankruptcies of the 1980s. As inflationary expectations and farm product prices decreased in the 1980s, farm land prices plummeted and owners of land, capital facilities, and other farm inputs incurred huge losses in real wealth.

Farm price support programs have also been detrimental to exports of farm products. Agriculture traditionally has relied heavily on export markets. The export value of U.S. farm products in fiscal 1986 was about \$26.5 billion—some \$17 billion below the 1981 record level.¹⁴ And in mid 1986, the U.S. imported more agricultural products than were exported. For the year as a whole, the net farm trade balance (exports less imports) of \$6 billion in 1986 was the lowest in 13 years.

Rising Agricultural Productivity

U.S. exports of farm products have been adversely affected by increasing agricultural productivity in other countries. Farm productivity is increasing rapidly throughout much of the world, not only in the United States and Western Europe, but also in the developing countries.¹⁵

It is ironic that U.S. farm programs have contributed to increased farm output in other countries. The price support loan rates in U.S. commodity programs that effectively set price floors frequently have provided artificial production incentives to farmers in other countries who could produce at less than the U.S. loan rate. As U.S. farm programs tried to reduce farm output after 1981, the rest of the world significantly increased output of wheat, soybeans, cotton, and other products so that U.S. farm exports plummeted.

Most of the government subsidies are received by large farmers whose incomes, on average, already exceed those in the nonfarm sector. In addition to direct payments, farm programs also provide short-term gains to owners of farm land and other specialized re-

sources. However, there is little long-run benefit because the short-term gains are quickly reflected in higher production costs. For farmers renting or buying land after the programs are initiated, benefits are largely offset by higher production costs. On the other hand, when product prices decrease as during the 1980s owners of farm assets incur losses in real wealth—with large farmers losing more.

Increasingly expensive farm programs will not solve the farm problem. Farm programs have little effect on the long-run returns to farm labor. Since farm labor readily responds to changes in wage rates, increases in product prices mainly affect farm employment rather than wages.¹⁶ Thus, the return to labor in the rest of the economy is far more important in influencing farm wage rates than are farm programs.

Government price support programs for farm products are protectionistic and incompatible with free trade.¹⁷ It is hypocritical for the United States to criticize other countries for using import controls, export subsidies, and other trade restrictions that this nation is also using.

As agricultural productivity rises throughout much of the world and product prices decrease, greater budget outlays will be required to support product prices at any given level. The increased competition for farm products and Federal budget pressures may force U.S. policy makers to do what they have heretofore been unable to do—modify U.S. domestic farm programs to make them compatible with the goal of liberalized trade.

There is no acceptable alternative for U.S. agriculture but to remove price supports and impediments to trade. Deregulation is no painless panacea for current farm woes, but market forces are superior to other means of achieving resource adjustments in agriculture—domestically and internationally. A dismantling of price supports and trade restrictions would enable the United States to use its strongest force in world agriculture markets—the comparative advantage of U.S. farmers based on soils, climate, technology, managerial skills, and efficient marketing and transport systems.

Even if the United States alone were to decontrol its agriculture, the nation and its farmers would be better off than with either of the alternatives—a subsidy contest between nations or strict production controls with the necessary protectionist international trade policies.

Policies that ignore or attempt to isolate U.S. farmers from world market trends cannot be successful in the long run. Protectionism prevents farmers, other workers, and consumers throughout the world from reaping the benefits that occur when individuals are permitted to engage in those activities in which they are most productive. Consequently, policy actions of the United States and other countries have profound implications for farmers in the United States and other countries and for consumers of farm products throughout the world. □

1. The points in this paper are discussed in more detail in the author's paper "The Farm Problem, Government Farm Programs, and Commercial Agriculture" forthcoming in *The Journal of Production Agriculture*.

2. Hendrick S. Houthakker, *Economic Policy for the Farm Sector* (Washington, D.C.: American Enterprise Institute for Public Policy Research, 1967).

3. *Economic Report of the President* (Washington, D.C.: U.S. Government Printing Office, 1986), p. 361.

4. Farm income data in this section are from the *Economic Report of the President*, 1986, pp. 132-134.

5. U.S. Bureau of the Census, *Statistical Abstract of the United States* (Washington, D.C.: U.S. Government Printing Office, 1985), p. 445.

6. Mark Lilla, "Why the 'Income Distribution' Is So Misleading," *The Public Interest* 77 (Fall 1984): 62-76.

7. W. W. Cochrane, "A New Sheet of Music: How Kennedy's Farm Adviser Has Changed His Tune About Commodity Policy and Why," *Choices* (Premier Edition): 23-33.

8. Data on farm financial stress are from the *Economic Report of the President*, 1986, pp. 132-134.

9. Dave Lyons and K. Collins, "Government Payments and Farm Finance." *Update: The 1985 Farm Bill* (Washington, D.C.: The U.S. Department of Agriculture, 1985).

10. *Economic Report of the President*, *op. cit.* p. 138.

11. Data in this section are presented in E. C. Pasour, Jr., *op. cit.*

12. E. C. Pasour, Jr., *op. cit.*

13. E. C. Pasour, Jr., "Inconsistencies in U.S. Farm Policies: Implications for Change," *Forum for Applied Research and Public Policy*. (Summer 1986): 57-68.

14. Farm Credit Administration, *Agricultural Situation Report*, May 23, 1986 and August 29, 1986.

15. E. C. Pasour, Jr., "Protectionism and Agricultural Price Supports," *The Freeman* (October 1986): 381-383.

16. D. G. Johnson, "The Performance of Past Policies: A Critique," pp. 11-36 in *Alternative Agricultural and Food Policies and the 1985 Farm Bill*. G. C. Rausser and K. R. Farrell eds. (Berkeley, California: Giannini Foundation, 1985), p. 27.

17. E. C. Pasour, Jr., "Protectionism and Agricultural Price Supports," *The Freeman* (October 1986): 381-383.

A Free Market in Kidneys?

by Walter Block

According to recent reports, the black market value of a kidney which can be transplanted is some \$13,000—which translates to roughly seven times its weight in gold. This is a dramatic figure, and behind it lies a tale of untold human suffering.

There are thousands of people who desperately need kidney transplants. Paradoxically, there are other thousands of people who die each year, taking healthy kidneys to the grave, who have had no financial incentive to bequeath these organs to those in need. Why, it may be asked, cannot potential donors be given a pecuniary reward for doing the right thing? That is, what precludes a businessman from purchasing the future rights to kidneys from potential donors, and then selling these kidneys to those who need transplants?

The problem is, it is illegal to harness marketplace incentives in order to encourage kidney donors. In the United States, the National Organ Transplantation Act (1984) prohibits the sale of organs for transplantation.

Instead, we resort to all sorts of inefficient stratagems. Celebrities exhort us, in the event we suffer an untimely death, to make a posthumous gift of these organs. Medical schools coach their students on the best techniques for approaching next of kin; the difficulty is that they must ask permission at the precise time when it is least likely to be given—upon the sudden loss of a loved one.

These tactics have been to little avail. While potential recipients languish on painful dialysis machines, the public hasn't signed cards in sufficient numbers giving permission for automatic posthumous donor status. Things have

come to such a pass that in Canada there are plans being bruited about which would allow the government to seize the kidneys of accident victims unless they have signed cards denying such permission.

The free enterprise system, were it allowed to operate, might save the lives of thousands of kidney disease patients. A legalized marketplace would offer strong financial incentives for donors. Would you sign a card donating your kidney after death for \$13,000, right now, in hard cash? There are very few people who would turn up their noses at such an offer. And if sufficient supplies were still not forthcoming at this level, prices would rise even farther until all demand was satisfied. Given free enterprise incentives, there would be no shortage of kidneys.

This, after all, is the same process we rely on to provide the other necessities of life: food, clothing, and shelter. We do not wait for voluntary donations of these vitally important goods and services.

There is no doubt that those presently responsible for preventing a free market in kidneys act with the noblest of motives. To them, legalizing the purchase and sale of human organs would be degrading. Far better, from their viewpoint, that people donate their bodily parts for free so that thousands of kidney disease sufferers might live normal lives. However, no matter how benevolent the intentions of the prohibitionists, it cannot be denied that the effect of their actions has been to render it less likely that those in need will be served.

It is time to put aside our archaic and prejudicial opposition to the marketplace, so that we can relieve the suffering and, in many cases, lift the death sentence we have inadvertently placed on our fellow citizens. □

Take Back the Environment

by Jorge E. Amador

Popular mythology has it that in the struggle against selfish private interests, government stands tall as guardian of the common good.

Consider the environment. In the United States, decades of "landmark" legislation, massive bureaucratic growth, and billions in expenditures have left the impression that the state is the environment's friend.

Appearances deceive. Despite its reputation, government's record on environmental protection is at best mixed. Antipollution legislation has encouraged pollution in the name of abating it. Governments at all levels are among the worst defilers of the environment. Government is itself one of the major obstacles to solving the problem of pollution.

There is a better way to safeguard our health and property from noxious substances. But it requires first weaning ourselves from the notion that the benevolent state is doing it for us.

The Law IS the Problem

"Most governmental regulations are aimed at overseeing the permitted release of toxic chemicals into surrounding neighborhoods during a company's normal operations," acknowledges Representative James J. Florio (D-N.J.), one of the strongest proponents of government intervention in the environment.¹

The law attempts to manage pollution, not to protect its victims. Those who comply with reporting requirements, get the necessary

permits, and stay within prescribed limits may pollute with impunity.

The Federal Water Pollution Control Act proclaims that "the discharge of any pollutant by any person shall be unlawful," except only "as in compliance with this section and sections 1312, 1316, 1317, 1328, 1342, and 1344 of this title."²

Section 1342 of the Act, for instance, authorizes the Environmental Protection Agency to "issue a permit for the discharge of any pollutant, or combination of pollutants . . . upon condition that such discharge will meet either all applicable requirements . . . [or] such conditions as the Administrator determines are necessary to carry out the provisions of this chapter."³

The Hazardous Substances Superfund was established in 1980, ostensibly to make polluters clean up toxic-waste spills and dumps. Hailed as a historic victory for the environment, the law exempts "releases in the workplace and releases of nuclear materials or by-products, normal field applications of fertilizers and engine exhausts."⁴

It also excuses spills and dumps from paying cleanup costs incurred by the government if the discharges were in compliance with permits issued under any one of a long list of environmental statutes, including the Clean Water Act, Solid Waste Disposal Act, Marine Protection, Research and Sanctuaries Act, Safe Drinking Water Act, Clean Air Act, and the Atomic Energy Act of 1954.⁵

"It is 'the law' that permits environmental degradation," writes Victor Yannacone, a

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prominent lawyer in the field of environmental law. "And now when we look to the law for answers to many of our social and environmental problems, we find that the law itself is the cause of many of those problems."⁶

Politicians and Bureaucrats Decide

Why does legislation that, we were told, was passed to protect the environment end up protecting polluters instead?

"The first and most obvious set of limitations on legislative power is, of course, the quantum of political constraints under which legislatures must operate," writes another environmental lawyer.⁷ Like anybody else, lawmakers are affected by what other people tell them. They also have their own preferences. Politicians are ordinary human beings, pushed and pulled by interest groups pursuing competing and often contradictory demands.

Any given vote by the average legislator is the result of a complex balancing process that takes into account these diverse influences. Some want him to stop pollution, others warn that this might ruin the economy. Some represent votes, others offer campaign contributions. The savvy politician tries to keep all sides happy. The result is an Orwellian-named "anti-pollution" act that actually legitimizes pollution.

Appointed administrators shielded from democratic pressures do little better. Yannacone writes, "If we must find a common denominator for the serious, environmental crises facing all technologically developed countries regardless of their nominal form of government, it would have to be entrenched bureaucracies which are essentially immune from criticism or public action."⁸

Out of political opposition to the program or sheer bureaucratic inertia, civil servants can subvert the best-intentioned acts of legislators. When Congress renewed Superfund last fall, it appropriated \$8.5 billion to be spent over the next five years, \$1.5 billion of it in the first twelve months. Yet, four months into the fiscal year, only \$220 million had been released for Superfund projects.

"One reason," indicated one report, was

that the Office of Management and Budget had "not yet approved regulations" drafted by the EPA to guide Superfund spending.⁹

The 1980 Superfund law directed the Department of Health and Human Services to investigate the health hazards of toxic wastes, but, as former EPA policy analyst Fred Smith notes, as of last year "almost nothing" had been done.¹⁰

The law also prohibited persons from challenging an EPA decision on what cleanup method to use.¹¹ This rule was intended to prevent parties which might be forced to clean up their sites from stalling enforcement for years. But the knife cuts both ways. By initiating preemptive action, the agency can also prevent victims of pollution from seeking more vigorous enforcement of the law. The officials decide how to use this weapon.

The Supreme Court has expanded bureaucratic freedom to bend environmental legislation out of shape. In 1985, the court allowed the EPA to exempt individual industrial plants from full compliance with limits on toxic discharges into sewage treatment facilities, despite apparently clear language in the Clean Water Act that the agency "may not modify" the limits.¹² When provisions can be interpreted into meaning their opposite, pro-environment legislation can make for open season on the environment.

A History of Encouragement

"It is now clear that the worst offenders in the process of environmental degradation are not the ruthless entrepreneurs dedicated to wanton exploitation of our natural resources," writes Yannacone. Instead, it is "short-sighted, mission-oriented, allegedly public interest agencies."¹³ There are some 22,000 sites containing hazardous wastes in the United States. Many are municipal dumps. Military bases alone account for more than 4,000 chemical disposal sites.¹⁴

Even private pollution is, in very important ways, traceable to public policy. Today, the law protects and encourages polluters at the expense of private interests in healthy bodies and usable property.

Centuries of common tort law developed under the maxim, "So use your own property

as not to injure the property of another.” By this guideline, courts ruled that victims could enjoin polluters and collect from them for damages caused to their property.

The past two centuries, however, reveal a train of legislative and judicial decisions weakening judicial defenses against polluters. The process coincided with the rise of large-scale industry.

Before then, a tanner who spewed noxious fumes through the neighborhood, for instance, could be taken to court by any of his neighbors. Under the law of nuisance, the tanner was preventing his neighbor from enjoying his own property by spreading smells that sickened him or drove him away. He could be assessed damages and enjoined from further release of fumes.

Today, nuisances have been divided into “public” and “private” categories. A “public” nuisance “is an act or omission interfering with an interest common to the general public rather than peculiar to the individual.” A “private” nuisance involves “interference with plaintiff’s use and enjoyment of his or her land.”¹⁵

This is an important distinction. Because the fumes affect all the neighbors within their reach, they constitute a “public” nuisance, over which a mere individual cannot sue. He would have to show some damage peculiar in kind, not just degree, to himself. “In the absence of special damage to a particular private individual—damage which is substantially greater than that suffered by other individuals in society—a public nuisance is subject to correction only at the hands of public authority,”¹⁶ which are devoted to the political tug-of-war.

Yannacone attributes the change to British jurist William Blackstone (1723-1780). “Until Blackstone there was no distinction made between public and private nuisance. The rule had been well established that any individual could apply to a court of equity to abate a nuisance.”¹⁷

Blackstone acknowledged this was for the convenience of the polluter. It “would be unreasonable to multiply suits by giving every man a separate right of action for what damns him in common only with the rest of his fellow-citizens.”¹⁸ This line of thinking still



In the days of adherence to common tort law, a tanner who spewed noxious fumes through the neighborhood, for instance, could be taken to court by any of his neighbors.

guides the courts. “The reason usually given is that the defendant must be relieved of the many actions that would result if everyone were free to sue for damages resulting from the common harm.”¹⁹

The deterrent value of facing a mass of suits from angry victims of pollution seems to have been lost in the shuffle.

The traditional causes of action, such as nuisance, trespass, and negligence, have been weakened by the misuse of utilitarian concepts of cost and benefit. William L. Prosser, author of the encyclopedic reference *Law of Torts*, writes, “Chief among the factors which must be considered is the social value of the interest which the actor is seeking to advance.”²⁰

In *Cases and Materials on Torts* Prosser adds, “In this process the courts take into consideration a number of different factors. . . . Among these are . . . the financial investment of each party, and the relative economic hardship to either from granting or denying the injunction, and especially the interests of the gen-

eral public in the continuance of the defendant's enterprise."²¹

In January 1987, a Philadelphia Municipal Court judge ruled in favor of a defense contractor that uses heavy stamping machinery to shape parts for missile casings. The stamping was found to cause irritating and property-damaging vibrations to neighboring homes.

Residents complained of sleepless nights, crying spells, medical bills, and damage to walls. Judge Alexander Macones ruled that the company should not be fined because it provides jobs for 215 people.²²

Encouraging Growth

As industry demonstrated its ability to lift nations out of poverty, judges became eager to encourage industrial growth. To allow individuals to enjoin, for their private benefit, great technological enterprises from making goods that benefited all would be a disservice to the public interest. "Therefore the harm visited upon the city's residents had to be chalked up as an accidental by-product of progress."²³

"The pollution of the air, so far as reasonably necessary to the enjoyment of life and indispensable to the progress of society, is not actionable," chimed in the Georgia Supreme Court in 1911.²⁴

A more recent statement came in an oft-cited 1947 Ohio case. In *Antonik v. Chamberlain*, plaintiff sought to enjoin the owner of a private airport because of the noise it created. Court of Appeals Justice Arthur Doyle wrote:

It is not everything in the nature of a nuisance which is prohibited. There are many acts which the owner of land may lawfully do, although it brings annoyance, discomfort, or injury to his neighbor. . . .

People who live in organized communities must of necessity suffer some damage, inconvenience and annoyance from their neighbors. From these annoyances, inconveniences and damages, they are generally compensated by the advantages incident to living in a civilized state.²⁵

This cost-benefit approach is a mistake on its own terms. Costs are shifted, not eliminated, by ruling for the polluter. While the tanner

might produce something else with the money spent on pollution abatement, his neighbors would become less productive if they had to put up with the harm the pollution causes.

Shielding polluters from the costs of their actions "amounted in effect to a subsidy to incipient industry during the takeoff period of industrialization."²⁶ If it's "too costly" to produce hides without choking adjoining residents, "society" will be in a better position to judge the cost of hides if these costs are incorporated into their price. As economist Murray Rothbard observes, "now all of us are paying the bitter price for this overriding of private property, in the form of lung disease and countless other ailments. And all for the 'common good'!"²⁷

Rothbard notes that "the cost and technology argument overlooks the vital fact that if air pollution is allowed to proceed with impunity, there continues to be no economic incentive to develop a technology that will not pollute. On the contrary, the incentive would continue to cut, as it has for a century, precisely the other way."²⁸

The courts have developed other restrictions that limit the effectiveness of litigation against pollution. One is the statute of limitations, which for nuisance and trespass actions is dated from the time the original action took place. This is a serious obstacle in pollution cases, where the injurious effects of toxic substances may not become evident until years after the statute of limitations has run out.

Under an action alleging negligence, the statute of limitations has been ruled to begin only when the victim discovers the harm.²⁹ However, negligence theory has grave shortcomings of its own. Robert Best and James Collins note that "There are four basic elements of any negligence action: A duty or obligation recognized by law requiring conformance to a particular standard of behavior, a breach of that standard, a causal connection between defendant's action or omission and plaintiff's injury, and actual loss or damage to a legally protectable interest."³⁰

If the polluter's actions are sanctioned by law, the victim has no recourse, even though he may have suffered harm and may be able to link the polluter to it.

Protection for government-sanctioned pollu-

tion has been enshrined in Federal law. The original Superfund legislation, for instance, held that "No person . . . may recover under the authority of this section for any response costs or damages resulting from the application of a pesticide product registered under the Federal Insecticide, Fungicide, and Rodenticide Act."³¹

Congressional Quarterly reports that the new Superfund legislation also bans suits against gas station operators for "costs or damages resulting from release of recycled oil that is not mixed with other hazardous substances, if they are following the regulations and law for handling such oil."³²

It may be argued that one cannot fault a polluter who was only following the law or taking precautions not to harm his neighbors. This is the basis for the standard of "reasonable conduct" in adjudicating cases.

Though the honest owner of a chemical dump may have dutifully filled all the forms and been careful to use high-quality storage containers, it makes little difference to the unintended victim of his underground leak. We may sympathize with the owner, but his actions injure the victim just the same.

This forms the basis for the idea of strict liability, which recently has gained some ground as a supplement to nuisance, negligence, and trespass.

"Strict liability in tort is based upon the theory that one who realizes profit from the hazards of his or her activity assumes the attending risk and may be held liable for any invasion of the person or property of another, notwithstanding that he or she may be free from all negligence or wrongdoing."³³

Given the current understanding of strict liability, Best and Collins caution that it "appears unlikely" that the theory will gain as much favor in pollution cases as it has in the field of product liability. Liability is made to hinge on an assessment of whether the activity in question is "abnormally dangerous."³⁴

As with nuisance and negligence, the courts have misapplied notions of social utility to provide a basis for defending harm done. Even if it is otherwise "abnormally" dangerous, "though the activity involves a serious risk of harm that cannot be eliminated with reasonable

care . . . its value to the community may be such that the danger will not be regarded as an abnormal one."³⁵

Who Pays?

Senator Lloyd Bentsen (D-Tex.) hailed the new Superfund law's tax provisions as establishing "a basic principle that is vitally important to the future of the Superfund program: all who contribute to the toxic waste mess must help pay the price of cleaning it up." It would be more accurate to describe the new law as a triumph for the principle of "make somebody else pay."

The \$8.5 billion to be allocated will come from a variety of sources. The petroleum and chemical industries, generally acknowledged as the worst offenders in the toxic-waste problem, will pay \$4.15 billion. However, these taxes apply to all producers of certain chemicals equally, without regard to the care each company may take to control the leakage of its dangerous waste.

The money will be used to clean up, not just dumps now in operation, but old sites too. Hence, today's oil and chemical firms are being forced to pay for the sins of others before them.

An almost equal amount, \$3.75 billion, is due to come from a new tax of 0.12 per cent on corporate income above \$2 million in all industries, waste producers or no, and from taxpayers through "general revenues."³⁶ Polluter spills, the rest of us pay.

Analyst Smith observes that "The Superfund taxes raise money, but create no incentives for anyone to reduce the risks associated with dumps—existing or future."³⁷ The system makes the conscientious bear their own costs as well as those of the negligent. The result is a perverse incentive to do as little as legally required. Waste producers may not have to pay for their own mess, but they'll have to pay for everybody else's. And so will the rest of us.

Ira Lupu conjectured in 1967 that "once the legislature acts in certain areas, the court may be even less likely than before to touch the areas left unregulated, on the theory that legislative inaction signifies legislative intention to have the area remain unregulated."³⁸

Reality may be even stranger than theory. The Clean Air Act reads: "Nothing in this section shall restrict any right which any person (or class of persons) may have under any statute or common law to seek enforcement of any emission standard or limitation *or to seek any other relief.*" (Emphasis added.)³⁹ Virtually identical language appears in the Solid Waste Disposal Act, Safe Drinking Water Act, Maritime Protection, Research and Sanctuaries Act (MPRSA), Federal Water Pollution Control Act (FWPCA), and the Clean Water Act.

These clauses would seem clearly to preserve any citizen's common-law grounds for suing polluters. Yet in 1981 the Supreme Court interpreted them into oblivion. In throwing out a suit by fishermen who claimed damage to fishing grounds by various government authorities that were dumping sewage and other waste into the ocean, the court, by a 7-2 majority, ruled "there is no implied private right to action" under the MPRSA or FWPCA.⁴⁰

The justices reasoned that, because Congress devised an elaborate system for enforcement under other sections of the statutes, in spite of its explicit language it really could not have meant to preserve common-law remedies!

"When the remedial devices provided in a particular Act are sufficiently comprehensive, they may suffice to demonstrate congressional intent to preclude" such suits, wrote the majority. "We are convinced that the saving clauses do not refer at all to a suit for redress of a violation of these statutes—regardless of the source of the right of action asserted."⁴¹

In conclusion, the court held that "the federal common law of nuisance in the area of water pollution is entirely pre-empted by the more comprehensive scope of the FWPCA. . . . We therefore must dismiss the federal common-law claims because their underlying legal basis is now pre-empted by statute."⁴²

Abating the Mess

"In our society, the traditional controls have been unable to cope with the continued deterioration of our environment basically because of our failure to recognize pollution for what it is: a form of aggression against society as a whole and our neighbors in particular."⁴³

The obstacles seem formidable, but they are not insurmountable. A comprehensive approach to the pollution problem would include the following features:

Put the environmental protection business out of the government's reach. Place it back in the hands of the people most likely to care—those who are directly affected. As we have seen, "environmental protection" laws often serve to protect polluters, not the environment. Pollution management is left to the shifting discretion of politicians and bureaucrats. Courts take legislation as a cue to strike down common-law remedies and to permit pollution in areas not specifically covered by statute.

Tort law improvements. In some ways, this requires nothing more than returning to concepts that were in use for centuries before the Industrial Revolution: Collapse the dual law of nuisance back into one to allow private parties to sue over "public" nuisances.

Avoid the quagmire of determining what constitutes an "abnormal" danger or "reasonable" action, and focus instead on the more objective measure of effects. Whether the polluter was careless or law-abiding, the result hurts the same, and it indicts both the polluter and the officials who assured us their regulations would prevent it.

The new Superfund law did make one significant improvement by overriding the states' statutes of limitations. It provides that these periods begin to run when harm from the hazardous substances it covers was or should have been discovered.⁴⁴

The doctrine of "joint and several" liability is an incentive to carelessness, as anybody with enough cash, even if only marginally involved in the tort, may be hit for the bulk of the award. Replace it with a system for determining major and minor offenders and the extent of their involvement, then assigning each a corresponding share of the amount to be paid.

Incorporate the costs to other parties into cost-benefit calculations. Utilitarian analysis has been denigrated as insensitive to the harm suffered by the victims of pollution. This is so only because these costs have not been factored

into the formula, tipping the balance toward polluters. Only when polluters pay will the price of technology approximate its actual cost.

There is an intriguing alternative to closing down the plant or installing devices to stop emissions. The polluter might buy a "license to pollute" from his neighbors. The neighbors would agree to let the plant owner emit specified particles or chemicals in exchange for periodic or lump-sum payments calculated to offset the perceived harm the emissions might cause them. Residents who refused to sell harm to their persons or property would still have recourse to the courts. If greater risks were discovered later, those who sold licenses could demand new or higher fees.

Even these reforms would not create a perfect world. A victim may not be able to collect from somebody who simply cannot pay. This reflects man's capacity to do more harm than he can possibly make up for.

But the current methods are even less perfect. They encourage pollution, shield the polluter, and leave his victims defenseless. The alternative would reward the scrupulous and encourage industry to adopt safe methods of dealing with hazardous substances. It would bring to the fore the hidden costs of some of today's technology and enable us to decide whether it is worth the price. □

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Imperialism

by John Chamberlain

Imperialism—or “neo-colonialism” as they prefer to call it—is, with most modern liberals, a dirty word. To them it connotes military or economic subjugation, cultural repression, and all the economic woes connected with capitalism. To the Communists, capitalism must die a violent death once it can find no new overseas opportunities to invest the “surplus capital” generated by capitalist expropriation of the “surplus value” created by the labor of subsistence-level workers in the home territory.

To Lewis Feuer, author of *Imperialism and the Anti-Imperialist Mind* (Buffalo, New York: Prometheus Books, 265 pp., \$22.95), both the liberals and the Communists have made the mistake of substituting an “axiom of indictment” for a careful reading of history. The fact is that imperialism’s economic consequences were, from the viewpoint of colonized nations, mixed. There can be “regressive” imperialisms in which predatory conquerors work their captive populations to death. There can, however, be “progressive” imperialisms which, while admittedly resting upon suspect moral beliefs suggesting that cultural and economic superiority justifies coercive interference in the affairs of other peoples, confer real economic and social benefits upon colonized nations.

The Mongols, in the early phase of their eruption from inner Asia, were regressive in their attitudes. The Spaniards, who used an enslaved Indian manpower to work the gold and silver mines of Mexico and Peru, were not only regressive in their New World Colonies but, in

failing to develop the skills of their citizens at home, they could find no successors to Cortez and Pizarro capable of running an empire. Hitler, at a much later date, was entirely regressive: He drove Jewish scientists who might have given him the A-bomb to other countries, and he quickly lost the allegiance of the Ukrainians who were initially disposed to welcome him as a savior.

By contrast, the Romans were progressive imperialists. In granting Roman citizenship to minorities the Romans, in Feuer’s words, liberated “energies for the advancement of civilization and creative activity.” The British, French, and Dutch, in their phases of imperial expansion, were careful to provide opportunity for the development of talents. When it came to benefiting from the export of capital, the British, French, and Dutch were quite willing to take their dividends, but they were not hogish about it. They left something over for local expansion, and they even welcomed the competition of local capitalists.

Feuer lets figures speak for themselves. In Dutch Java, for example, the population rose from 3.5 million in 1800 to some 9.5 million in 1850. Fifteen years later the population had jumped astonishingly to 14,168,000. Alfred Russel Wallace, the co-discoverer with Darwin of the theory of natural selection, found the Javanese to be “well-fed and decently clothed” and “on the whole contented and happy.” The leftist ecologist Barry Commoner writes that “the Dutch apparently fostered the increase in the Indonesian population in order to increase the labor forces that they needed to exploit the

natural resources." But whatever the motive involved in building up the country, the Dutch left Indonesia in good shape.

A Different View

The story of the British in India and Africa, as recounted by Feuer, is quite different from the popular stereotyped version. "Dependency theory" might explain the early-day importation of Lancashire textiles to India. The Sassoons, a Jewish family that had migrated to Bombay from Baghdad in 1833, were following an approved course. But the Sassoons showed little respect for Lancashire when, with the help of machinery imported from England, they started the Jacob Sassoon Mill, with its 100,000 spindles and 2,000 looms. In another plant in Bombay the Sassoons combined all operations from the processing of raw cotton to the decoration of the textiles. The family capped its independence by founding a bank to serve its needs, thus completing an evolution from trading capitalism to "finance capitalism."

In Africa other Jews served with one eye on the establishment of British hegemony and the other on making a good life possible for the black populations. There was Eduard Schnitzer, a Prussian Jew from Silesia, who, under the adopted name of Emin Pasha, commended himself to "Chinese" Gordon as a likely man to rule the vast primitive province of Equatoria as a benevolently scientific governor. Emin Bey, as he became known, banished the slave traders from his domain. When, after the Mahdist victory at Khartoum over Gordon had cut "Equatoria" off from the British in Egypt, the legendary Henry Stanley was sent to bring Emin home. But the obdurate man refused to budge. He not only had his grateful Negroes to care for, he had his ornithological collections to complete.

It was Sir Frederick Gordon Guggisberg, the descendant of a Polish Jew who had escaped across the Russian frontier to avoid conscription in the czar's army, who became famous for his humane work in governing the British African colony of Nigeria. Guggisberg's grandfather was the local butcher of Preston, Ontario; his father was the town's drygoods merchant.

Disdaining the shopkeeping vocations of his forebears, Guggisberg went to the Royal Military Academy and was commissioned in the Royal Engineers. He found his way to the Gold Coast in Africa as a surveyor-general. As a director of surveys Guggisberg compiled a handbook of model instructions for the governing of a colony. His rules precluded unpaid labor, and they stipulated that all goods bought from local farmers and workers must be paid for at the market price.

As a governor Guggisberg was, as Feuer describes him, "a builder akin to the old Roman imperialists." He "constructed a new system of roads, a new harbor, and the first college in the Gold Coast. He also brought to completion the magnificent African hospital at Korle Bu. He could truthfully claim that 'thanks to the new roads, I have been the first Governor to enter many important towns in the Colony . . .'" But more important because of the new transport, "the prices for cocoa paid to the farmer rose between 50 and 100 percent."

By some terrible irony Nkrumah, the Marxist dictator who was to undo much of Guggisberg's good work, was a student at Guggisberg's college. Guggisberg might have become cynical by the turn in events, but he never did. He revealed his inmost emotions to his friend and co-worker Colonel J. H. Levey. "Remember," he said to Levey, "that the blood of an oppressed people runs in my veins. I never forgot it. I understood the people of the Gold Coast."

Feuer's complaint about the "good imperialists" is that they decided to get out of the business. In turning over various colonies to socialists of one stripe or another they have left the gates open to the ascendant imperialism of the moment, the one that is directed from Moscow. It is to be regretted that Feuer does not raise or discuss the question as to whether one can morally justify the primary assumption of those defending imperialism, from Pericles to Marx—namely, the assumption that cultural or economic superiority justifies or even demands coercive intervention in the affairs of other nations and peoples. Many defenders of the freedom philosophy thus will find themselves concerned by Feuer's hope that "cumulative crises [might] finally compel the United

States to assume the power and responsibility" which could reverse "the regressive impact of . . . consecutive Soviet reactions . . ." Yet at the same time, Feuer provides defenders of the freedom philosophy with an arsenal of weapons to do battle against the economically and historically simplistic arguments about imperialism mounted by thinkers such as Hilferding, Lenin, Bukharin, and contemporary defenders of so-called "dependency theory," and dramatically raises the question as to how, without emulating the coercive interventionism of contemporary imperialists, free people might counter the regressive imperialism centered in Moscow. □

THE MARKET AS AN ECONOMIC PROCESS

by Ludwig M. Lachmann

New York: Basil Blackwell • 1986 • 173 pp. • \$29.95

Reviewed by Richard M. Ebeling

Ludwig M. Lachmann has been a leading figure in the revival of the Austrian School of Economics. A student of F. A. Hayek at the London School of Economics in the 1930s, for over half a century he has made major contributions to the theory of capital and business cycles, the theory of expectations in the market economy, and to the theory of social institutions and their evolution.

Having recently celebrated his 80th birthday, Professor Lachmann now has produced what may be seen as a "summing up," a concise restatement and reformulation of his vision, a vision that is captured in the title of his latest work, *The Market as an Economic Process*.

Professor Lachmann believes that for most of the last 100 years economists have followed a false scent in the construction of their models of the market economy. They have reduced the process of market exchange to pure mathematical relationships. In doing so, they have created elegant quantitative images of hypothetical states of market equilibrium. But they have produced little that is insightful about how real

markets work in an ever-changing economic and social environment.

Instead, Professor Lachmann begins with the following premises, and comes to the following conclusions:

(1) Economics is concerned with human action and, therefore, must begin from the subjective, or personal, points-of-view of the market participants. But "subjectivism" means not only that people's tastes and preferences are different, but that in a complex economy the knowledge that different people possess will be different, too. And from this it necessarily follows that people's expectations about the future will differ because different people will interpret in various ways the differing knowledge available to them.

(2) The market is an ongoing process in which individuals satisfy their wants through exchange. But in a complex economy, resources pass through many hands in the various stages of the production processes before those resources are transformed into usable goods. Production plans begun today, therefore, are based on expectational projections about what goods consumers and other producers will want in an uncertain future, and at what prices they may sell.

(3) Since people's expectations about the future will differ (because each will interpret in his own way what tomorrow will look like on the basis of today's information), there is as much likelihood that people will guess wrong as that they will guess right. As a consequence, people's actions and reactions to changing conditions in the market are as likely to result in disequilibrium plan failures as successful plan coordination.

Economics, therefore, says Professor Lachmann, has two central tasks: to explain the unintended consequences of human action that necessarily occur because of man's inability to fully know the future or know the effects of both his own actions and those of others; and to investigate both theoretically and historically the various types of social and economic institutions (e.g., money, futures and commodity markets, product pricing methods) that have been and are used by market actors in their attempts to find solutions to the vagaries and uncertainties of market exchange.



Books of Note

by John K. Williams

To the traditional Austrian emphasis on the problems of knowledge, time, and change in the arena of market activities, Professor Lachmann has added and integrated the problems of people's expectations about the future and what may happen if those expectations diverge. Yet the conclusion he reaches is a disconcerting one: Since people may interpret the future differently in planning their actions, there is no certainty of any sort that the market process brings people's plans into a coordinated pattern through time.

In reaching this conclusion, Professor Lachmann seems to neglect an essential aspect of market processes—one that points to a more optimistic view of market activities.

While not ignoring the role of the entrepreneur in the market, Professor Lachmann does not see the entrepreneur's role and significance in the same way as have Ludwig von Mises and Israel Kirzner. In their analyses it is the entrepreneurs who shoulder the coordinating role, acting as the middlemen between consumer demands and the suppliers of resources to make commodities. Those entrepreneurs who succeed earn profits; those who fail suffer losses. Over time the market weeds out the less competent entrepreneurs and shifts control over resources to those entrepreneurs who demonstrate the greater capacity to anticipate consumer preferences and bring market supplies into balance with market demand. While disappointment and error are inseparable from a world of uncertainty, the market has its own feedback mechanism to minimize their occurrence.

Furthermore, while Professor Lachmann has forcefully drawn attention to the problem of expectations in the market, he has not addressed some crucial questions: How are expectations formed? Why is it that people often hold similar expectations about market situations and about people's reactions in those situations? And how does the institutionalization of such common expectations enable people to match their own plans with the actions and activities of others in the marketplace? These questions offer opportunities for much fruitful work for the new generation of Austrian economists. □

Richard Ebeling is a professor of economics at The University of Dallas.

Advocates of the freedom philosophy who minimize the importance of ecclesial beliefs about economics are making a serious mistake. More men and women in the United States—and in my own skeptical nation, Australia—attend church services every Sunday than go to football matches every Saturday! Even non-church people regard mainstream churches as significant agencies of what we have been taught in recent years to call “moral legitimization.” For this reason, I urge those who are church members, or whose friends include church members, to read Roger Freeman's essay, *Does American Neglect Its Poor? Comments on the American Catholic Bishops' Pastoral Letter: Economic Justice for All* (Hoover Institution Press, 41 pp., single copies free). Succinctly, thoroughly, and utilizing a minimum of technical economic terminology, Freeman analyzes the recent pastoral letter of the U.S. Catholic bishops. The impact of this letter upon Catholic clergy in particular, and Christian clergy in general, cannot be overstated, and not a few politicians have already made considerable political capital from its conclusions.

Murray Rothbard, in his path-breaking essay, “New Light on the Prehistory of the Austrian School” (in *The Foundations of Modern Austrian Economics*, edited by Edwin T. Dolan, 1976) challenged the cliché that scholastic philosophers and theologians were economic incompetents to be remembered simply for their theory of the “just price.” This challenge is sharpened and developed by Alejandro A. Chafuen in his small but tightly written volume, *Christians for Freedom: Late-Scholastic Economics*. (Ignatius Press, 207 pp., \$12.95 paperback)

Dr. Chafuen argues that the late Spanish scholastic thinkers who teased out economic insights forged by St. Thomas Aquinas and his immediate successors developed positions uncannily reminiscent of those defended by the

Austrian school of economics. Any person versed in the tenets of contemporary Austrian economics who reads the "Hispanic scholastics" will experience a strange sense of *déjà vu*. He will encounter a consistently subjective theory of value, an insistence upon the importance of private property rights, an understanding of the nature of money that would have elicited nodding approval from Mises, a theory of interest not unlike that developed by Böhm-Bawerk, and so on.

Michael Novak contributes a Foreword which he concludes by observing that "the Catholic Church will gain [from this volume] a deeper understanding of her own tradition, and she will achieve a clearer sense of her own slow but steady journey toward liberty, in the economic as well as in the political domain." He further notes that Dr. Chafuen's "linking of the Austrian school to the commonsense observations of the Late Scholastics of Salamanca may be a significant event in Latin American intellectual life."

One can but hope that today's religious leaders and economic historians will gain a greater appreciation of the insights developed by the scholastic thinkers.

There are few books which deserve a prominent place on the bookshelves of all lovers of liberty. The English historian (and one-time editor of the left-wing journal, *The New Statesman*) Paul Johnson has penned such a book in his *Modern Times*. (Harper and Row, 1983, 817 pp.)

Painstakingly, Johnson documents the growth between the 1920s and the 1980s of both statism and of the moral relativism which almost invariably is embraced when the reality

of natural rights is denied. In the course of so doing, Johnson defends several U.S. Presidents cavalierly dismissed by most contemporary historians, castigates not a few European and English "statesmen" widely hailed as saviors of the West, and provides a compelling account of the rise of tyrants such as Lenin, Stalin, Hitler, Mao, and Castro. Somehow, the author manages to combine an attention to detail with a refusal to be distracted by trivia that is quite extraordinary.

Not surprisingly, given such a wide canvas, one can criticize isolated claims. This reviewer's reading of revisionist historians leads him to question the adequacy of Johnson's account of U.S. involvement in both the First and Second World Wars. Also, while I applaud his defense of transnational corporations against the charge that they spread "U.S. imperialism," I regret his failure to note that many transnational firms have been all too ready to form symbiotic relationships with governments, and thereby have escaped the discipline of the marketplace.

But such criticisms are minor. Like Johnson's earlier work, *A History of Christianity* (New York: Atheneum, 1976) and subsequent volume, *A History of the Jews* (New York: Harper and Row, 1987), *Modern Times* displays the attention to detail, the subtle discrimination, and the ability succinctly but accurately to narrate a complex story, that are all too rare in the writing of history. □

(The Reverend Dr. John K. Williams is a philosopher and theologian based in Australia. He is currently spending his third summer at FEE as a senior scholar in residence.)

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324 Superstars as Slaves

Jerome Ellig

A look at the free agency issue.

327 Socialized Stadiums

Robert A. Baade and Diane Carol Bast

Subsidized stadiums may not be an economic win for sports fans.

329 A Line-Item Veto

Hans F. Sennholz

The line-item veto power is no cure-all for the ills of deficit spending.

333 Scenario for a New Serfdom

Andrew E. Barniskis

Are we plunging into a new Dark Age?

336 Constitutional Restraints on Power

Edmund A. Opitz

Explicit provisions that limit the federal government.

340 The Hungarian Illusion

James Bovard

Hungary is not the socialist utopia its proponents claim.

348 Capitalism at a Crossroads: 1875-1900

J. Brian Phillips

The relentless attack on the intellectual roots of capitalism.

352 Public Choice Theory: Not the Whole Story

Tibor R. Machan

What we know—and do not know—about the actions of politicians and bureaucrats.

357 Lessons from Computers and Helium

Jane S. Shaw

Government managers have little incentive to correct their mistakes.

359 A Reviewer's Notebook

John Chamberlain

A review of "The Silk Road: A History" by Irene M. Franck and David M. Brownstone.

CONTENTS
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The Road to Freedom

"Sure, I believe in freedom. But we have to be practical. If we let our ideals get in the way, we risk losing everything."

Many of our well-meaning friends often reason this way. They point out that the political debates now taking place are not between statism and freedom, but over various forms of government intervention. If you want to be relevant, these friends tell us, you will have to meet the statist half way and try to push society toward a milder form of statism. For the time being, we are told, we should forget about ideals.

But is this, in fact, practical? These "friends of liberty" have been compromising for several decades, and what has it gotten them? The statist began by advocating a little socialism, and these "friends of liberty" countered with proposals which, in the final analysis, amounted to just a little less socialism. The political wheels turned and a consensus was reached. Having beaten back the worst proposals for socialism, the "friends of liberty" seemed to have won.

But they also had lost. They had lost some freedom and, in the process, they had lost touch with basic principles. They no longer were talking about freedom as an ideal; instead, they were making comparative analyses of statist interventions. Perhaps without realizing it, many friends of liberty had begun talking the statist language of those who would control our lives through the political process.

But then, with some victories under their belt, the statist upped the ante. They wanted more socialism. Our practical friends of liberty countered, not by standing for freedom as an ideal system but, all too often, by trying to ameliorate and shift the burdens of the statist interventions. Again the political wheels turned, and today the results are in: runaway budgets, soaring deficits, and an ever-expanding maze of regulations.

Fortunately, while the political trend has been toward statism, another trend has started. Gradually, through the efforts of a few dedicated people, it has again become respectable

to talk about certain aspects of liberty. For example, the idea of denationalizing money is getting a hearing. Abolishing the Postal Service's monopoly on first class mail is being seriously considered. And privatization, a catchall phrase for many proposals, is now a political buzzword.

Of course, it is still not fashionable to advocate an unhampered market economy as an ideal system. But certain parts of that system are being considered. Through consistent discussion of principles and continued education, we may be approaching the point where practical "friends of liberty" will feel that they can propose outright repeal of government interventions—and statisticians will find our friends uncompromising as we make our way along the road to freedom.

—BJS

Cambodian Communism

Sophal Song, a student at Winona State University in Minnesota, describes her experiences in communist Cambodia:

"Four years of my life, from the age of ten to fourteen years, were spent under communist rule. My family consisted of my parents, my grandmother, two sisters, and two younger brothers, one who was just a baby. The communist tactic was to divide all family members so they wouldn't try to escape from the work camps, and so they separated family members into camps many miles apart. We didn't know if our family members were alive or dead, but we had to live with the hope that they were surviving.

"The communists separated my two sisters and me into three different camps. They put my mom with a group of women who worked on a farm in the valley and my dad worked in the field with a group of men, cutting wood, building roads, and so forth. My camp was for children seven to twelve years old. We weren't allowed to visit our families. The communists taught us to work the farms and to obey their rules. I missed my family very much so one day I escaped to see my mom, but they caught me and wouldn't give me any food for a whole day."

That was not the end of Sophal Song's

struggle. Her mother died of malnutrition in 1978. Her father also perished. In 1982, she came to the United States with her grandmother, two sisters, and two brothers. Although Sophal is thankful for her freedom, she still grieves for what she has lost. She concludes, "The free world must know that communism doesn't work. It is deadly. It cripples the mind and the spirit. We must always work hard to protect our freedom and to fight any force that threatens to destroy it."

The Minimum Wage

"A minimum wage increase eliminates jobs by encouraging businesses to seek ways to lower overall labor costs. Some firms automate to avoid higher wage payments. Employers also make up for cash wage hikes by reducing fringe benefits. . . .

"Minimum wage legislation hurts most those who have the most to gain from employment—poor youths, especially blacks. It is ironic that American liberals are pushing a higher minimum wage, which also has been promoted by South African racists. While the Americans don't have racist intentions, they should understand, as the Afrikaners did, that the minimum wage favors better-educated and -trained white youths over their black counterparts. . . .

"The minimum wage clearly strengthens only one group—unions, whose wage rates become more competitive when minimum wage legislation lifts the level of nonunion compensation—while it clearly harms many others. In the end only improved productivity and economic growth—not higher wage levels—can increase general prosperity."

—from an editorial in *The Detroit News*,
March 3, 1987

What's New at FEE?

The September *Notes from FEE* features exciting news about our expanded program of regional seminars. Accompanying the *Notes* is our annual book catalogue. This special mailing should reach you by September 20. Extra copies are available by calling or writing to FEE.

Superstars as Slaves

by Jerome Ellig

“Free agency,” we’re told, is a major issue in National Football League labor negotiations. It’s even worth striking over, according to players’ union officials. The football players want it; the owners don’t. The baseball players’ union, meanwhile, asserts that teams conspired last winter to force baseball’s free agents back to their original teams at little or no increase in salary.

At first glance the philosophical issue seems clear. What lover of liberty could possibly oppose as American a concept as “free agency”? Its proponents call for a free market in player services where team owners bid against each other for players, certainly a worthy-sounding goal.

Closer examination, however, reveals the slippery ways in which economists, journalists, labor negotiators, and others use terms like “freedom” and “free market.” What seemed to be a moral crusade for high principle boils down to a squabble between labor and management over how to divide the pie.

In professional team sports such as baseball and football, players generally negotiate their own salaries with ballclubs. Their unions negotiate with the league a “basic agreement” covering such items as pensions, minimum salaries, and conditions under which players can move from one team to another.

In their call for free agency, football players’ representatives merely mean that they want a contract with the NFL which lets each player—or, at least, players who have spent a certain

number of years in the league—peddle his services to as many competing teams as possible. Owners, on the other hand, want an agreement which lets them cooperate to curb rivalry and contain salaries. Players feel they can get a better deal when owners compete; owners feel *they* can get a better deal when they don’t.

A New Phenomenon

Widespread free agency is a relatively new phenomenon in professional team sports. Until the 1970s, leagues usually succeeded in keeping players from negotiating with teams other than the one for which they played the previous season. Owners limited player mobility in two types of ways.

The preferred method was a clause in the player’s contract giving his team an option to renew his contract for the following year. When the contract was renewed, so was the option, so it was effectively a perpetual option. The “reserve clause” in baseball worked this way until a labor arbitrator ruled in 1975 that the option was good for only one year.

The second method was to let at least some players negotiate with several teams but then make a team which signs another’s player give the other team compensation in the form of other players, rights to select other players in the future (“draft choices”), or cash. The NFL adopted such a compensation plan, named the “Rozelle Rule” after NFL Commissioner Pete Rozelle, after the Supreme Court decided in 1957 that its baseball-like reserve system violated the antitrust laws. Baseball was saved from a similar fate only through a series of anomalous rulings which to this day make it the only sport with an antitrust exemption.

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The Supreme Court declared the Rozelle Rule illegal in several cases during the mid-1970s. The football players' union's current call for free agency reflects a desire to regain some of the mobility players bargained away in negotiations following these court decisions.

Both types of limits on player mobility were effective only when all major leagues agreed to abide by them. A league usually could not prevent players from "jumping" to upstart leagues which did not abide by such agreements, like the American Football League or the American

Basketball Association in the 1960s. Of course, reserve clauses also could not prevent players from quitting their sport and going into another line of work.

Slavery?

Nevertheless, owners' agreements to curb competition for players have from the earliest days provoked cries of "slavery" from critics. Baseball received the most criticism because it is the oldest professional team sport and its reserve system served as a striking example of such rules in all sports. Baseball adopted its first reserve rule in 1880; each team could name five players with which no others were permitted to negotiate for the upcoming season. On August 12, 1880, the *Cincinnati Enquirer* complained, "What right has the League to say to any player where he shall play next year? The days of slavery are over."¹

Frederic Johnson, attorney for a player who sued organized baseball in 1949 over the reserve clause, argued that the clause violated the 14th Amendment's protection of "the individual citizen against state power in his quest for livelihood."² Comparing the reserve system to slavery, he asserted that the government permitted baseball to "employ the services of the vast majority of its players under contract without just compensation."³

In 1960, historian Harold Seymour commented that baseball's "restrictive labor practices . . . are hardly in keeping with traditional American belief in freedom of individual opportunity, free enterprise, and competition. They do not square with the basic American [ideal] that people should be free to work for whom they please, offer their services to the highest bidder, and enter any business they wish."⁴ Former Senator Sam Ervin frequently thundered against "peonage" in professional sports from the Senate floor and committee rostrums.

Or Voluntary?

Yet it is dangerous to equate sports leagues' labor practices, past or present, with slavery. Players' contracts are regularly bought, sold, and traded, providing a superficial resemblance

to slavery. However, even though ownership of teams by different individuals is necessary to ensure public confidence in the integrity of athletic competition, teams actually function as a single firm—the league—producing an entertainment product—competition for the league championship. Therefore, transfer of player contracts is really analogous to transfer of an employee from one division of General Motors to another.

Barriers to player mobility are the result of a voluntary agreement between team owners. Players are free to accept these conditions or to seek employment elsewhere; team owners cannot prevent them from doing so.

It is true that players' earnings in their next most remunerative occupations are likely far below what they can earn as professional athletes. In addition, restrictive agreements among team owners traditionally have pushed down salaries by giving the owners greater bargaining leverage with individual players. Lowering salaries in this manner has historically been one of the owners' most important stated goals in adopting these kinds of arrangements.

Conventional notions of economics even say that team owners collectively act as a "monopsonist," a single buyer of players' services, and that this is economically inefficient—a suggestion to which Representative Robert McClory reacted in 1972 by pointing out that players' unions can act as a monopoly.⁵

These facts explain why players want owners to bid for their services and why they have often brought suit under the antitrust laws to have owners' agreements voided. But they do not show that players' rights have been violated. Those who argue that they do confuse wealth with liberty.

What's a "Free" Market?

This confusion of slavery with freedom arises in large part because of two conflicting meanings commonly attached to the term "free market."

On the one hand, economists use the term to describe an "auction" situation in which there are many buyers and sellers with no long-standing business relationships or long-term contracts. Resources are allocated and reallo-

cated from one day to the next by continuous bidding between market participants.

This definition of market is commonly contrasted to an "organization" or "hierarchy" in which someone or some group makes a plan and then carries it out. A business firm is one such type of organization. Resources which the firm already owns are allocated to different parts of the firm by conscious decision of the owners. The firm is, however, still subject to the discipline of the outside market, for it must also buy some resources and sell its products there.

However useful these definitions might be for economists, it does not follow that they are equally useful for the ethicist attempting to discover rights violations by ascertaining which kinds of actions are voluntary and which are involuntary. These latter terms must be defined by an ethical theory.⁶ The *ethical* meaning of "free market" is the network of exchange relationships which exist when no market participants are permitted to coerce others. Organizations and institutions such as business firms and labor unions are perfectly unobjectionable as long as the exchanges in which they engage involve no force or fraud.

By this standard, "free agency" is not morally superior to reserve systems or other restrictive agreements among team owners, even if it does imply a shift of bargaining power from owners to players. Both free agency and reserve systems are voluntary agreements.

Let's leave the owners and players alone to figure out what each other's efforts are worth, subject as always to the fans' veto in the form of refusal to buy tickets. Save the righteous indignation for the all too many government actions which are truly violations of individual liberty. □

1. Quoted in Harold Seymour, *Baseball: The Early Years* (New York: Oxford University Press, 1960), p. 112.

2. Frederic Johnson, "Baseball, Professional Sports and the Antitrust Acts," *Antitrust Bulletin* 2 (Sept.-Dec. 1957), p. 682.

3. *Ibid.*, p. 697.

4. Seymour, pp. 83-84.

5. U.S. Congress, House, Committee on the Judiciary, Antitrust Subcommittee, *The Antitrust Laws and Organized Professional Team Sports, Hearings* 92 Cong., 2d. Sess. (Washington: USGPO, 1972), p. 267.

6. For a thorough and highly readable explication of this point, see Jack High, "Is Economics Independent of Ethics?", *Reason Papers* No. 10 (Spring 1985), pp. 3-16.

Socialized Stadiums

by Robert A. Baade and Diane Carol Bast

City officials and sports team owners across the country are using the silver platter of "economic growth" to serve subsidized sports facilities to unsuspecting taxpayers. Unfortunately, the platter is actually of tin, and stadiums can leave a bitter taste.

Those who cook up stadium proposals frequently claim that sports contribute significantly to a city's economy. In Chicago, for example, it has been reported that the baseball White Sox contribute \$100 million to the city's economy each year. Such estimates, based on the assumption that every dollar spent on sports is a dollar of *new* leisure spending, are undoubtedly too high.

Our leisure "budgets" (the amount of time and money we are able to spend on leisure activities) are limited. It is likely that an afternoon we spend at the ballpark is an afternoon not spent at the theater, museum, or similar establishment. A dollar we spend on sports is a dollar we probably would have spent on some other leisure activity. In the short term, a subsidized sports stadium does not increase the total amount of leisure spending that takes place in a city; rather, subsidizing sports merely shifts spending away from other activities.

Sports stadiums are also unlikely to promote long-term economic growth. Sports tend to encourage low-skilled, low-paid employment in the service sector of a city's economy: food and

souvenir vendors, hotel and restaurant employees, and security personnel are representative of the jobs created by stadiums. A city that subsidizes such employment at the expense of higher-skilled, higher-paid manufacturing employment will find that its economy grows more slowly than the economies of cities that do not subsidize sports. Moreover, while new businesses may start up in the subsidized stadium's neighborhood, businesses will fail in other parts of the city. A new stadium, therefore, probably will not increase the total number of even low-paid jobs in a city.

The actual experience of cities with sports stadiums confirms that stadiums bring few, if any, economic benefits to the cities that subsidize them. In a study published by The Heartland Institute, stadiums and sports were found to have no positive effect on three important measures of economic growth: personal income, retail sales, and manufacturing activity. Stadiums and sports actually had a negative effect on the economies of several of the cities that were studied.

Why should taxpayers be concerned by false claims of economic benefits? Simply because such claims are being used to make unprofitable stadium projects palatable to taxpayers who would not otherwise support them. Even when a team owner claims his new stadium will be financed entirely by private sources, past experience and market conditions should leave taxpayers skeptical.

Of the total number of sports facilities constructed since 1960, only two have been fi-

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Most stadiums built in the past 35 years have been at least partially subsidized.

nanced entirely by the private sector. In fact, 71 per cent of the 94 sports facilities used by professional teams since 1953 are publicly owned.

The mismanagement of sports facilities that are publicly owned and operated has been documented often, and in gruesome detail. In Louisiana, where the state government turns over to the New Orleans Saints all Superdome revenues except a five per cent rental fee based on gate receipts, taxpayers must finance Superdome deficits of between \$3 million and \$5 million a year. Taxpayers in Pontiac and across the state of Michigan have paid more than \$11 million since 1976 for operating deficits at the Silverdome.

Private developers rarely invest in stadiums, and municipal landlords must subsidize the teams they host, because the supply of sports facilities is far greater than the demand for them. There are already more stadiums than teams to fill them, and fully one-third of the 60 largest metropolitan areas in the country have plans for new stadiums. It is almost impossible

for private developers to profit in this glutted market; in such a market, city officials must subsidize their teams in order to fend off competition from cities with empty facilities.

Municipalities will continue to offer subsidies to keep their stadiums occupied, and they will continue to defend the expenditure by claiming (against all available evidence) that a new stadium will be a catalyst for economic growth. Governors and mayors will throw their support behind one alternative site or another, in the name of "revitalizing" neighborhoods. So-called "private" stadiums will be aided by indirect subsidies offered at taxpayer expense: displaced residents will be relocated, infrastructure improvements will be made, land will be provided at below market cost, and current lease obligations at other sites will be forgiven.

So let us be wary of government officials and sports team owners offering stadiums on silver platters. If we're not, after all the rhetoric and promises and subterfuges have been exposed, we taxpayers will find we've been served a bad meal indeed. □

A Line-Item Veto

by Hans F. Sennholz

The annual battle about the Federal budget provides an astounding spectacle that is both amusing and revealing. Despite countless committee meetings and lengthy hearings, the members of Congress fail to come to an agreement on revenues and expenditures. At the very close of the fiscal year, at midnight, September 30, the government is left without spending authority, causing its giant wheels to grind to a halt. But, lo and behold, a few hours after midnight, in a dramatic session, Congress approves a stopgap spending bill enabling government operations to continue. There is no agreement on any one of the 13 appropriations bills required to fund government; but there is unanimous agreement that government must continue; benefit checks must go out and Congressional pay checks must be issued. The members rise in support of a "continuing resolution" that authorizes the spending. Continuing resolutions thus take the place of the budget proper.

In 1986, Congress passed four separate stopgap resolutions to keep government from shutting down before it approved an omnibus resolution of \$576 billion. The comprehensive spending legislation was necessary because none of the 13 appropriations bills that were drafted to fund the Federal departments and agencies had been enacted. Although it was the largest ever, the omnibus resolution did not include more than \$400 billion for activities that

are funded on a permanent basis, including Social Security, interest payments on the Federal debt, and the bulk of Medicare spending.

The budget process is a free-for-all between the President and numerous special interest groups represented in Congress. Early in February, the President releases his budget for the coming fiscal year, calling for certain outlays and revenues. Early in March, the President's proposal is rejected for a number of reasons by the budget committees of both the House and the Senate. For all practical purposes, the rejection turns the budget process over to Congress whose members have difficulties reaching agreement on any of the appropriations bills. When no agreement can be reached, all proposals are combined into continuing resolutions, which in effect constitute the budget.

To the President and his administration the budget process is most frustrating; it prevents the attainment or fulfillment of administrative goals and purposes. They are forced to watch helplessly while members of Congress openly thwart the President's efforts, blithely promoting their own political interests. The only retort at the disposal of the President is his power to veto the continuing resolution and thereby bring all government to a halt. No President has ever dared to resort to such drastic measures.

To deprive members of Congress of their partisan powers and "restore the balance of power," some critics of Congress would grant more power to the President. They advocate a "line-item veto," that is, Presidential power to

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veto spending for individual programs. Present budget procedures force the President to veto an entire appropriations bill containing hundreds of funding items, provided it passes both houses and reaches his desk, or veto the continuing resolution containing thousands of items, if he wants to block one particular program.

Several Presidents have repeatedly requested the veto authority and included appeals for enactment in their State of the Union messages. Their followers in Congress have introduced bills that would grant such powers. Some would provide a limited line-item veto authority that would permit the President to veto each of the 13 appropriations bills when they are combined into one continuing resolution.

No Balance of Power

The Presidential frustrations undoubtedly are matched by Congressional frustrations about the President seeking to prevent the attainment of Congressional goals and purposes. Both sets of frustrations spring from the fact that the sum total of goals and purposes exceed by far the available means, and from the circumstance that government in the United States is decentralized and its components frequently work at cross-purposes to each other. Federal fiscal activity may be frustrated in part by state and local government fiscal action, or vice versa, and Presidential activity may be frustrated by Congressional action, or vice versa.

Decentralization of government engenders a number of difficult tasks, especially if government is to engage in redistribution functions and provide particular economic services. Political society not only must decide which goods and services government shall provide, but also must determine which level and branch of government shall provide them. The decisions may be influenced by several considerations such as comparative economic efficiencies and political balance of power. In the United States, the desire for individual freedom also plays an important role in determining the division of governmental functions.

Before the dawn of massive government intervention in economic life, more than half a century ago, the situation was much simpler.

Federal revenue exceeded expenditures during most fiscal years, which created few occasions for fiscal conflict and frustration. Combined state and local fiscal activity generally exceeded Federal taxing and spending, which made the federal government a relatively unimportant component of government in general.

The Founding Fathers had planned it that way. There was fear in their minds regarding excessive power at the executive level of the federal government. Therefore, they gave the power of budgeting as well as that of legislating to Congress, although it was not well qualified to perform the budgetary function. They granted the President some control over the budget through the right to veto, which the Congress may override by a two-thirds vote. In short, the Founding Fathers made the President execute the budget passed by Congress; they did not even call on him to help formulate the budget. They envisioned no "balance of power."

The President first appeared on the scene of budget-making in 1921, when Congress passed the Budget and Accounting Act. It assigned the task of budget preparation to the President and created the Bureau of the Budget to assist him. Although the act has been amended a number of times, it continues to provide the basic budget procedure in effect today.

The budget-making process has been frustrating ever since. The President is convinced that his election to high office by popular vote gives him a mandate for policy-making. Numerous pressure groups are calling for more government services and favors, which he is quick to promise, just like his fellow politicians running for office. As President he is judged by his ability to make good on his promises and commitments although he has no such executive powers. He is unable to deliver favors and benefits unless he manages to persuade Congress to appropriate the necessary funds. His popular mandate may easily run aground because of Congressional refusal to finance his promises and commitments. Where he would want to increase expenditures, the Congress may allocate less, and where he would spend less, the Congress may appropriate more. Thus Congress may tie the President's hands and

“Both the Presidential and the Congressional pressures for transfer funds spring from the same entitlement ideology that makes politicians and officials the arbiters of economic well-being.”

force him to conduct policies he does not wish to conduct. In his view, Congress is denying his mandate and usurping his power.

Conflict on Every Level

The tensions and frustrations in both branches of government are symptomatic of the general conflict that springs from the transfer and entitlement function of government. After all, government has no sources of revenue other than that which it forcibly exacts from its citizenry. Both the exaction and the distribution create economic, social, and political conflict not only between beneficiaries and victims, but also between the beneficiaries themselves who are likely to argue about the mode of distribution, and between the victims contesting their assigned shares of the burden. The benefit and entitlement state is a conflict state on every level of its power structure.

In the noise of the entitlement battle it is difficult to judge the priority of the claims. Both the Presidential and the Congressional pressures for transfer funds spring from the same entitlement ideology that makes politicians and officials the arbiters of economic well-being. Both stand on shaky moral ground; both choose might over right. Moreover, no matter how their claims be judged on moral grounds, they also need to be measured in terms of costs and consequences.

In nearly every case the President's commitments to exact and transfer income exceed by far the spending schemes of the members of Congress. Where individual Congressmen may engage in porkbarreling and logrolling, spending millions of dollars, the president usually spends many billions on "national needs" and "emergencies." His interests are

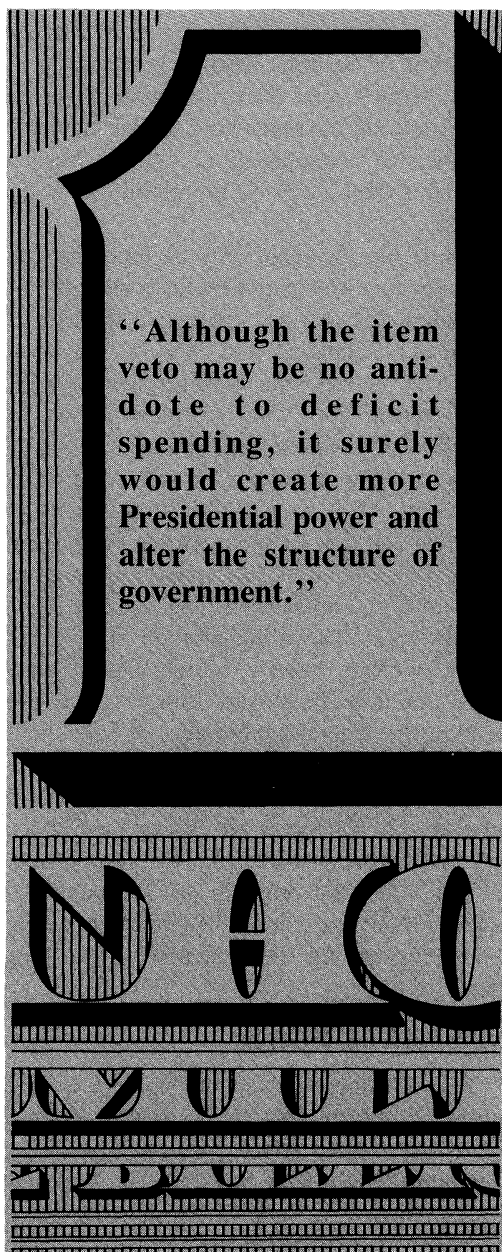
nationwide; a Congressman's concern is likely to be special and parochial. The great spending programs of our time, costing hundreds of billions, from Social Security to Medicare and Medicaid, are the handiwork of Presidents; the members of Congress fall in with the President and lend their votes to his ambitious undertaking.

While the President may be lobbying Congress for new Medicare benefits costing billions of dollars this year and every year thereafter, a member of Congress may hold out for a subsidy to a metropolitan transit system. The administration may want to phase it out; but members of Congress representing various districts receiving subsidies do not sanction the phase-out. They simply allocate the funds and mandate that they be spent. Or the Federal Aviation Administration may want to close an airport tower; Congressmen may mandate that it remain open. The administration may want to move an office, agency or base; Congress may order that it not be moved. Congress may even require the federal government to build facilities which the administration does not want. To serve the interests of constituents, many members of Congress are voting their special interests without concern for the consequences of any individual program on the budget as a whole. Many are voting their interests without much concern for the objections of the President.

A Shift of Power

They are opponents of the line-item veto, arguing forcefully that the veto power would have very limited effects on Federal spending, but dramatically shift power to the President. Many consider it "one of the most dangerous proposals ever made to the Congress." Some even call it a "dictatorial power."

Nearly one-half of Federal spending is not funded by appropriations bills. Entitlement programs, such as Social Security and other fixed obligations of the federal government, need no further Congressional approval and, therefore, would not be subject to an item veto. In contrast, defense expenditures making up more than one-half of the money appropriated would be subjected to the veto. Aside from entitlements and defense spending, only 11 to 14 per



cent of the Federal budget would be exposed to the veto power, and only a small fraction thereof would invite an actual veto. Careful analysis probably would reveal that only one per cent or less of Federal spending would be vetoed if the President were given the veto power. It would not in the least alter the pattern of government spending nor call a halt to Con-

gressional porkbarreling and logrolling or alleviate the problem of deficit spending. It is a mere palliative capable of drawing our attention from the real deficit dilemma.

Although the item veto may be no antidote to deficit spending, it surely would create more Presidential power and alter the structure of government. It would be a powerful instrument of reward and punishment in the hands of the President. To reward members of Congress for supporting Presidential programs the item veto would be held in abeyance. Loyal followers may even be encouraged to engage in porkbarreling and logrolling and to proceed assuredly without the risk of an item veto. The President's opponents, members of the opposition party, or lonely resisters to Presidential programs, however, may face the item veto in all their special programs. The veto power may single them out and hold their projects hostage. In the hands of a president with dictatorial inclinations, the item veto may become a powerful instrument.

Congress, of course, may at any time override the line-item veto. In reality, however, the power is nonexistent as long as the President maintains a loyal entourage of at least one-third of the members of the House or Senate. This does not prove difficult with politicians whose votes are guided primarily by considerations of economic largesse.

To its ardent sponsors the line-item veto is a potent remedy that promises to cure a great many evils. It may fairly and amicably divide the functions of the various branches of government, restore the balance of power, check the lust of spending, and hopefully balance the budget.

Unfortunately, there are no ready cure-alls for political ailments. The line-item veto power is no panacea. It cannot break the habit of deficit spending. Neither law nor regulation, neither Congress nor the President can balance the budget if the people are enamored with political bounty. Reforms will prove unavailing if they are not accompanied by changes in political morality. They must originate with the people, eager to do what they should do, and determined to do it because it is right. □

Scenario for a New Serfdom

by Andrew E. Barniskis

Those who appreciate the power of ideas have noted that the most sweeping changes in human history have come as a result of people changing their minds. Major historical events such as wars won, territories conquered, or natural cataclysms usually have failed to make appreciable changes in the course of history unless they resulted in a change in people's attitudes.

For example, Spain's discovery and conquest of the New World led to a tremendous increase in her material wealth in gold and silver. Yet, what should have been a windfall enabling fantastic advancement of the nation's culture, failed to yield any long-term economic or social benefits, precisely because it yielded no significant change in what was an essentially feudal social philosophy.

On the other hand, a disaster of monumental proportions had a positive effect because it forced a change in people's ideas. The Black Death, the great plague which wiped out as much as one-fourth of the population of Europe in the fourteenth century, contributed to the Renaissance by making it impractical to continue many labor-intensive practices of industry and agriculture. Machines and the power of wind and water replaced muscle power, and the saving in human drudgery fostered an expansion in industry and trade. Over a period of

time the resulting economic expansion allowed more people to dedicate themselves to intellectual pursuits, and eventually the increase in learning led to the end of the feudal society across most of Europe. This would lead to the birth of the freedom philosophy manifested in England and its American colonies.

It is important to remember, however, that over a period of time, it is possible for people to undergo a change in lifestyle without recognizing the driving forces behind it. It is doubtful if the New England farmer, taking his grain to a water-powered mill in Colonial America, reflected on how that simple invention had contributed to his life as a free-trader, as compared to the life of virtual slavery known to his ancestors.

Today, many people are expressing alarm over the rapid changes taking place in the American family. Whereas the two-income family with both parents working was rare a generation ago, now over 60 per cent of families fall into that category. The resulting strain, which accompanies any rapid social change, is contributing to increased rates of divorce and other family problems, such as alcoholism, drug abuse, and domestic violence. While most people agree that a basic change is taking place in our society, there is broad disagreement as to its cause, and there seems to be a common belief that, whatever the cause, it results from a more-or-less spontaneous change in people's attitudes.

Traditionalists, yearning for a return to an ideal time of white picket fences and Mom hanging the wash out on the line, blame an excess of materialism and a desire to "keep up with the Joneses." They tend to concentrate on preaching family values while accusing the current generation of young adults of a moral breakdown. They see the two-worker family as an example of people making consciously selfish choices, and some go so far as to propose legislation to penalize two-income families, forcing Mom back into the kitchen and nursery where, they believe, she is best able to solve the nation's problems.

Others avoid discussing a reason for the change in the American family, and concentrate instead on treating the symptoms of change. Recent years have seen a growing con-

cern and new legislation over drug and alcohol abuse, child abuse, domestic violence, and other social problems, as if society could be engineered by legislating away antisocial behavior. Many are dismayed that the United States is years behind European socialist governments in developing programs to mask the rough spots of social change.

Some, particularly feminists, see the changes in the American family as beneficial and progressive. They see the two-income family as relieving women from *de facto* slavery in the home, formerly enforced by their husbands and the ironclad traditions of society. They, too, tend to see the changes as resulting from a more-or-less spontaneous mind-change, or an awakening of women's consciousness in the past two decades. They seldom question what is cause and what is effect when they look at the increased presence of women in the workforce, and their increased demands for expanded economic and career options.

Despite what traditionalists or progressives may think, polls indicate that if people are making selfish choices, they certainly are not enjoying the results. A recent NBC News poll, cited in *The Wall Street Journal* (March 11, 1987), asked whether people thought middle-class families had an easier or harder time maintaining their lifestyle than they did five years ago. A disturbing 65 per cent, presumably expressing their perception of their own condition, answered that life is harder today. Assuming that most people are intelligent enough to reverse selfish decisions when they recognize that those decisions are not bringing them the happiness they expected, we can only conclude that Americans are changing their lifestyles not from selfishness, but because they have no choice.

Several weeks ago, I had an opportunity to eavesdrop on a friendly argument between two professional economists over what percentage of the Gross National Product (GNP) is represented by government spending. One maintained that government spending is now 52 per cent of GNP, while the other maintained that it is *only* 36 per cent. While the precision of the figure may be significant to economists, to the layman it's the approximate order of magnitude that should be striking: Something between

one-third and one-half of America's productive capacity is being consumed by government! Compare that to 1930, when about five per cent of GNP went to government.

Why Things Have Changed

While it may be an oversimplification of a complex phenomenon, simple inspection of these statistics provides an immediate explanation for the basic change in the American family: *One person must work to support the family, so the other can work to support the government!* The typical ratio of the lesser to the greater income in a two-income family compares quite well with the fraction of GNP consumed by government, and it is already widely known that on average, over 40 per cent of our gross incomes are spent on taxes of one form or another.

Some might think that over a period of years, as more and more people recognize the source of their plight, this situation will tend to correct itself through the processes of representative government. My experience suggests that the opposite may be true.

Recently, as representatives of a county taxpayers association, another officer and I attended a public meeting where the topic was a proposed new earned-income tax. In the municipality in question, the proposed tax would represent a tax increase for the average family of between several hundred to more than a thousand dollars a year—something that should have galvanized the interest of even the most apathetic citizens. Yet attendance consisted of the two of us from the county association, two representatives of a local civic association, two newspaper reporters—and only one private citizen.

In another case, a friend was explaining the importance of a local issue to his son and daughter-in-law, when his son blurted out, "Dad, we don't want to hear it! We've got enough problems of our own every day without worrying about that nonsense!" After a moment of hurt feelings, my friend had to admit that his son was right—that with what the family was facing, trying to maintain even a modest middle-class lifestyle, they *didn't* have time to think about much else. And, after long

weeks of labor interspersed with weekends of household drudgery and necessary errands, they could not really be blamed for wanting to spend such free time as they could find on escapist entertainment, with the TV and VCR or at the sports field.

It would seem that the developing social and economic situation in our country may be reaching a point where a plunge into a modern-day serfdom and a new Dark Age will become irreversible. As people are becoming more and more crushed by the demands of government, they are becoming less inclined to engage in the intellectual pursuits that would lead them to understand the cause of their plight. A decade ago, concern over the economy was bringing many people around to at least paying lip service to the need for fiscal conservatism and rational economics, and to actively studying the mechanisms of the changes occurring around them. Today, the current generation of politicians is voicing the *de rigueur* condemnations of trillion-dollar budgets, but in the same breath they are proposing new multi-billion dollar spending programs—and their constituents seem to be ignoring the contradiction.

Even college students, perhaps sensing that their future may be more a matter of economic survival than prosperity, are turning away from the world of ideas and pursuing studies which they hope will put them on the fast track to achieving wealth as soon after college as possible. Instead of a new generation of people educated in the beauty of logic and reason, the next decade may see the emergence of a wave of highly trained technicians, schooled in applying technologies of the moment, but poorly equipped to advance those technologies or develop new ones. This is already apparent in some industries where, despite a great deal of rhetoric about “high technology,” research and development consists largely of wrapping existing technologies in new packages.

The above paints a very pessimistic scenario of a civilization moving slowly backward as its people lose the intellectual tools needed to hold on to their freedom. However, it also shows clearly the direction that those of us who are committed to the freedom philosophy must take.

First, we must each continue our efforts at

self-improvement, even though we may find ourselves with less discretionary time each day. In particular, we must not allow ourselves to fall back, as a matter of convenience, on merely reading the periodicals published by our favorite free-market or libertarian organizations. Self-improvement entails thinking through a wide range of ideas and concepts, and even the most profound wisdom becomes meaningless if it is merely accepted as philosophical dogma.

Next, remembering that our neighbors have little time to spend on pondering nebulous concepts, we should make an effort to communicate the ideas which each of us has found to be the most convincing and memorable. For example, the economic arguments presented with elegant simplicity in the parables of Frederic Bastiat and Henry Hazlitt are easily recast into modern-day scenarios, and often can form the basis for a letter or short article that will be welcomed by a local newspaper, a trade magazine, or even a sport or recreation publication. We shouldn't fear stating ideas simply, if it will mean busy people will have the time to read and think about them.

Above all, we must endeavor to expose deliberate repetitions of economic fallacies for what they are—lies. Many of my generation became interested in the study of free-market economics because of the absurd excuses that were being given for the economic problems of the early 1970s—for example, blaming shoplifters for price inflation. In the future, it will become even more necessary for economic interventionists to resort to ridiculous claims to justify their attempts to gain control over the economy, and catching them in their deceit can be an important first step in the education of a new generation.

In the midst of a very bleak scenario for the future, we have a point of hope for which we can be thankful. That hope is technology. Just as technology in the form of the printing press enabled an enormous increase in the dissemination of ideas hundreds of years ago, inexpensive typewriters, word processors, and copy machines have increased by orders of magnitude the power each of us has to spread ideas today. It is imperative that we use that power. □

Constitutional Restraints on Power

by Edmund A. Opitz

American political institutions presuppose certain convictions about human nature, the worth and prerogatives of persons, the meaning of life, the distinction between right and wrong, and the destiny of the individual. The Colonists came to their understanding of these matters as heirs of the intellectual and religious heritage of Christendom—the culture whose shaping forces sprang from ancient Israel, Greece, and Rome.

Given the consensus of two centuries ago—which regarded man as a sovereign person under God—it was only logical to structure government so as to expand opportunities for the exercise of personal freedom. The Constitution is clearly designed to maximize each individual's equal right to pursue his own peaceful goals and enjoy the benefits and responsibilities of ownership.

The Declaration of Independence put into words what nearly everyone was thinking, that personal rights and immunities are ours because we are created beings, that is, we manifest a major purpose and intent of this universe. This implies a firm rejection of the alternative, which is to assume that we are the mere end products of natural and social forces, adrift in a meaningless cosmos. For if the universe is meaningless, then no way of life is any more

meaningful than any other; in which case Power has no limits.

Our forebears had firm convictions about the purpose of life, and knew that in order to achieve life's transcendent end Power must be limited: "Resistance to tyrants is obedience to God," they declared. If life is viewed in these terms, how shall we conceive the proper scope and competence of government? What is its role in society? What functions should we assign to it?

Government is the power structure of a society. This is the first and most important fact about the political agency, that it has the legal authority to coerce. The second thing is to inquire whether the power wielded by government is self-sprung, or delegated by a more comprehensive authority than the merely political. Does government rule autonomously or by divine right; or is the real power located elsewhere and merely loaned to government? The Constitution is clear on this point; the power is in the people to lay down the laws which Power must obey. They set it up; they tell it what to do.

"We, the People of the United States," reads the Preamble, "do ordain and establish this Constitution for the United States of America."

Specific Limitations

The people empower an agency to do certain things for them as a nation, but if we isolate the provisions they laid down to limit government the prevailing intent or consensus which made

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Congress shall make no law abridging . . . the right of the people . . . to petition the Government for a redress of grievances. *Amendment I*

The old world divisions of mankind into castes and orders of rank are to be no more.

No title of nobility shall be granted by the United States. *Article I, 9*

Every citizen shall have a right to participate in the processes by which the nation is governed; and, should he desire to run for public office he shall not be put to a creedal test.

The right of the citizens of the United States to vote shall not be denied or abridged. . . . *Amendments XV and XIX*

No religious test shall ever be required as a qualification to any office or public trust under the United States. *Article VI*

Freedom to Trade; No Special Privilege

Commerce makes for a free and prosperous people, so restraints on trade shall be removed.

No tax or duty shall be laid on articles exported from any State. . . . *Article I, 9*

No preference shall be given by any regulation of commerce or revenue to the ports of one State over those of another. *Article I, 9*

Progressive taxation violates the principle of equal treatment under the law—penalizes ability, and lowers productivity, so it is forbidden.

No capitation, or other direct, tax shall be laid, unless in proportion to the census. . . . *Article I, 9*

The public treasury shall be inviolate; government shall not confer economic privilege on some at the expense of others.

No money shall be drawn from the Treasury, but in consequence of appropriations made by law. *Article I, 9*

Personal privacy shall be respected and jealously guarded.

The right of the people to be secure in their persons, houses, papers, and effects . . . shall not be violated. *Amendment IV*

Conflict is a built-in feature of human action, and when collisions of interest do occur in society, the rights of the individual must be maintained.

No person shall . . . be deprived of life, liberty, or property, without due process of law. *Amendment V*

Nor shall private property be taken for public use without just compensation. *Amendment V*

Strings on the Military

In some nations, the civilian life is a mere appendage to the military. This will not happen here because civilians control the purse strings.

No appropriation of money (to raise and support military and naval forces) shall be for a longer term than two years. *Article I, 8*

As a further safeguard against any future militarization of this nation, the civilian sector must have the means for defending itself.

The right of the people to keep and bear arms, shall not be infringed. *Amendment II*

In some countries, criminal proceedings are used to entrap citizens, whose guilt is assumed; the burden of proof is on them to show their innocence. Here, the innocence of the accused is assumed, until his guilt is proved. The law shall not reach backward to designate as criminal an action which until then was innocent.

No . . . *ex post facto* law shall be passed. *Article I, 9*

There shall be no Star Chamber proceedings.

No person shall be held to answer for a capital, or otherwise infamous crime, unless on a presentment or indictment of a Grand Jury. *Amendment V*

Protecting the Accused

The accused is protected against illegal imprisonment, and must be informed of the charges against him.

The privilege of the writ of *habeas corpus* shall not be suspended. *Article I, 9*

Punishment shall fit the crime; it shall not mean

extinction of civil rights, forfeiture of property, or penalties against kin.

No bill of attainder . . . shall be passed.
Article I, 9

The accused is entitled to be tried by his peers.

. . . the right of trial by jury shall be preserved.
Amendment VII

There is to be no forced self-incrimination.

Nor shall [he] be compelled in any criminal case to be a witness against himself. *Amendment V*

The rights of the accused are summarized:

1. . . . a speedy and public trial, by an impartial jury;
2. Within the district wherein the crime shall have been committed;
3. . . . to be informed of the nature and cause of the accusation;
4. . . . to be confronted with the witnesses against him;
5. . . . to have compulsory process for obtaining witnesses in his favor;
6. . . . and to have the assistance of counsel for his defense. *Amendment VI*

Even when found guilty, the accused is protected.

1. Excessive bail shall not be required;
2. Nor excessive fines imposed;
3. Nor cruel and unusual punishments inflicted. *Amendment VIII*

Treason

Treason is a crime against the nation, so serious that it must be defined with special care.

Treason against the United States, shall consist only in levying war against them, or in adhering to their enemies, giving them aid and comfort. *Article III, 3*

The person judged guilty of treason is personally responsible for his crime, and therefore his family and kin shall not be punished.

No attainder of treason shall work corruption of blood. *Article III, 3*

Impeachment is a special case.

The Senate shall have the sole power to try all impeachments . . . and no person shall be con-

victed without the concurrence of two-thirds of the members present.

Judgment . . . shall not extend further than to removal from office, and disqualification to hold any office of honor, trust or profit under the United States. *Article I, 3*

A blind spot in the original Constitution is corrected.

Neither slavery, nor involuntary servitude, except as punishment for crime . . . *Amendment XIII*

No state shall . . . deny to any person within its jurisdiction the equal protection of the laws. *Amendment XIV*

The separate states are not wholly sovereign.

No state shall enter into any treaty . . . coin money . . . pass any law impairing the obligation of contracts. *Article I, 10*

The Method of Freedom

There is a strong penchant in human nature which impels people who feel strongly about something—a good cause, say—to group their forces and use the power of government to fasten their panacea on those they’ve been unable to persuade. The Constitution is a prime example of the limitations placed upon governmental power so that people with a cause to advance must resort to education, persuasion, and example only. This is the method of freedom, and a people committed to the method of freedom find the Constitution still an apt instrument for structuring a society which maximizes freedom and opportunity for all persons. It was designed to establish a national government internally controlled by checks and balances between the separate powers. And government was to be further limited by the Federal structure itself, in which the centripetal power of Washington was to be offset by the centrifugal powers of the separate states.

The Constitution was not a perfect document, but it carried the means of its own correction, and it did embody the consensus of the people for whom freedom was the prime political good. It was workable. And it will work again whenever a significant number of people have the force of intellect to comprehend sound ideas, and the force of character to make them prevail. □

The Hungarian Illusion

by James Bovard

Throughout the twentieth century, intellectuals have searched for a socialist success story. Every few years there is another nominee—from the Soviet Union during the 1930s and again in the 1950s, to Cuba in the 1960s, to China and Yugoslavia in the 1970s. Today, Hungary is being promoted as the new socialist utopia—living proof that socialism and efficiency can be successfully combined.

American newspapers and magazines routinely refer to Hungary as a “market-oriented” economy providing a good life for its participants. *The New Republic* (October 27, 1986) recently implied that the quality of life in Hungary is almost as high as in the United States. Both China and Russia are borrowing heavily from the Hungarian model, and the World Bank is pouring hundreds of millions of dollars (derived from U.S. government and other government sources) into the Hungarian government’s treasury.

But, rather than being a utopia, Hungary is only another case of socialist failure. Real wages have fallen five per cent since 1980 and seven per cent since 1978. Industrial efficiency has sharply declined, as the government has suppressed incentives to modernize and rationally use resources. The citizenry’s health appears to be rapidly deteriorating—life expectancy has decreased sharply for males in recent years. Many Hungarian villages still do not

have telephones, electricity, or reliable drinking water.

And the economic crisis is growing worse. The government recently froze all wages, while allowing prices to continue to rise—a further *de facto* cut in wages and living standards. Investment is declining, and the aging machinery and deteriorating infrastructure are making Hungary more backward every year.

Hungary has doubled its debts since 1982—from around \$7 billion to over \$14 billion, and shows no likelihood of being able to service its debt any time in the coming decade. Hungary could be much closer to default than many Westerners realize. Much of the apparent prosperity in Hungary is the result of heavy borrowing, with billions squandered on consumer items that buy political peace but only add future burdens to the country’s economy.

In Hungary, there is socialism and there is prosperity. But the socialist parts are not prospering and the prosperous parts are not socialist. And since the economy is over 90 per cent socialist and cooperative, Hungary is a depressed, increasingly backward economy.

Hungary’s experience is instructive for the rest of the world. How much benefit is there in allowing limited market competition in a fundamentally socialist economy? How much can a small amount of capitalism remedy the defects of a large amount of socialism? Is a mixed economy a viable alternative for today’s slowly sinking socialist monoliths? Hungary’s experience is especially valuable in gaining an insight into the Soviet Union’s recently announced reforms, which are partly inspired by Hungary.

Mr. Bovard, a widely published writer on economic affairs, recently visited Hungary. An earlier version of this article appeared in the Journal of Economic Growth (Vol. 1, No. 4).

Historical Background

Hungary is a small country with a population of 10 million. Because it is heavily dependent on foreign trade, Hungary is particularly ill-suited for the socialist model of economic autarky—where the government tries to achieve maximum national economic autonomy through total control of the economy. Socialists have always been biased against foreign trade, since central planners prefer to control all economic factors—and they can rarely control businesses and individuals beyond their borders. For almost 40 years, Hungary's leaders and bureaucrats have tried to “plan” an economy whose survival and prosperity depend on rapid adjustments to changing world markets.

Before World War II, Hungary had a highly developed pharmaceutical industry and was a world leader in some areas of agricultural machinery production, though its economy was primarily agricultural. When the communists took control of Hungary in 1949, they launched a crash industrial program based on the usual socialist goal of creating a “country of iron and steel”—“conspicuous production,” as Michael Polyani terms it. But since Hungary was still an agricultural economy with a limited industrial infrastructure, this was a disastrous policy, and the government's widespread coercion in pursuit of its economic policy provoked a popular revolt in 1956 that was crushed only by massive Soviet military intervention.

In the early 1960s, limited private incentives were permitted in agriculture—with excellent results. In 1968, convinced that the basic Soviet socialist model was failing, Hungary announced the New Economic Mechanism (NEM). The NEM tried to replace central planning with limited market relations among state-owned firms, to link domestic and world market prices, and to reform investment policies. NEM was an attempt to preserve socialism without central planning—or, as Hungarian economist Tamas Bauer describes it, “neither plan nor market” (*East European Economies*, Spring-Summer 1984).

In the first years of reform, Hungary's economy was one of the strongest in Eastern Europe. But the new prosperity created a back-

lash from those who felt they were not getting a fair share of it. In 1972, the trade unions and conservative Communist Party members, concerned about growing inequalities in income and the Party's loosening grip on the economy, launched an attack on the reforms. Many of the reforms were scaled back or abandoned. Economic decision-making was recentralized and central planners increasingly intervened in the day-to-day operations of companies. The central planners then tried to isolate Hungary from rapidly shifting world markets and world prices for energy.

To implement this policy, Hungary borrowed billions of dollars from the West. But despite a massive investment program, Hungarian leaders still could not produce a Western-type prosperity. Most of the investments were ill-chosen and poorly executed, and the net result is a huge foreign debt with little or no increase in productive resources to service it.

In 1979, Hungary again loosened some of the controls over economic activity. In 1982 some forms of private economic activity were legalized, private citizens were allowed to own their own taxi cabs and trucks, and small retail service establishments were tolerated. But, as a recent World Bank report noted, “Neither the 1968 reforms nor those beginning in 1980 fundamentally changed the dominance of state ownership” (Peter T. Knight, *Economic Reform in Socialist Countries*, 1983).

Hungary adopted reforms in the early 1980s partly in an attempt to avert bankruptcy. The country was able to avoid default thanks to large loans from the World Bank and the International Monetary Fund. Though this aid saved Hungary's credit rating and allowed it to continue borrowing from Western banks, in retrospect the 1982 bailout appears to have been a two-edged sword. By postponing the day of reckoning, the World Bank/IMF bailout allowed the government to continue economically restrictive policies that have perpetuated the nation's poverty.

Though there is an active “second” (unofficial) economy in Hungary, it has not solved the problems caused by socialism. As Tamas Bauer concluded, “In this country, the common prevailing opinion is that . . . ‘people’ generally

do not perform their work well, that the workers are not paid decent, and that one cannot obtain quality goods and services for his money.”

The Hungarian economy today is like a slowly sinking ship that just happens to have a very nice “private sector” sideshow on one of the decks. The sideshow is not good enough to keep the ship from sinking, but it keeps everyone entertained as the water rises.

The Hungarian Labor Market

Perhaps the best place to begin a study of Hungary's problems is in its labor market. As even Josef Stalin recognized, “Human beings are the most important and decisive capital in the world.” Yet, the Hungarian system seems almost designed to squander and discourage workers' efforts.

In Hungary, there is guaranteed employment—but there are not many people actually working. In my recent visit, Budapest seemed to be a city of people leaning on brooms. The Party newspaper often denounces workers for their laziness.

It is an old saying among Hungarian workers, “We pretend to work; they pretend to pay us.” A Hungarian pension manager told me that the average Hungarian works only four hours a day at his government job—and spends the other hours smoking, talking, and generally avoiding strenuous effort. A Swedish engineer complained to *Magyar Hirlap*, the national newspaper, “Work discipline is bad . . . An individual Hungarian worker does not do more than 5 and half hours of work a day. . . . Workers arrive for work an hour or even 90 minutes late, they have a long lunch break and disappear from time to time during the day.” Ferenc Havasi, Secretary of the Hungarian Socialist Workers Party, recently complained that “15 to 20 per cent of the work time of five million active earners is lost for various reasons,” and called for “the improvement of interestedness” of workers in their work (*Hungarian Economy*, January 1986).

Guaranteed employment has other effects on workers. According to the World Bank, “On many occasions, workers sabotaged technology taken from other enterprises, in part because

they did not want their bonuses reduced to pay for that technology.” As the World Bank notes, a guaranteed job “greatly reduces the concerns workers have about replacing old machinery or shifting to new products. Workers tend . . . to push for the continued use of certain machinery and production of traditional products, since they are familiar with them” (Kazimierz Poznanski, *The Environment for Technological Change in Centrally Planned Economies*, 1985). The workers' unwillingness to learn new skills handicaps the entire economy.

As a recent Organization for Economic Cooperation and Development (OECD) study by Professor Paul Marer points out, “Labor is underpriced because money wages in industry pay for only about 60 per cent of the personal consumption of the wage-earner's family.” (The other 40 per cent largely consists of government-sponsored consumer subsidies.) This encourages firms to “hoard” labor—to rely on labor-intensive production methods and to be relatively apathetic about getting full value from their workers—because they are not paying the full cost of workers' wages. This discourages efficient utilization of labor.

The government also allows limited flexibility in wages, so that engineers sometimes are paid little more than janitors. As Radio Free Europe recently reported, “The wage differential between Hungarian white-collar and blue-collar workers is only 5 to 10 per cent, as opposed to 30 to 70 per cent in the developed countries.” Inflexible wages have created both pervasive labor shortages—and labor surpluses. There is no effective mechanism to shift workers from one occupation or job to another—from a place where his efforts are less productive to where they would be more productive in response to changing economic conditions and emerging opportunities. The artificial shortage is so severe that the typical Hungarian white-collar worker can choose between two or three jobs at any one time, and manual workers can choose between ten or fifteen jobs (Economist Intelligence Unit, *Quarterly Economic Review*, February 1985).

The problems in the labor market have caused severe damage throughout the whole economy. OECD estimates that labor produc-

tivity in the Hungarian chemical industry is only one-third that of world levels. The main Hungarian telecommunications factory, Belloiannis Telecommunications Factory, which employs 10,000 workers, has achieved a labor productivity rate of only one-tenth to one-fifth that of Western standards. Labor productivity in the textile industry is less than one-seventh that of developed countries' textile workers (Bela Balassa, *The Hungarian Economic Reform, 1968-81*, World Bank, 1982).

One reason the government discourages the shifting of labor to better uses is because of the severe housing shortage. Since there are few available houses or apartments, the transfer of workers would create social strife. This is a typical case of a socialist bottleneck—harmful controls in one part of the economy causing a negative chain reaction throughout the rest of the economy.

One attempt to get around the constraints of the socialist wage system is the economic working associations—groups of factory workers who stay after their normal jobs to perform work on a contract basis, using factory tools and equipment. On the surface, this looks like a sure winner, and Western journalists have almost uniformly praised it. But, as one Hungarian enterprise director complained, "Contract work associations yield contradictory results because sometimes they create a schizophrenic attitude: the worker has an incentive to do as little as possible for the basic wage since after work he can do the job for a much higher compensation. . . . It is absurd economically that identical labor has a dual price: on the free market it earns a multiple (occasionally tenfold or more) of what it is paid in the socialist sector" (quoted in Paul Marer, *East-West Technology Transfer*, OECD, 1986).

Hard work is also discouraged because Hungary, like all socialist economies, has a perpetual shortage of quality consumer goods. No matter how much a worker earns, there is little or nothing good to spend it on, especially since major items are rationed by queue, not price. Hungarians must wait up to six years for a car, and up to 12 years for a telephone. There is a seven-year wait to get an apartment. The cheapest new car costs the average worker three years' pay—and that car is basically a

wooden automobile with a motorcycle engine.

The government recently increased the prison sentences for "workshirkers"—people who, in the opinion of the authorities, are not performing socially useful labor. As *Heti Világazdaság* reported in December 1984, "A Budapest court found guilty a young girl who was capable of working but was supported by her parents because she would not accept employment after she completed her studies, spending her time instead mostly on reading." Even if a person is working twice a week on an occasional basis, the courts will still convict him of "workshirking" and send him off to jail. Since the government can imprison people for the crime of not producing, the government, in effect, owns the people—people exist for the good of the government, and not government for the good of the people.

The inflexible, unresponsive labor market also drives the government to use coercion instead of voluntary agreement in other areas. Coal production has been declining, and the government recently ordered coal miners to work on Saturdays and Sundays. In a free society, workers are enticed with higher pay to work longer hours. In a socialist economy, where many people consider wage incentives to be immoral and selfish, coercion is the only substitute.

The Continuing Problems of Hungarian Industry

Though Hungary is praised as having a working combination of socialism and capitalism, the Hungarians themselves are increasingly critical of their malfunctioning economic system.

Hungary's Ministry of Industry recently complained, "The productivity of Hungarian industry is approximately half of that of countries that are comparable to us in terms of size and industrial development. . . . We have not been able to reduce the proportion of defective production and have an excessive number of accidents" (quoted in Paul Marer, *East-West Technology Transfer*).

A recent World Bank report concluded that "industrial efficiency . . . appears to have declined over the 1970s." According to Hun-

garian technology expert Laszlo Pal, "It can be proven by facts that our backwardness compared to the industrially developed countries is growing year by year" (*The Washington Post*, October 19, 1986). Lazlo Fodor recently complained in *Heti Vilaggazdasag* (August 2, 1986), "We are lagging behind the international development of science and technology, and our technology gap is widening year by year. . . . The Hungarian economy's competitiveness and ability to generate income has declined, its terms of trade have worsened, and its unprofitable economic activity has increased."

Further insight into the Hungarian economy can be gained from a recent exchange on Hungarian radio (8/29/86). Interviewer Gyorgy Ney was speaking with Laszlo Bukta, Deputy Chairman of the State Office for Wages and Labor. Ney asked, "The budget devoted 157 billion forints [about \$3.4 billion] last year to loss-making enterprises. . . . If my calculations are correct, this is roughly a quarter of the national income." Bukta responded, "The facts are correct and your calculation as regard the per cent is also right. This is an intolerable situation."

The Hungarian government wants to structurally transform the economy—while remaining totally in control of it. They want the benefits of capitalism while retaining the iron-grip of socialism. As economist Kazimierz Poznanski concluded in a World Bank study, "The main result has been an expansion of new regulations, not a strengthening of the motivation for efficiency in industry."

And the government still has much hostility to the private sector. Fifteen private Hungarian investors recently opened the first privately built and managed hotel in the Eastern Bloc. But the hotel was driven out of business when government "forced the management to reduce the number of beds available and to meet subsequently introduced laws governing private guest houses," according to an Economist Intelligence Unit report in early 1986.

Hungary has one of the most highly concentrated industrial sectors in the world. The economy is dominated by huge trusts that effectively make their own rules. In 1938, before the communist takeover, Hungary had almost 4,000 manufacturing enterprises. By 1960

there still were nearly 1,400 state industrial enterprises, but by 1980 the number had fallen to under 700. There has been some limited reform in recent years—but large firms still dominate the economy. Thus, the domestic economy is largely a handful of monopolies and monopolies—with little real competition.

Many Hungarians view the large firms as economic dinosaurs which are dragging down the entire country. The highly respected Hungarian weekly economic paper, *Figyelo*, found "that for a wide range of measures, enterprise efficiency declined with size; in particular, enterprises undertaking dynamic investment programs were very likely to suffer a loss of efficiency in terms of return on capital."

Not only do the large companies usually function poorly, they are also powerful opponents of reform. According to Andras Hegedus, a prominent sociologist who was Hungarian Prime Minister in 1955-56, "Managers of big enterprises are not only against reform in general but, in view of their particular interests, also form obstacles to the achievement of particular economic policy aims. . . ." Hegedus believes that "the government's fear of autonomous economic units is today far greater than its wish for dynamic economic development" (Economist Intelligence Unit, *Quarterly Economic Review*, February 1984).

Subsidized Failures

The government repeatedly has announced its commitment to more competition—and then followed up by pouring in massive subsidies to firms that founder. As economist Janos Kornai notes, "One of the means by which the 1979 reforms sought to 'toughen up' conditions for price formation by enterprises was to compel them to adjust their prices to those prevailing in Hungarian export industries, which try to compete on Western markets for hard-currency sales. When it appeared that only very few enterprises could live up to such high standards, their supervising ministries provided relief to as many as 741 out of 1136 firms" (*Problems of Communism*, p. 12).

One test of whether a free market actually exists is whether firms are allowed to fail. If firms can't go bankrupt, then the economy

never will be able to discard its most inefficient producers. In Hungary, profits and losses are largely dependent on political decision, and "losses" are very rare. As the World Bank noted, "Only 10 Hungarian enterprises of 1,735 showed a loss in 1980—a crisis year for Hungary." In 1984, only 28 firms showed a loss.

The problems of investment in Hungary were summarized recently by the Deputy Director of the Investment Division of the Ministry of Housing, Public Construction, and Town Development: "A comparison of similar kinds of investment projects found that in Hungary completion takes an average 30-50 per cent longer than in the other CMEA (Council of Mutual Economic Assistance) countries and 200-300 per cent longer as compared with the best firms in developed capitalist countries. Our costs are from three to seven times larger."

Maximum government intervention characterizes Hungarian investments. As Miklos Nemeth, Deputy Director of the Party's Central Committee Economic Policy Department noted, "The collection of rules and regulations that control all of the important aspects of enterprise investment activities represent a 700 page book, in which one finds approximately 150 decrees. As one of the authors of the volume, I calculated that there are, on average, 1.6 changes in the decrees each week. . . . At the present time both the investor and contractor have incentives to make the project as expensive as possible—and poor management provides plenty of opportunities to realize this" (*Heti Világazdaság*, March 17, 1984).

Rational investment is difficult because the state still controls—and distorts—the prices of many key inputs, such as labor, energy, and raw materials. Investment requires central approval—and the central planners are still strongly biased in favor of the huge inefficient firms that dominate Hungary's economy.

Labor is not the only scarce resource that the Hungarian economy squanders. Hungarian industry is extremely inefficient in utilizing raw materials. As the Economist Intelligence Unit noted, "Materials make up about 65 per cent of industrial production by value and studies show that Hungarian engineering products use too

much material, often one-and-a-half to three times higher than international standards" (*Annual Report on Hungary*, 1985). This higher cost base diminishes the competitiveness of Hungarian goods on the world market.

Socialism and Shabby Goods

But probably Hungary's greatest problem in competing on world markets is the poor quality of its goods. As in everywhere else in the Eastern Bloc, shabbiness and socialism appear to go hand in hand. As Jan Vanous, research director for Planecon Consultants observes, "The Hungarian decision makers have selected the worst of all combinations in the area of exports. They have sufficiently weakened central control . . . while failing at the same time to put into place an alternative mechanism that would do the job (an open, competitive, market-driven system)."

Though it has been obvious for decades that better quality production is Hungary's only hope of success on the world market, the economy has been unable to meet the challenge. There have been some exceptions—Ikarus sells over ten per cent of its bus production to the West. But most of the manufactured goods Hungary sells to the West contain a large amount of western components—and Hungary often makes scant profit on the sales.

Trade among Hungarian firms tends to be limited and highly inefficient. It is often difficult for a company to get recourse from another company that fails to fulfill its contract. As a result, Hungarian companies often go to great lengths to manufacture their own components—usually very inefficiently and at far higher prices than could be done with a more advanced division of labor. As an OECD study noted, "It is characteristic of Hungarian industry that many firms have their own foundry. Thus, products and inputs that manufacturers in much of the rest of the world would buy from outside suppliers or subcontract to specialized firms, are produced internally in Hungarian enterprises, typically under primitive workshop conditions."

Even when Hungary has a good idea, it often cannot cash in. The Rubik Cube was a Hun-

garian invention—but the Taiwanese profited more from it because it took the Hungarians several years to boost their production of the cubes—and by then it was too late. The Hungarians even had difficulty exporting to the Eastern Bloc, because Hungarian industry could not produce high quality color labels for the blocks. Hard currency had to be spent for the color labels—which made the government reluctant to sell the cubes to socialist countries for soft currency. And, since Eastern Bloc trade agreements leave little or no room for new products, Rubik Cube exports likely would have displaced other Hungarian toy exports.

Hungary is also severely handicapped by its reliance on COMECON (Council of Mutual Economic Cooperation) trade. During the 1970s, the leadership borrowed heavily in the West in order to increase Hungary's sales to its fellow Warsaw Pact members, especially the Soviet Union. It was a peculiar strategy, since it is difficult to pay off hard-currency debts in near-worthless Soviet rubles.

Trade among COMECON members usually is based on primitive barter arrangements—trading two car tires for one truck tire, trading a rear axle for a front axle, and so on. A few years ago, Poland and Czechoslovakia were exchanging tractor parts—based solely on one kilogram of Czech parts for one kilogram of Polish parts. Since the centrally planned economies do not rely on prices, and each contrives its prices differently, they simply agree to exchange quantities of specified goods.

This leads to numerous problems. As OECD notes, "If a component is imported from a CMEA supplier, the Hungarian customer has no direct recourse to solve problems of quality or delays in delivery." Hungary's reliance on COMECON trade has been particularly harmful to the competitiveness of its Ikarus buses. OECD found ". . . the Hungarian party was regularly forced to accept and use subassemblies of unsatisfactory quality and technological standard, which impairs the technological standards of the completed vehicles and their competitiveness" (Paul Marer, *East-West Technology Transfer*).

If companies want to use Western technology for their goods, they must get central approval for the imports. But the central

planners are still strongly biased in favor of the huge enterprises. Thus, scarce foreign currency is squandered to provide inputs for companies that cannot efficiently use them while smaller and more dynamic companies or cooperatives are denied the resources that would give them a better chance to export to the West.

The lack of market prices and market signals often cripples Hungarian export efforts. As *Figyelo* recently reported, some products which are exported in response to government pressure are imported by other firms at higher prices.

Hungary is also handicapped by its inadequate infrastructure and the incompetent state organizations responsible for its upkeep. The Hungarian communications system is extremely backward. Hungarian estimates show that the telephone network is so poor that the extra work and costs it imposes on users (in terms of extra correspondence, delays in arranging transactions, etc.) may amount to as much as 10 per cent of national income.

The electric power supply is just as bad. Hungary receives much of its electric power from Russia—but the quality of the connecting grids is very poor and appears to be deteriorating. If power wavers too much, it could wreck sensitive electronic components in computers throughout the country.

The one bright spot in the Hungarian economy has been agriculture—largely because of the long history of tolerating or encouraging private activity. In 1979, exports of slaughtered rabbits from private operations yielded the same amount of foreign exchange (\$50 million) as exports of the entire state pharmaceutical industry. But private agricultural activity is too limited to make a significant difference in the fate of Hungary's economy.

Hungary on the World Market

Since the 1960s, Hungary's performance on the world market has sharply deteriorated. Hungary has failed to increase significantly the dollar value of its exports since 1980—despite receiving billions of dollars of western credit and volumes of advice from the World Bank and IMF. Between 1980 and 1985, Hungary's

market share in developed countries' imports of machinery and equipment fell by over a third—from 1.25 per cent to less than 0.8 per cent.

Hungary's inability to increase the dollar value of its exports prevents it from digging out from under its mountain of debt. Hungary continues massive borrowings—pulling in \$1.6 billion in 1985 and another \$1 billion in 1986—rolling up its debts and postponing the day of reckoning. Hungary's main asset appears to be the illusion in the West that its economic reforms are succeeding and that it continues to be a good credit risk.

The Failure of Hungarian Socialism

Economic mismanagement is having an apparent effect on Hungarians' health. As in the Soviet Union, the mortality rate is rising—an anomaly for an industrial country and an indication that public health is seriously deteriorating. According to the United Nations, average life expectancy at age 35 for Hungarian males declined by 2.7 years between 1964 and 1982. There was an especially sharp increase in mortality during 1980-1982. Mortality for males ages 30-44 increased 4 per cent, ages 45-59 increased 5 per cent, ages 60-74 increased 2 per cent (*East European Economies*, Spring-Summer 1984).

To fully appreciate the cost of Hungarian socialism, it is instructive to compare the changes in per capita income for Hungary and other nations after World War II.

Clearly, Hungary has done dismally compared to other countries. Hungary was on a par or in the same league with Austria, Italy, and not far behind West Germany in 1949. Now West Germany's standard of living is five times higher, Austria's is four times higher, and Italy's is three times higher. Japan's per capita income was less than half of Hungary's per capita income in 1949; now, it is five times higher and rising fast. The real cost of socialism becomes apparent when seeing what

Changes in Per Capita Income

	1949	1976	1984
Hungary	\$269	\$2,280	\$ 2,100
Austria	216	5,330	9,140
Italy	235	3,050	6,420
West Germany	320	7,380	11,130
Japan	100	4,910	10,630
Singapore	n.a.	2,700	7,260
Taiwan	n.a.	1,070	3,140
South Korea	n.a.	670	2,110

(n.a. not available)

Source: 1949: United Nations Statistical Papers, Series E, No. 1, October 1950, pp. 14-16.

1976: World Bank, *World Development Report*, 1978, pp. 77-78.

1984: World Bank, *World Development Report*, 1986, pp. 180-181.

might have been—seeing how much more prosperous other countries have become by following more market-oriented policies.

Conclusion

What has failed in Hungary is not the reforms—but the perpetuation of the basic structure. The economy has not suffered because government has allowed private citizens to drive taxis and sell ice cream, but because government continues to prohibit private citizens from combining to form large companies and to organize production according to market demands rather than political imperatives. Hungary remains poor not because of what it has allowed, but because of what it continues to ban. As economist Tamas Bauer observes, "The kind of 'renaissance' prevailing in Hungary . . . may easily discredit the entire idea of reform by destroying its validity."

Market socialism is the great illusion of the 1980s. As long as the government controls production, distorts prices, and misallocates resources, no amount of private initiative in retailing or in selected services will resolve the fundamental problems of uncompetitive, low quality goods, depressed productivity, and an inadequate standard of living. □

Capitalism at a Crossroads: 1875-1900

by J. Brian Phillips

The last quarter of the nineteenth century was a turning point for American capitalism. Just when free enterprise seemed to be enjoying its greatest success—with technological advances creating many new industries, opportunities opening for millions of workers, and living standards on the rise—the intellectual roots of capitalism came under relentless attack. When the proponents of capitalism were unable to mount an effective defense, popular support shifted toward interventionism, and the American era of *laissez faire* came to an end.

Who were the critics of capitalism—the collectivists who overthrew *laissez faire*? Who were capitalism's defenders at this critical juncture? Let us consider each in turn.

The Collectivists: George, Bellamy, and Lloyd

In 1879, journalist Henry George published the immensely popular *Progress and Poverty*, in which he argued that private ownership of land is the cause of many of the world's evils. "To extirpate poverty," he wrote, "to make wages what justice commands they should be, the full earnings of the laborer, we must therefore substitute for the individual ownership of land a common ownership."¹ George arrived at this conclusion by declaring that "Land is the source of all wealth."² Consequently, a man who is denied land is denied the right to earn a living.

A man has a natural right to the products of his labor, George argued, and therefore should not be forced to pay rent to a landowner, who contributed nothing to production. To George, the capitalist was an exploiter, who got rich on the backs of the workers.

To ensure that people would be rewarded for their efforts, George devised a system in which an individual would be guaranteed the right to use a specified parcel of land. However, rather than owning that land, the individual would be little more than a rent-paying tenant. This, George assured his readers, would provide opportunities for all and bring a quick end to poverty.

But, if George's system were fully implemented, such assurances would amount to idle promises. If all land were publicly owned, the public would have the power to determine its use. A man would have no guarantee that the factory he built this year would be allowed to stand the next year, if the public should decide on another use for that land. And, if this policy were applied to land, it soon could be extended to other forms of property. If the source of all wealth is public property, it is only a matter of time before all wealth becomes public property.

In 1888, Edward Bellamy published *Looking Backward*, a novel in which the hero falls asleep in 1887 and awakens in the year 2000 to find America has been transformed into a socialist utopia. *Looking Backward* was so popular that "Bellamy Clubs" sprung up across the nation and at one time had an estimated membership of over 500,000. Bellamy's vision, which included nationalization of the

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trusts (a common target of collectivists), was often quite similar to Marxism. However, Bellamy believed that the word “socialism” would not be politically palatable in America, and preferred to call his ideas “nationalism.” Nationalists, he wrote, “are socialists who, holding all that socialists agree on, go further, and hold also that the distribution of the cooperative product among the members of the community must be not merely equitable, whatever that term may mean, but must be always and absolutely equal.”³

In 1894, a Chicago journalist named Henry Demarest Lloyd published *Wealth Against Commonwealth*, an attack on the Standard Oil Trust. Lloyd believed that Standard Oil and its founder, John D. Rockefeller, represented everything wrong with society in general, and capitalism in particular.

To Lloyd, the capitalists were as evil and tyrannical as King George III had been prior to the American Revolution. They were individualists, he declared, who placed their own self-interests above the public interests. Individualism, he believed, had served its purpose. “The *laissez-faire* of social self-interest,” Lloyd wrote, “if true, cannot conflict with the individual self-interest, if true, but it must outrank it always.”⁴ In other words, the individual is to be subservient to society.

Lloyd believed that society is the measure of good and evil, right and wrong. “Nothing is needed but one thing,” he wrote, “no new laws nor investigations by Congress, no amendment of the Constitution, nothing but public opinion. Here lies ready to the hands of the people every tool they need.”⁵ In other words, laws and Constitutions are irrelevant—all that counts is the will of the people—unlimited majority rule.

Capitalism’s Defenders

In the late nineteenth century, the most prominent defender of the *status quo* in America was William Graham Sumner, a sociologist at Yale University. Sumner adhered to the theories of Herbert Spencer, an English philosopher who had developed a defense of capitalism based on the work of Charles Darwin. Popularly called Social Darwinism, Spencer’s

ideas explained society in terms of the “survival of the fittest.” Industrialists, the theory held, were merely the fittest humans.

The practical result of Social Darwinism was the creation of two classes of men—one class inferior to the other. Furthermore, Social Darwinism provided justification for the superior class to exploit the inferior class. And to the workers and collectivist intellectuals, this was precisely what the capitalists were doing.

While Sumner advocated *laissez-faire* economic policies, he failed to justify his position on the basis of individual rights. To the contrary, Sumner held that rights are neither inviolable, nor are they applicable to all equally. Rights, Sumner believed, are merely social conventions which have proven to be effective means of promoting production. Expediency, not principles, dictated rights.

On what terms was expediency determined? By the will of the people. “Might makes a right,” Sumner wrote. “Whether that right is or is not rightful, just, fair, good, seemly, or proper, is quite another matter, for it involves a moral judgment.”⁶ And it was moral judgments which Sumner sought to avoid. In the absence of moral judgments unfortunately, any political action could be justified.

It is important to realize that capitalism does not ultimately rest on ethical principles, but rather on fundamental premises about the nature of reality and knowledge of that reality, i.e., metaphysics and epistemology. Ethics defines the principles of proper human action. Politics, as the final expression of a philosophical system, is a form of social ethics. Which is to say, politics defines the principles of an individual’s actions within society, and more importantly, society’s actions against individuals.

Andrew Carnegie, one of the great industrialists of the age, was not an ardent advocate of capitalism, but he was a vocal critic of communism. However, Carnegie was not an intellectual, and he had to choose between the popular theories of the day. He chose Social Darwinism.

But Carnegie added an altruistic twist to Sumner’s ideas. Inherited wealth, he believed, is corrupting. Carnegie maintained that the wealthy should give their money to the public, in the form of philanthropic endeavors. To en-

courage this activity, Carnegie advocated high estate taxes. "By taxing estates heavily at death," he wrote, "the state marks its condemnation of the selfish millionaire's unworthy life."⁷ To Carnegie, a man's wealth was not truly his, but only held in trust for society. It could be relinquished "voluntarily" during one's life, or forcibly seized upon one's death.

Another great industrialist, John D. Rockefeller, shared Carnegie's belief that the rich should use their wealth for the betterment of society. Rockefeller, however, found his guidance in the teachings of the Episcopal bishop of Massachusetts, William Lawrence. Lawrence believed that wealth came only to the moral man. The virtues which resulted in material prosperity, e.g., industry, frugality, and temperance, were also espoused by the clergy. Wealth, Lawrence believed, was God's means of allowing moral men to help the masses.

At the most essential level, capitalism's alleged defenders agreed with capitalism's critics. Carnegie and Rockefeller believed that men are morally bound to use their wealth to promote the public welfare. Henry George agreed, but he wanted the State, rather than capitalists, to determine what the public welfare is. Sumner argued that might makes right; Lloyd agreed, advocating that people use force to seize whatever they want. The Social Darwinists argued that the fittest men have a right to trample on the rights of others. They may have disagreed on the particulars, but each side of the debate concurred that individual rights are neither sacrosanct, nor the basis for a civilized society.

More Government

It was within this intellectual atmosphere that American capitalism reached its zenith. But even from its inception, America's economy was never completely free of government controls. Tariffs and duties were used to collect revenue and protect domestic industries. As the economy grew, the effects of these interventions increased to the point where many industries were completely insulated from foreign competition. Indeed, less than three months after the passage of the Sherman Antitrust Act in 1890, the McKinley Tariff Act imposed the

highest and broadest tariffs in the nation's history. Evading the contradiction, the American people complained about the anti-competitive nature of the trusts, while simultaneously clamoring for higher tariffs to protect domestic industries from foreign competition.

When farmers complained about high shipping costs, they did not question the government's role in giving land grants and other monopoly privileges to some railroads; the farmers questioned the morality of the railroad owners. When workers and consumers complained about the trusts, they did not question the government's policy of high tariffs which curtailed competition; they questioned the morality of the industrialists. When reports of government corruption surfaced, people did not question the ethics of the legislators; they questioned the morality of men who had to resort to bribes to secure government permission to operate their business as they saw fit. Regardless of the issue, the industrialists and businessmen were condemned.

The growing unrest began to manifest itself politically during the 1870s. The Granger Movement united farmers in protest over the policies of the railroads. The agrarian movement continued with the Greenback and Populist Parties. The Populist Party platform for 1892 called for, among other things, nationalization of the railroads, free coinage of silver, a graduated income tax, prohibition on foreign ownership of land, and tighter restrictions on immigration. The Populists, however, did not consider themselves socialists, but espoused collectivism only as a means to a more "enlightened individualism." The fact is, "enlightened individualism" cannot be achieved by obliterating individual rights—collectivism and individualism are incompatible.

The intellectual climate of the post-Reconstruction era was best described by Henry Demarest Lloyd:

Monopoly and anti-monopoly, odious as these words have become to the literary ear, represent the two great tendencies of our time: monopoly, the tendency to combination; anti-monopoly, the demand for social control of it. As the man is bent towards business or patriotism, he will negotiate

combinations or agitate for laws to regulate them. The first is capitalistic, the second is social. The first, industrial; the second, moral. The first promotes wealth; the second, citizenship.⁸

But monopoly and anti-monopoly were merely the political manifestations of a more fundamental conflict—the conflict between individualism and collectivism.

The populist/reform movement was concerned primarily with the distribution of wealth, not its creation. Lloyd and his fellow reformers viewed wealth as a static quantity, and rather than encourage further production, they preferred to advocate more equal distribution of that which already existed. However, they overlooked the fact that when production is discouraged, the amount of wealth available to distribute ultimately falls. This is why plans to achieve equal wealth invariably result in equal poverty.

One of the catch phrases of the era was cooperation. This, the intellectuals argued, was the key to the future of society. Capitalism encouraged competition, to the benefit of the few at the expense of the many. A socialist society would be based entirely on cooperative effort, to the benefit of all.

But as is often the case, the opposite is true. Because capitalism prohibits initiation of force, the only alternative means of interaction between individuals is through cooperation. Conversely, collectivism encourages competition in securing government power. Capitalism encourages men to trade to mutual benefit; collectivism encourages men to join warring factions in order to secure privileges for themselves at the expense of others. In a capitalist society, in which the government has no control over the economy, there is no benefit to be derived from pressure group politics; in a collectivist society, in which the State controls the economy, pressure groups are a matter of economic survival.

Conclusion

Throughout history, some people have enjoyed greater wealth than others. However, American society was the first in which that

wealth was attained, not by conquest or confiscation, but by production and trade. For this, America's capitalists were condemned.

The few voices which attempted to justify capitalism did so, not on moral grounds, but on the basis of expediency. Conceding morality to their opponents, capitalism's defenders had no meaningful basis for their arguments. The entire intellectual spectrum agreed that wealth ultimately belonged to society; capitalism's supporters insisted that it was in society's interest to allow a few men to enjoy that wealth so that all of society eventually would benefit.

Just as a skyscraper cannot be constructed on quicksand, capitalism cannot be defended by conceding moral premises to capitalism's enemies. Any defense of capitalism which is not founded on individual rights is a fraud.

America's Founding Fathers proudly proclaimed that individuals have a moral right to live for themselves, and the purpose of government is to protect that right. This was America's greatest accomplishment.

But the Founding Fathers were political philosophers, not moral philosophers; therefore, capitalism was never provided with the proper moral justification. Unable to refute capitalism's superiority, its enemies resorted to lies, misrepresentations, and historical evasions. Unable to construct a new moral code, its defenders abandoned morality altogether. The result was not so much the intentional murder of capitalism, but rather, suicide by default. □

1. Henry George, *Progress and Poverty* (New York: Robert Schalkenbach Foundation, 1955), p. 328.

2. *Ibid.*, p. 272.

3. Edward Bellamy, Introduction to *Socialism: The Fabian Essays*, edited by G. Bernard Shaw (Boston: Charles E. Brown & Co., 1894), p. xvi.

4. Henry Demarest Lloyd, *Wealth Against Commonwealth* (New York: Harper & Brothers, 1894), p. 497.

5. Henry Demarest Lloyd, *The Lords of Industry*, reprint of 1910 edition (New York: Arno Press, 1973), p. 300.

6. William Graham Sumner and Albert Galloway Keller, *The Science of Society* (New Haven: Yale University Press, 1927), Vol. I, p. 591.

7. Andrew Carnegie, "Wealth," in *Great Issues in American History*, edited by Richard and Beatrice K. Hofstadter (New York: Vintage Books, 1982), Vol. III, p. 83.

8. *The Lords of Industry*, p. 146.

Public Choice Theory: Not the Whole Story

by Tibor R. Machan

In October 1986 Professor James M. Buchanan was awarded the Nobel Prize for Economics. He received the award for his pioneering work in public choice theory, a branch of economic analysis that studies the behavior of politicians and bureaucrats, especially in a representative democracy such as the United States.

Professor Buchanan, who now teaches at George Mason University in Fairfax, Virginia, developed his theory in cooperation with several other economists, most notably Professor Gordon Tullock. (During the development of public choice theory both of these economists taught at the Virginia Polytechnic Institute and State University, Blacksburg, Virginia.) Their book, *The Calculus of Consent* (University of Michigan Press, 1962), pioneered this new application of economics. Since its publication, other books and journals have followed, including the scholarly journal of the Center for Study of Public Choice, *Public Choice*, which published extensive and complex studies on a great variety of topics of concern to public choice theorists. Professors Buchanan and Tullock also have inspired numerous other economists, philosophers, political scientists, and legal theorists to explore various implications of the public choice approach.

What do public choice theorists claim? Essentially they hold that when people enter gov-

ernment and become "public" servants, they act on the same motives they would if they were agents in the marketplace. "Public" servants are motivated no less by private interests than are men and women in business. As Buchanan puts it, "Politicians and bureaucrats are seen as ordinary persons, and 'politics' is viewed as a set of arrangements, a game if you will, in which many players with quite disparate objectives interact so as to generate a set of outcomes that may not be either internally consistent or efficient."¹

Public choice theory also implies, in Buchanan's words, that "The bureaucracy can play off one set of constituents against others, insuring that budgets rise much beyond plausibly efficient limits."²

To appreciate adequately why public choice theory delivers its paradoxical conclusions concerning what our public servants actually do—namely, further their own private or vested interests—one needs to know the basic postulates of contemporary economic science. Mainstream economics today assumes that we always behave so as to maximize our satisfactions or wealth. As another Nobel winner in economics, Milton Friedman, put it,

. . . every individual serves his own private interest. . . . The great Saints of history have served their "private interest" just as the most money-grubbing miser has served his interest. The *private interest* is whatever it is that drives an individual.³

Or as another influential economist, Professor Gary Becker, put it as he spelled out the

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fundamental tenets of his social-scientific approach to understanding human affairs, "The combined assumptions of maximizing behavior, market equilibrium, and stable preferences, used relentlessly and unflinchingly, form the heart of the economic approach as I see it."⁴

What this view means in common parlance is that economic science assumes that we are all driven by our desires. These are ranked in order so that some of us prefer sweet things, fresh air, excitement, music, sports, in that order, others don't. It is such desires to have or do various things that motivate us and there is nothing from the economic point of view that needs to be said about whether these are good things or bad. And in the more extreme scientific versions of economics, there is nothing anyone can do about what will motivate people. Our motives are simply what explains what we do, period. And if we wish to understand people's behavior, we need to pay attention to the fact that they are motivated by their desires.

Of course, there are various nuances in economic theory which are not captured in the above general statements. But the main point is that we must do what we desire to do. And public choice theorists take this view into the special area of understanding the behavior of public officials by asserting, as a corollary of general economic analysis, that not only do we do this as shoppers, bankers, merchants, corporate executives, brokers, and the like, but also as "public" servants.

Revising Common Sense

There would be little interest in public choice analysis if it did not serve to modify our non-technical understanding of how public servants behave. That is why Professor Buchanan was honored with the Nobel Prize. He points out something that we normally were not aware of—indeed, something that we very likely would have missed without him.

Ordinarily we take it that politicians, bureaucrats, diplomats, and other "public" servants are devoted to the public interest, not to what they privately desire. At least, we take this as their professional responsibility, something

they ought to be doing, at least when they carry on in good faith. A public servant is not supposed to be a profit maximizer, one who wants to satisfy himself in a competitive marketplace. Put plainly, such a person is supposed to pursue the public interest.

Yet public choice theorists deny this common assumption. What they say by way of economic analysis may be put in more familiar terms: They believe that people in public positions really try to advance their own lot before anyone else's. But is this the whole story?

Public versus Private Service in the Welfare State

Governments of welfare states get involved in all sorts of activities to pursue particular goals that various individuals and groups of citizens seek to achieve. They further the lot of artists (via the various arts councils and endowments), farmers (via subsidies and price support programs), various professions (via licensing requirements), auto workers or high-tech industries (via trade policies), and so on. The welfare state expects a great deal of its government and even if officials conscientiously tried to fulfill their duties to their constituencies, they would go astray in their assigned tasks. It is not surprising, furthermore, that "public servants" who serve special interests are not able to keep their minds on what the public interest happens to be.

Virtually no meaningful distinction between the public and the private interest is possible when government promotes the same ends that are pursued in the private sector. Indeed, as soon as some people are dissatisfied with how the private sector achieves some private purpose, governments are quickly approached to promote that same purpose. Too many examples come to mind to pick the most appropriate one, but a very apt recent case is day care centers. Although hundreds of private companies and other agencies fulfill the task of serving single or working parents with child care facilities, there is constant support from various segments of the public for government to expand its involvement in this activity. From AIDS research to trade restrictions, the bulk of contemporary legislation comes to little more

than government helping people with their private or vested interests, misnaming it all as the pursuit of the public interest. There appears to be no public interest distinct from the varied private or special interests the government now serves.

Here is a case that is familiar to me. The federal government recently started the Jacob J. Javits National Graduate Fellowship Program (NGFP). People from various branches of the educational establishment were appointed to a board of overseers. Colleges and various groups devoted to undergraduate education beseech the board to conduct an effective program, one that really helps deserving undergraduates. At the same time, of course, other people are asking the government to work toward other goals.

In this example the public choice theorist would find a clear application of the assumptions of his view. Indeed, this is one way of describing what happens in cases such as the above that conforms to what public choice theory would predict: To wit, those on the overseeing board eagerly promote the efficient administration and ample funding of the program in question. They select the appropriate panels and panel chiefs, they encourage the supporting staff, in this case from the Department of Education, and they report back to Congress with requests of further and more abundant support for the program.

Vested versus Public Interest: A Meaningful Contrast

But there is another way to describe what is going on here, a way that may be compatible with public choice theory yet does not cast the situation in the same conceptual light. And it may be important to try to do this because the public choice theory idea is rather pessimistic—if we really are all just trying to gain our own advantage, even when we swear that that is not what we will be doing in our role as politicians or bureaucrats, what's the use of even pointing this out? Those assigned to fix the situation, even at the institutional level (as Buchanan suggests), would be simply carrying on in the same hopeless way as have all the other "public" servants.

In a case such as the NGFP, the appointed overseers and administrators are asked to do a good job. And they are asked to report to Congress about how well they are managing to do what members of Congress have decided on doing. And in most of these cases these people see that the money they have to administer is not enough to do the job as well as they can conceive of doing it. After all, if the program is to be carried out, it should be done right, shouldn't it?

As described above, this does not seem to be a case of politicians and bureaucrats simply wishing to fulfill their desires, nor of being driven by private interest. Not quite, although that is clearly part of it, especially when we focus on the staff hired to administer the programs in question, that is, "those persons," as Buchanan describes them, "who actually *supply* the goods and services that are provided via governmental auspices."

Modifying Public Choice Theory

Some friendly critics now make a point against public choice theory that seems to take into account the above understanding of what goes on in public administration. They seem to be aware that referring merely to the private or vested interest of those involved in carrying out the project fails to give full justice to the situation. They contend that in order for public choice theory to be an adequate explanation of how politicians and bureaucrats behave one must also consider the belief system that motivates them—e.g., whether they are conservatives, liberals, libertarians, socialists, whatnots, and whether they have a bona fide commitment to the programs involved or are merely advancing their private roles in the administration of such a program. They may even have a bona fide public service orientation, albeit somewhat unorthodox in what this means.

Professors Joseph P. Kalt and Mark Zupan, of Harvard's Kennedy School of Government and the University of Southern California, respectively, have argued that an "ideology" variable must be added to the public choice or "economic man" model so as to explain what members of the U.S. Congress and other bu-

reaucrats do as they approach their various projects. In particular, they studied what the United States Senate did in the case of coal strip mining. Their statistical analysis shows that the “ideology” variable explains the voting patterns of the Senate on the Surface Mining Control and Reclamation Act (passed in 1977) better than does the public choice model. In short, in addition to considering the desires of the legislators to be re-elected, the bureaucrats to continue on and expand their jobs, etc., we need also consider the broader political ideals of public agents.

Some people, of course, will suggest that adding the ideological variable does no damage to the economic man model. They will say that the urge to follow an ideology is no less a case of utility maximization than the urge to seek a vacation in the Bahamas or to increase one’s income. But this simply makes shambles of the explanatory value of the economic man model. Any factor or model that explains anything whatever—e.g., self-defeating as well as self-serving conduct—simply explains nothing much! If economic man explains the bank robber as well as the banker, what can we learn from the explanation? In no science would this kind of approach be admitted.

In order to avoid this vacuousness, the ideological variable has to be seen as adding a dimension—namely, what kind of conduct human beings take to be proper, what they see as binding on them quite apart from what they may prefer. This is how we can make sense of self-control, restraint, integrity, etc., not by lumping them all together and thereby wiping the human world clean of meaningful distinctions.

Indeed, Professor Buchanan himself has focused his attention on some of the broader philosophical issues concerning public choice, finding the pure economic explanation of human behavior insufficient. The following passage from Buchanan will shed light on just how his thinking differs from the pure economic man approach to understanding political behavior:

... once the body politic begins to get overly concerned about the distribution of the pie under existing property-rights assign-

ments and legal rules, once we begin to think either about the personal gains from law-breaking, privately or publicly, or about the disparities between existing imputations and those estimated to be forthcoming under some idealized anarchy, we are necessarily precluding and forestalling the achievement of potential structural changes that might increase the size of the pie for *all*. Too much concern for [distributive] “justice” acts to insure that “growth” will not take place, and for reasons much more basic than *the familiar economic incentives arguments*.⁵

In other words, focusing on the behavior of public servants within the current political and legal framework is not sufficient for understanding what alternatives face us in understanding and conducting public affairs. It can serve to block basic reform which is itself not impossible despite the motivations of public servants.

Ideas Can Have Consequences

Basic reform may emerge as part of the ideology that public servants themselves can infuse into their conduct in the public realm. If public servants were to become convinced that the promotion of some popular project is indeed *not a proper government activity* in the first place, then despite what they might do in circumstances which are not governed by this “ideological” consideration, they could come to behave very differently from what public choice theory predicts.

In particular, suppose that a politician or bureaucrat came to understand that as the government is conceived under the welfare state, its operations must produce the famous tragedy of the commons—the overuse of the public realm (which in this case is public funds). This is a genuine tragedy in that something is morally amiss, yet given some of the structural features of government, it is not possible to remedy matters. Indeed, the problem of balancing the budget versus promoting worthwhile goals is just the sort that characterizes this tragedy—everyone conscientiously aims to serve worthwhile goals, yet in the process a general shortage of the means to support such goals is created throughout the community.

Once this is understood by public servants, it could turn out that they will discipline themselves to focus on the appropriate reforms. There are in our time ample cases of such realignment of public behavior. Despite the fact, for example, that the Javits Program serves a valuable purpose that no one can fault, there are those involved in it who regard it as not the proper function of government to serve this purpose. This idea may be unusual these days and indeed such people are sharply resisted by many of their colleagues and those who come to "testify" before board meetings of the administrators of the program—i.e., supporters and lobbyists. Pleas about how similar projects, aimed at helping the sciences, are receiving so much more funding, so why not carry forth with this little bit for the humanities are often met with: "This is where I can do public service and if I had the chance to do it elsewhere, I would."

The realignment may, of course, come from a different understanding of public affairs, so the particular "ideology" that may lead to the reform must be carefully scrutinized, apart from the analysis of public conduct itself. But clearly the "ideology" of the public servant, not simply his or her vested interests, has a bearing on the development of public affairs. The reason this is obscured and why public choice theory is only now adjusting itself to the insight is that the welfare state is structurally incapable of facilitating the serving of a distinct public interest when it implies by its scope that no distinction between public and private concerns exists. This (socialist) notion can cause much confusion.

Conclusion

There is reason to think that while economic analysis is crucial for understanding virtually any area of human behavior, it is not sufficient for such an understanding. There are, for example, politicians who buck trends, who see that the fulfillment of their responsibilities lies with remedying, as best as possible, the consequences of the special interest hustling that dominates the politics of the welfare state.



James Buchanan

Some of these support—incidentally, with the advice of Professor Buchanan—the Balanced Budget Amendment movement. Others support appointments to various government bodies knowing that those whom they will appoint are not going to ask for more support for these programs. They will, instead, urge greater and greater restraint so as to solve the broader problem of creeping statism, holding that the special problem the program had been established to solve should be handled by people outside the scope of politics.

Professor Buchanan taught us that when government extends beyond its proper scope, it is very hard to limit its expansion. Yet we can still rely on the convictions of a few brave public servants who will try to resist the advances of statism and on the James Buchanans of the world to tell us that government must be limited to genuine public service—the maintenance and preservation of justice as spelled out in the Declaration of Independence. □

1. James Buchanan, "Why Governments 'Got Out of Hand,'" *New York Times*, October 26, 1986.

2. *Ibid.*

3. Milton Friedman, "The Line We Dare Not Cross," *Encounter*, November 1976.

4. Gary S. Becker, *The Economic Approach to Human Behavior* (University of Chicago Press, 1976), p. 5.

5. James Buchanan, "Boundaries on Social Contract," *Reason Papers*, No. 2, 1975, p. 27 (my emphasis in last sentence).

Lessons from Computers and Helium

by Jane S. Shaw

In the continuing debate over the proper roles of government and the private sector, advocates of the market sometimes seem to imply that the private sector does no wrong. Of course, this is absurd. In fact, it is likely that the private sector makes more—perhaps many more—mistakes than the public sector does.

The saving grace of the market process is that, unlike government, private individuals and corporations catch their mistakes. They do not—cannot—perpetuate them for long. If the market tells them, through mounting losses, that their dreams and visions are wrong, they cut short their plans and stop pouring money into losing propositions. It may hurt, but they do it.

One dramatic example of a private sector mistake is the failure of the major computer companies to anticipate the personal computer. Two firms, Digital Equipment and Hewlett Packard, at least considered the idea of a personal computer, says Stan Augarten in his history of computers, *Bit by Bit* (Ticknor & Fields, 1984). But most computer companies didn't. They envisioned a future of giant machines providing brainpower on a time-shared basis for multiple customers. With that vision, Augarten explains, they "couldn't imagine why anyone—any ordinary person, that is—would want a computer."

It was electronic hobbyists, not experts, who figured out how computers could be put together cheaply enough for an individual to own one. The first crude personal computers appeared as computer kits sold through popular science magazines. And in 1977, two young hobbyists, Stephen Wozniak and Steven Jobs,

formed the Apple Computer Company and introduced the Apple II.

The industry has never been the same since. The dazzling growth of personal computers has shattered forever the concept that the world would simply progress step-by-step to ever-larger computers. The future will be much more diverse!

IBM, which introduced its own personal computer in 1981, landed on its feet. But the big old companies that made giant "main-frame" computers gradually retreated into narrow niches in the face of burgeoning competition.

By 1983, *Financial World* called the main-frame companies "dinosaurs" headed for extinction and warned that a couple of the big ones might not be around in the 1990s. By mid-1986, two of the behemoths, Sperry and Burroughs, announced a merger. Even though the stock market was booming, Wall Street valued some of these companies—Control Data, Data General, and Honeywell—at less than their annual revenues, and a Wall Street analyst quoted in *Business Week* called the industry "ripe for consolidation," with many companies up for sale.

We are seeing a multi-billion dollar transformation in the computer industry. The striking thing is that it has been occurring quietly and peacefully. You don't read about it in the headlines, except in places like *The Wall Street Journal*; no one has called congressional hearings, no political coalitions have formed to save the industry. Stockholders have quietly bought and sold their shares. Those who invested in winning firms made money; others lost it. Doing their daily business, they completely changed a major segment of the corporate world.



In contrast, when government makes a mistake, true corrective action is rarely taken, and then only when the situation has reached scandal proportions and a politician is able to make hay out of exposing it. All too often, the commotion dies down and taxpayer money continues to flow for years into misbegotten projects.

An example: Twenty-five years ago, influential scientists worried that the nation might run out of helium. Inert and lighter than air, helium has "space-age" properties and, at the time, scientists feared there were no substitutes. By usual standards, helium is nonrenewable. If it is not extracted when natural gas is pumped out of the ground, it disappears into the atmosphere and can be recaptured only at high cost.

So, under pressure from experts and some private firms, Congress established a helium storage program. Helium would be extracted, purified, and re-injected into natural gas wells. Congress gave the Interior Department authority to borrow from the Treasury up to \$47.5 million each year in loans to be paid back through helium sales.

But very quickly the project began to show signs of trouble. The sales that had been counted on to provide funds dried up. Substitutes were found after all. Moreover, new sources in the ground—promising enough helium to last hundreds of years—were found, making government storage superfluous.

The program became embarrassing enough for Congress to hold hearings. One congressman called the continual borrowing from the Treasury an "albatross around our necks" and in 1973 the Interior Department stopped adding helium. But it continues to store billions of cubic feet of helium at taxpayers' expense. It now has in storage 140 years' worth of processed helium (assuming present rates of usage), and a recent count showed that it owed the Treasury \$790 million!

Even so, suggestions that part of the helium stock should be auctioned off to help repay the Treasury were firmly rebuffed, year after year, by the Interior Department. Finally, in 1987, in an effort to cut the deficit, the President proposed selling the processing facilities (while keeping the helium). Congress has yet to take any action on that plan.

The helium program is only a small example of the failure of the government to correct its mistakes. The taxpayer continues to pour money into the farm program, even though it aids millionaires and increases rather than decreases the instability of the "family farm"; into subsidizing Amtrak, a perpetual moneyloser that transports affluent customers along the Northeast corridor; into environmentally unsound cutting of timber that can only be sold at a loss; and into the Bonneville Power Administration, whose policies brought about the \$2.25 billion default of the Washington Public Power Supply System and currently cost the taxpayers several hundred million dollars every year.

Contrast these examples with the experience of the computer industry. One by one, the managers of the computer companies recognized that their image of the future was not the way it was going to be and they adjusted their companies in the light of that new reality. They may still think that the future should have gone their way, but the message from investors on Wall Street got through.

Government managers have little incentive to recognize reality. The taxpayers, not the managers, pay the losses, and few taxpayers realize they are doing so. Even when the losses become so visible that politicians can attract media attention by exposing them, the projects survive in less obvious form for decades. Unlike mistakes in the private sector, government errors haunt us generation after generation. □

The Silk Road

by John Chamberlain

If there is one big lesson to be derived from Irene M. Franck's and David M. Brownstone's *The Silk Road: A History* (New York: Facts on File Publications, 294 pp., \$24.95), it is that people will trade with each other despite all the man-made and nature-made difficulties in the world.

For centuries our ancestors on the western reaches of the Eurasian continent had little contact with the East. They knew the Mediterranean, and they had managed to sail to Iceland and to "Vinland the Good" but their contact with China was blocked by desert climates in central Asia. The windblown sands of routes that skirted the fringes of the Tibetan highlands and the Gobi Desert could quickly bury trading posts, and even obliterate whole cities, which meant that travelers from East to West or West to East had continuously to rediscover ways that their forebears had pioneered over 4,000 years. In addition to the ever-encroaching sands, there were the nomads, the robbers, and the various tribes (the Huns, the Turks, the Mongols) that regarded all settled people as their natural prey.

Oddly, it was the aesthetic instinct that not only named the Silk Road, but also kept the overland routes between Europe and China open from the time when, in the second century B.C., the Chinese drove halfway across Asia to link up with western pathways that went north and south of the Caspian Sea. The Chinese had a passion for jade. The Roman world had a consuming hunger for silks. There had to be a meeting, and there was. It led to 400 years of happy accommodations.

According to Pliny, however, the Roman demands for luxury were an ultimate disaster for the empire. The Roman world in pre-Augustan times had been a farming world that fed itself.

But in conquering lands to the east, the legions opened the way for Pliny's drain theory. The terminus for the Silk Road in Augustan times was Antioch, the capital of the Roman Orient. Here the silk was brought to be dyed and woven and embroidered to Roman tastes. The Phoenicians had discovered a Mediterranean mollusc that yielded a gorgeous purple dye, and the Romans loved it. From the Levantine ports, the dyed silks were shipped to the cities of the western empire. In return, the western Romans sent their gold and silver to the East, thus draining the empire of its monetary base. "This," said Pliny, "is the price that our luxuries . . . cost us."

The Pliny drainage theory is one way of accounting for the coming of the Dark Ages. But the disappearance of the precious metals couldn't have been the whole story. Before the second century A.D., merchants and caravans in central Asia, and on precipitous routes leading down past the Pamir mountains to India, were well protected by Roman, Parthian, Kushan, and Chinese rulers. But Franck and Brownstone tell us that the whole aspect of the Silk Road changed around 200 A.D. "Powers that had once ruled in splendor," they write, "fell into ignominious decline, each in its own way and for different reasons. The increasing dryness of Asia's steppes and deserts contributed to the upheaval, setting in motion the great hordes of nomads who had always lived a precarious existence, and who now toppled the great civilizations on Asia's perimeter. Activities on the great trans-Asian highway, which had long had a largely commercial-political-military cast to them, now came to have an increasingly religious tinge. In truth, there is more than a little truth to the suggestion that the insecurity and fragmentation of Asia in the fol-



lowing centuries caused many people to turn to the relatively new religions that were to change the face of the Silk Road.”

There was, of course, the alternative cold climate route between East and West across the Siberian steppes. But this was always dangerous once the Siberian tribes had become horsemen. Atilla the Hun at one time, and Genghis Khan at another, made far more effective use of the northern steppes route than could be managed by anyone in the West. The Roman bastion at Constantinople held until its capture by the Turks in 1453. But Constantinople—or Byzantium—had lost the power to project itself eastward when it was sacked by the Venetians in the early thirteenth century.

Kublai Khan

History was to take a strange turn when Kublai Khan, the descendant of the fearsome Genghis, decided to become the peaceful protector of the Silk Road. It was Kublai Khan who, in the late thirteenth century, gave the Polo brothers from Venice a golden tablet on which was inscribed the command that they should be given “everything needful in all the countries through which they should pass,” including horses and armed escorts. The record left by Marco Polo indicates that the Silk Road had become relatively comfortable and safe under the later Mongols. The Polos stayed in China for 16 years, traveling in the Khan’s service from Cathay in the north to various cities in Manzi, as the southern part of the country was then called. They eventually came home to

Europe by sea, taking the Spice Route around India to escort a Mongol princess to her promised husband in Persia.

The Crusades were only one protracted episode in the religious wars that, from the fourteenth century on, ended the Pax Mongolia. During the years of the Mongols’ peace, European traders could set out for China with full knowledge that they could get there and find the best markets. But the contentious Moslems, Turks, and Christians brought an end to the harmonious years.

In the whole course of the Silk Road’s history, so Franck and Brownstone write, “few people ever completed a round trip” on a highway that passed through many nations each jealous of taking its middleman’s profits. “Even in the greatest days of the Silk Road,” the authors say, “we know of no person who travelled the length of the Silk Road and back.”

The voyages of Columbus, Magellan, and da Gama made the safety of the Silk Road an academic matter from the sixteenth century on. Even so, the Franck-Brownstone pages devoted to the centuries-long struggle for the Iranian plateau have a most contemporary flavor. The Shiite Moslems and their ayatollahs who now pose so many difficulties for Western nations desirous of Persian Gulf oil are acting in ways that would have been well understood by their fifteenth century ancestors.

The Silk Road: A History should be pondered in Washington. What it indicates is that a war for the Persian Gulf might end with just one more Western ignominy. □

THE FREEMAN

IDEAS ON LIBERTY

CONTENTS
OCTOBER
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VOL. 37
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364 The Unkept Promise

Ridgway K. Foley, Jr.

How the promise of a constitutional republic was breached—and how that promise may be resurrected.

370 More Collectivist Clichés

Philip Smith

Confusing human “rights” with human privileges.

372 The Impracticality of Zoning

John Gillis

An analysis of the practical aspects of zoning—including the social and economic dislocations.

377 Do Unions Have a Death Wish?

Sven Rydenfelt

Are unions abusing their special privileges to the point of destroying their public and political support?

380 Asking the Right Questions

John K. Williams

The right questions will yield the right answers.

385 Human Nature and the Free Society

Edmund A. Opitz

In the makeup of ordinary men and women are the characteristics which incline them to liberty.

392 A New Space Policy: Free Enterprise

J. Brian Phillips

How private companies are challenging NASA’s monopoly.

394 The Unemployment Act of 1946

John Semmens and Dianne Kresich

Government attempts to promote employment inevitably result in waste.

399 A Reviewer’s Notebook

John Chamberlain

A review of Vladimir Bukovsky’s *To Choose Freedom*.

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On Creativity

The philosopher A. N. Whitehead once noted that *creativity*, throughout the ages, has been depicted in two radically different ways.

On the one hand, *creativity* frequently is depicted in terms of the ordering of chaos. A drive to order seemingly characterizes the cosmos and human life, and that drive is what often is meant by "creativity."

On the other hand, *creativity* also is depicted in terms of that which disturbs what is static and unchanging—and therefore what is perfectly "ordered"—by the novel, the new, the unpredicted. A drive to originality seemingly characterizes the cosmos and human life, and that drive is what sometimes is meant by "creativity."

Whitehead insisted that creativity involves both dimensions. The cosmos is characterized both by a drive to order and a drive to novelty. Human life likewise is informed by both drives.

These two forms of creativity find expression in the market economy. The market process simultaneously coordinates and liberates, unifies and diversifies, orders and innovates. Diverse activities and attempts to realize very different visions of the "good life" are coordinated and linked, order conquering chaos. At the same time, old and established ways of doing things yield to new and more efficient ways, the market making possible the benign process that Joseph Schumpeter called "creative destruction."

A drive to order without a drive to novelty leads to what is static, unchanging, and dead. A drive to novelty without a drive to order leads to what is chaotic, random, and incapable of sustaining rational activity. The world displays both drives.

So does the free market in the free society.

Which, I submit, is significant.

—John K. Williams

Land of the Free?

In this year of the bicentennial of the United States Constitution, when Americans celebrate our most cherished freedoms, including freedom of speech and freedom of the press, we might pause to consider the full implications of a recent decision by the United States District Court in Richmond, Virginia (reported in *The Wall Street Journal*, May 14, 1987).

The court ruled that an apartment management firm in Richmond violated Federal fair housing laws by almost exclusively using white models in an advertising brochure. The court fined the firm \$12,800.

It is easy to get caught up in questions of race, fairness, and discrimination in considering this decision. But there are other questions to consider: Whatever happened to freedom of speech? Whatever happened to freedom of the press? Whatever happened to the basic right to go about our peaceful affairs without being intimidated and coerced by government officials?

For a penetrating analysis of the unkept promise of the United States Constitution, and the means to reclaim that promise, see Ridgway Foley's article on page 364.

—BJS

Time Will Tell

Much concern has been expressed in this century about the semantic piracy that has left us, who are advocates of human liberty, the private ownership of property, and governmental responsibility abridged to the functions of maintaining peace, without a formal name. I, too, have worried over this problem and have come to the conclusion that, at this time, *no solution* may be the best solution.

By becoming obsessed with the notion that we "need" a label, we in effect have admitted

that our philosophy is deficient and that, without a moniker, our opinions are left undefended and exposed to contrary suppositions which will strip naked our ideas and leave them wounded and dying on the road to intellectual purgatory; as if a popular name is the only weapon able to resist the force of argument.

I do not think, however, that this is true. The tenets of classical liberalism and free market economics are the strongest, most viable alternatives for the betterment of human society ever propounded. The problem lies primarily in this illusion of weakness—the belief that our ideas are not as powerful as tools of debate as those of the opposition.

So I offer here a temporary remedy to our dilemma. We should, each of us, school ourselves in the philosophy of freedom, so that we can defend and explicate our view in ways that reveal their innate cogency. To borrow from the fundamental principles of Austrian economics, we must manufacture a product that is so consistent with human wants that people demand it above all others. Let us not despair at the glib catchwords, slogans, and epithets of our opponents' rhetoric, but strengthen our own defense with the strongest offense—reason. For in reason there is wisdom, and in wisdom, truth.

In time, I believe we will recover the proper name and definition of "liberalism," but only when, by our thoughts and actions, we deserve that prize.

—Carl Helstrom

Mugged by Reality

"The very high level of progressive taxation just doesn't work."

—Kjell Olof Feldt, Sweden's Finance Minister, who has proposed a major tax overhaul. (*The New York Times*, May 12, 1987)

The Unkept Promise

by Ridgway K. Foley, Jr.

As the weary delegates emerged from convention on that stifling September day now two centuries past, a woman approached the elder statesman of the time and inquired, "Pray, and what have you given us, Dr. Franklin?" He replied, "A republic, madam, if you can keep it!" This essay posits the Constitution as a promise made but unfulfilled; it proposes to describe that promise, to delineate its breach, and to assess the possibility for future atonement.

I. Promise

The prologue to the American Revolution presents one stark aspect overwhelming all other facets: The human condition well fit the Hobbesian declamation of "short, solitary, nasty, and brutish." Ages forgotten struggled against the forces of nature and the depravity of hominoid brutes in an unceasing and ever-losing battle against violence, starvation, incivility, and death. Generations existed in the same fashion as their antecedents of centuries past: They suffered the same diseases and unpleasantnesses of a short and sorrowful life; they advanced in knowledge by toddler's steps, stumbling backward and eradicating gains almost as they were attained; in sum, the world conquered mankind and merely permitted it to exist, wallowing in poverty and pestilence.

Weak shafts of light penetrated this bleak ex-
Mr. Foley, a partner in Schwabe, Williamson and Wyatt, practices law in Portland, Oregon.

He presented a version of this paper to the trustees and guests of FEE at the May 1987 annual meeting, which celebrated the 200th anniversary of our Constitution.

istence, testimony to the inherent worth of mankind. Candles from Grecian, Roman, and Saracenic glory partially illuminated the darkness, only to be shortly snuffed. Our essential inquiry: whether the American experiment, of which our Constitution forms the centerpiece, merely constitutes one of these infrequent beams in the coldness of human history, or whether the Founding Fathers wrought something novel and enduring for all time and for all mankind.

Surely the promise of 1787 was the representation of the latter. The revolution brought forth a new nation in a new world, inhabited and governed by men quite unlike their ancestors in outlook, although flawed with the identical frailty of all human creatures.

The founders employed a distinct and radically different hypothesis of the worth and responsibility of each individual. Drawing from a century of incandescence generated by Locke, Montesquieu, Bacon, Hume, and Smith, the framers no longer viewed men as mere chattels of the divinely-endowed monarch or pawns of the blessed aristocracy. Rather, each individual possessed a worth, a value, a dignity of his own; he was endowed—and not by other men—with natural rights, rights which ought not to be traduced by his powerful mentors, neighbors, ecclesiastics, or kings.

Quite apart from the later Benthamite calculus which demonstrated beyond cavil that better empirical results flow from a free society, the architects of our Constitution recognized the essential moral premises of unrestrained creative human action. Of course,

man's lot improves with the development and distribution of more and better goods, services, and ideas; more saliently, however, it constitutes a moral imperative heretofore noted only transitorily that no man possesses the wisdom, the talent, and the moral privilege to choose for any other sentient being; indeed, to arrogate to oneself such an audacious function deprives the person compelled of essential humanity.

This shocking declaration of individual liberty, this unbridled assertion that each person ought to remain unlimited in the use of his creative and productive energy, this wholesome embrace of an emerging natural rights theory perched upon a moral base, called forth a unique view of the essence and function of the state. Before the grand experiment we now celebrate, all power resided in the state which dribbled droplets of permission upon the heads of favored inhabitants. Naturally, what the state gave, the state could take back, as sanction for departure from enforced orthodoxy, as punishment for real or imagined abuse, or for any other frivolous reason whatsoever.

With the advent of the United States, a new doctrine held forth, divining that all power resided in the self-governing individual; only a few, limited, clearly defined powers—those considered necessary to order society, to solve disputes, to deter aggression—were delegated to the government by the individual citizens. The concept of a free society thus embodied the elements of the moral private property order (necessarily flowing from the belief that free men must remain unconstrained in the production, distribution, and trade of products and concepts) and a strictly limited government, a state which left a broad range of human action free from interference.

Thus, the premise of individual liberty which undergirded both the Declaration of Independence and our Constitution must be viewed against a wholly disparate backdrop of slavery and want. Virtually all ideological and empirical precursors to the United States of America developed in a condition of poverty and backwardness and employed cruelty and tyranny as the dominant tool of governance.

Contrast the American experiment: Individual citizens were to remain free from most restrictions upon their creative endeavors; each

man possessed dignity and worth; every person enjoyed a broad ambit of choice and tolerance; and, the concept of limited government sought to assure the open texture of society, free from the bars of prior restraint. The premise became a promise, because no objective observer would deny the existence of imperfections in this bold new structure—after all, the incidents of human slavery and indenture, the denial of certain property rights to women, the encroachments wrought by commercial licensure and taxation, the development of internal improvement programs, among other examples too numerous to mention, betray the inaccuracy of any assumption that Dr. Franklin and his colleagues concocted a perfect solution in 1787.

No Guarantee of Success

The promise of liberty is a guarantee of an open-textured society, of opportunity unchained from forceful human barriers. It does not assure success in any particular venture, or a felicitous outcome for all individuals in the state, or a happy and prosperous life. No system of governance can make such a promise without engaging in the most disgusting fraud. The rhapsody of a free society sounds in the potential improvement of the human condition by the concatenation of results achieved by myriad actors no longer impeded by the harsh codes of human minds. If each individual possesses merit, and if observation teaches that all of us display incurable character flaws, it follows that no single citizen or group ought to intercede with force in any other man's quest, no matter if the journey or the path seem abysmally foolish to all onlookers.

The founders sought to fulfill the premise and the promise by construction of an institution of government quite unlike any forerunner. They recognized that such a structure must accommodate the curious duality of mankind—our light and sinister aspects—in order to achieve the grail of individual liberty. The delegates read history. They understood Lord Acton's dictum ("power tends to corrupt; and absolute power corrupts absolutely") before its utterance. They perceived that those few glimmers in human history arose in periods of relative freedom, times of relative diminution

of state power. And, they learned sadly that each such lantern had been extinguished all too soon.

Observation of human proclivity and study of human action afforded the framers—a most extraordinary collection of men—ample examples of good intentions gone wrong. A fundamental religious faith and scrupulosity leavened their historical perceptions with essential moral tenets necessary to the development of their imaginative endeavor, a truly free and tolerant society, one not wedded to the redundant errors of the past. The promise of the open society they envisioned could be accomplished only if the sinister tendencies residing in each human being might be quelled in a fashion which solely restrained destructive behavior, leaving the greater creative and productive power unhindered.

Positing these principles, the founders set about the business of the day in 1787. They soon discarded the initial suggestion to repair the Articles of Confederation. Instead, they applied their efforts to a new edifice, one designed to accomplish their vision. Precedent demonstrated that the greatest threat to personal liberty dwelt in public coercion, that legal fiction denoted “government.” Purportedly conceived from a Rule of Necessity, this monopoly of compulsion surrounded by trappings of juristic propriety exhibited an unalterable tendency to demolish freedom and promote tyranny, often accompanied by paeans and platitudes of the highest order. Thus, the draftsmen applied their considerable talents to assure—to the best of man’s limited ability—that no such coercive edicts would restrain the creative activities of the inhabitants of the new nation, all the while cognizant of the second greatest threat to true liberty, the forceful and fraudulent behavior of other men *not* carried out under the aegis of the state.

Our forefathers felt compelled to deal with these twin turbines of tyranny, collective evil, and individual malevolence. Since deterrence and punishment of the latter formed the *sine qua non* of the state, and was assumed to constitute the necessary element of good government, the delegates spent considerable time during convention drafting sessions and debate attentive to the former and greater danger. To

fulfill the promise of a government dedicated to the preservation of liberty, a state foreshadowed by the Jeffersonian Declaration a decade earlier, the founders designed a constitutional republic, the exemplar of the classic form of a limited government.

A Limited Government

The grand norm contained four major limiting concepts, each in its discrete manner contrived to reduce the common human propensity to seize and exercise power over the lives and destinies of others. First, the Constitution divided governmental powers between the Federal republic and its constituent states; this division of powers rested upon the doctrine of subsidiarity which recognized that propinquity renders a coercive monopoly less subject to abuse. The thirteen states displayed common traits, including disparate but similar constitutional guarantees of individual rights; those protections remained in place with the creation of the Federal union. Second, the delegates limited the powers ceded by the inhabitants and the states to the general government. Those powers granted were written in the plain language of the day, and all unspecified powers were retained by the lesser states or their individual citizens. Third, the few powers granted to the national government were separated and diffused among legislative, executive and judicial branches, each performing essential functions, and each exercising controls (“checks and balances”) over the competitors. The unhappy English and French histories of unitary state excesses weighed heavily upon the draftsmen. Fourth, as an afterthought, and as an inducement to adoption, the framers added a specific Bill of Rights, further declaiming the rights of individual citizens to be unfettered by avaricious and smothering government.

In essence, as Dr. Franklin advised his entreator, the convention brought forth a republic. The draftsmen of 1787 were scholars. Certain attributes inhered in a design termed “a republican form of government”: a notion of limited governmental powers, operating under a written instrument, governed by selected representatives chosen for their wisdom, discretion, and foresight, and not wholly unlike the judges

of the Old Covenant. Most assuredly, these chosen representatives were expected to govern soberly and civilly, unswayed by transient passions of envy, greed, jealousy, and covetousness.

Thus, in September of 1787, the convention provided this fledgling nation with a promise of a free society, a republican form of government subject to retention or discard.

II. Breach

It has become commonplace to assign a specific date or event as the genesis of the downfall of the American Republic. Albert Jay Nock chose the year of his birth (and, incidentally, the natal year of Lenin and Roscoe Pound), 1870; for others, the Wilsonian Revolution (Federal Reserve Act, 16th Amendment, entry into World War I) fills the bill; still others select the advent of the New Deal, Camelot, Vietnam, Watergate, or even hearken back to Shays' Rebellion or *Marbury v. Madison*. In truth, the breach pre-existed in both the premise and the promise, lending prescience to Franklin's strange answer.

The quintessential element of a constitutional republic for a liberal society exists in the accountability of the individual citizen. Self-government demands personal responsibility, tolerance for broad differences in ideas and actions, willingness to accept untoward consequences of ill-advised conduct. Democracy differs not at all from mob-rule; in 1841, Charles Mackay [*Extraordinary Popular Delusions and the Madness of Crowds*] collected myriad examples of wrong-headedness, most of which (e.g., Tulipmania, the South-Sea Bubble, the Mississippi Scheme) resided in the collective memory of 1787. Simply put, the mass is nearly always wrong; aggregate thought and action magnify mistakes and drown out innovation. A simple voting majority in a democracy may employ the ballot to rape, pillage, or oppress the minority with juridical impunity.

Cognizance of these evils of human behavior impelled the draftsmen to construct a republican government in an attempt to shield the dissenter from the excesses of majoritarianism. Limited powers, divided powers, separated powers, written rights, all coalesce in a noble

undertaking of liberty—and all depended upon individual accountability, the amenability of each man to accept the consequences of his actions and to bridle the common desire to shunt unexpected or unhappy effects onto the unwilling shoulders of his neighbor.

The promise did not die aborning. Indeed, it survives today in attenuated fashion. Observers from Alexis de Tocqueville, to Rose Wilder Lane, to Henry Grady Weaver noted the astonishing outpouring of creative energy released in the humane economy protected by the republic. Liberty improves behavior as well as production. Thus, the early years of the republic witnessed stupendous accomplishments in eradication of disease and increase in material choice; in addition, greater moral harmony ensued, as men and women, left to their own devices, learned how to make better choices, choices no longer dictated by the grinding poverty and tyranny of the past.

The Constitution created no Golden Age of perfect freedom, no light that somehow failed. Intolerance, greed, envy, and coercion rode across the American scene as surely as the fabled four horsemen of the Apocalypse. State and national governments did intrude into the creative realm on occasion (e.g., commercial barriers, internal improvements, post roads) and powermongers did secure subsidies and special privileges to the detriment of consumers and competitors. Nonetheless, the premise reined in these riders, as society in general remained committed to a belief in the felicity of human freedom. Cursory perception discerns significant differences in direction and content between Dickens' "best of times, worst of times" in the Old World, and the enlightened new nation.

Just as patently, however, we have not kept the faith with Franklin. The breach of promise occurred not with sudden swiftness. Rather, it took place in trundling bits and pieces. The woodsman's axe from without melded with the rot within to fell the oak of the republic. We no longer read; hence, we no longer read history. We refuse to make fine distinctions; hence, we fell prey to sirens and panderers. We lack consistency; hence, we created intolerable exceptions for ourselves at the expense of others. We believe responsibility imposes too great a

burden; hence, we accept second place in moral behavior and thrust our load upon another human being. In short, we acted as men always have acted, in an amazing parallel to, say, Rome, and we reaped the consequences.

Today's Alexander Pope will deny the breach. Today's Voltaire must set him aright. No effective limit on government exists; citizens act creatively only on privilege subject to whimsical revocation or, more often, merely by virtue of the innate clumsiness of bureaucracy. Separation of powers? Nonsense! An inconsistent and unwelcome judiciary acts as the Privy Council of old, while the Congress passes out favors and limits market entry more artfully than any French assembly; meanwhile, the executive rambles on its merry way, issuing edicts in the forms of unchecked regulations and executive orders reminiscent of the monarchs of days gone by. Division of powers resembles a chimera; the local governments, denuded of any real authority, cluster at the Federal fount, playing pressure group politics as surely as any labor union, business association, or other collection of brigands. Brick by brick, stone by stone, the republic has collapsed and, in its place, a "democracy," more like a vulture than a phoenix, has risen.

III. Atonement

Historical criticism demonstrates a singular fact: Human assessment and prediction is never quite accurate, and the closer one stands to an event, the less likely he is to discern its significance correctly. Thus, those who foretell a descent into a Dark Age for the United States of today are probably quite as wrong as a Mr. Micawber heralding a brave new world. In addition, mankind displays an innate ability to avoid foolish restrictions, an ability expanded by a heritage of freedom. For these reasons, a free society manifests a considerable resiliency, a survival in kind even after decades of dark oppression. Hence, hope remains that the breach may be cured and the promise of a constitutional republic resurrected.

How does this nation recapture the promise of freedom? Not with smug platitudes, vacant clichés, and muddled thinking. Not with conduct separated from integrity and principle. Not

with a continued resolve to ignore the law of causal consequence. Not with the devotion to inept tutors and teachers. Certainly not with an eye devoid of historical fact. We have lost our republic simply because we have lost sight of the premise of the promise: Liberty affords the greatest opportunity for human fulfillment, and the essential cornerstone of a free society is a unique commitment by the vast majority of all citizens to the principle of individual responsibility.

The vision of freedom is clear, its virtues manifest and unassailable. Perversely, stalking the ideal proves exceedingly difficult; as observed, even the candles of relative liberty in eons past have snuffed quickly. The following redirections should help us find our way if we, as a nation, truly wish to reapproach the benign condition devised to us 200 years ago.

First, recapture the wraith of liberty. Understand, with Isaiah Berlin, the connotations of positive and negative liberty. Assign only proper functions to the state—maintenance of order, settlement of insoluble disputes, prevention of aggression; remove from government all chores which render it a monitor of nonaggressive behavior or a builder of societal edifices. Release each man from all bonds upon his creativity; restrain only his destructive and aggressive behavior. Recognize the indivisibility of liberty in all disciplines, and cast aside such vacuous distinctions as "commercial" versus "non-commercial" speech and "human rights" versus "property rights"; permit the private property order, the market, to exist and satisfy the subjective values of each voting participant in that dollar democracy. Rediscover the rational, empirical, and moral foundations of the free society.

Second, observe the necessary limits upon a state and upon the outcome attainable by any form of government. To reiterate: Freedom provides an open texture without prior restraint; it does not guarantee felicity. Many state temptresses proffer the seduction of happiness, order, security, equity; such enticements defraud those who listen; no form of government could fulfill such a promise, and any who heed the siren's song return to muck and mire. The state consists solely of destructive power; it cannot create, only destroy, and it tends to

cause unanticipated and unpleasant results, most likely because men of power fail to understand simple rules of causality, morality, and human activity.

Third, comprehend the role of individual accountability in a republican order. Remember: Freedom necessarily includes the freedom to fail. Choice involves selection from a range of alternatives. Finite human creatures may choose beneficially, or they may err significantly, or their pick may rest somewhere along the continuum between merit and detriment. Further, the range of effects, good or ill, may not become readily ascertainable. Freedom compels each choosing actor to accept all consequences of his selection; it does not permit him to toss out his bad choices, to ameliorate the detrimental effects thereof by compelling another individual to accept those unintended or unhappy results, in whole or in part. A society which allows some participants to retain only beneficial results and to thrust the discards upon their neighbors is not free; it operates in the same fashion as the mandate state of the past, where, in George Orwell's prophetic *Animal Farm*, "some pigs are more equal than others." The compelled recipient of another's bad choice loses an important aspect of his very humanity; only a poltroon would term him "free."

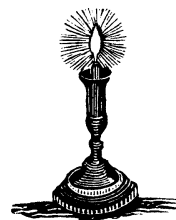
Personal responsibility forms the touchstone of freedom. The delegates understood that each man's liberty depends upon that equal and reciprocal right residing in every other individual. If A employs the law to shunt the burden of his bad choices unto the unwilling shoulders of B, B loses his freedom to that extent, no matter how moderate and polite A's motives. A also loses some of his liberty (albeit by his own choice) and humanity, for tyranny requires unproductive effort to keep the slaves in line. Also, in the democracy of the day, B may seize the juridical apparatus in order to get even or get ahead. The result: Frederic Bastiat's circle of pickpockets, each mulcting the other.

It requires no small arrogance to use such harsh words in our circumstances. Educators, newsmen, politicians and preachers lull us into a somnolent mirage: Live for the day, for "in the long run we are all dead"; alchemy lives

and dross deficits become universal benefits; I possess rights, you owe duties; freedom and subsidy for me but limited market entry and unwholesome regulation for you, because of "our special circumstances"; the market failed, and in its stead we have erected a humane society; freedom is fine in its place, but we must sustain the arts (build a safety net, ensure competition, enforce orthodox behavior, or any of thousands of droll substitutes).

A litany of abuse of our Constitution by those seeking special privilege demonstrates the distance we have traveled from the convention of 1787. Every inroad into human creativity displaces more brick and mortar from the edifice of constitutional republic. Every usurpation of power by the state weakens the structure and portends its collapse. Forget motives; assume that each breach takes place with the sweetest and most innocent of intention. Breach occurs, no matter the design.

Each one of us harbors favorite ends, the product of our subjective value system first described by Carl Menger almost a century after Franklin's comment. Propriety orders each individual to support his own charity, to further his own interest, to improve his own position by trading his produce in the marketplace, and to seek his own destiny, all without compelling others to join in his quest. Instead of this ideal, permitted by a republic of limited, diffused, and separated powers, we have bowed to our envy, apathy, and inconsistency and have retreated from any semblance of personal responsibility. And as a result, we have substituted a grab bag for a market, and have become a nation of petty thieves and dictators. Atonement requires recognition of our error, resolve to correct our ways, and advance towards the liberal society bequeathed to us 200 years ago. □



More Collectivist Clichés

by Philip Smith

In her recent trip to the Soviet Union, British Prime Minister Margaret Thatcher challenged Mikhail Gorbachev to defend Soviet human rights policy. Gorbachev replied that when Western leaders were ready to discuss poverty, unemployment, and homelessness in their countries, he would address human rights in the Soviet Union. This is a typical Soviet response, designed to confuse the issue and shift the blame once again to the capitalists.

It is unfortunate that the Soviets take this approach, but it is even more unfortunate that the world press will let statements like this go unchallenged. In the newspaper accounts, not a single journalist felt obligated to point out that while Thatcher was addressing the question of human *rights*, Gorbachev's response dealt with human *privileges*. Just as it is intuitively and logically obvious that all men have the right to be free, so it is also obvious that no man has the inherent right to be given a home.

It is with exactly these types of issue-confusing answers that the collectivists continue to delude the world press. By reporting the above conversation as if both arguments had equal merit, the press imply that the problems of poverty, unemployment, and homelessness in the free world are the moral equivalent of government oppression in the communist world. Let us address each of Gorbachev's issues individually and explain why they are not the result of "human rights violations."

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First, consider homelessness. Obviously, every man has the right to buy a home, assuming he can find someone willing to sell him one at a mutually agreeable price. It is unfortunate that some individuals neither have the funds to purchase a home, nor the ability to raise these funds. The collectivist, however, would have us believe that we are somehow morally obligated to *provide* these individuals with homes.

Naturally, the homeless are free to seek ways of earning income, and to use this income as they see fit. By the same token, I should be free to earn my income, and also should be free to do with it as I see fit; and this includes no obligation to provide homes for strangers. When the collectivists grant the so-called "right" to a home, they remove my right to do as I please with my property—and this is a true, basic right. Robbery is robbery, whether the homeless steal directly from me to provide themselves with a home, or whether government steals it first and then hands it to them.

Unemployment

Just as with homes, the collectivists imply that we are somehow morally obligated to provide a job for every person, regardless of this person's abilities, skills, or productivity.

To say that every person has the right to a job is to imply that someone else has an obligation to *give* him one. Here in the free world, we recognize a man's right to seek employment, so long as there is someone willing to employ him. But to insist that someone (or everyone)

provide him with a job, denies the right of the employer to do as he chooses with his own property. Once again, by establishing a false "right," the collectivists actually have taken away a basic human right: the right to use your earnings as you choose.

What the collectivists fail to mention is that in a free, capitalist society, the natural unemployment rate is very low. The most significant cause of high unemployment is government intervention in the economy, particularly minimum wage laws. By establishing a minimum wage, the government effectively declares that all persons whose productive value to an employer is less than this wage shall remain unemployed. The implication is that it is morally superior to live on welfare than to become self-sufficient by earning a "low" wage.

Poverty

Homelessness and unemployment often are accompanied by poverty; indeed, it seems the three are nearly inseparable. Poverty, like homelessness, is the direct result of an individual's lack of funds. Once again, the collectivists imply that we should feel morally obligated to give our earnings to those who haven't earned anything of their own. Just as in the previous examples, to force someone to give up his earned income or goods to support strangers robs him of his natural right to do as he wishes with his property. It becomes apparent that the

collectivists' accusations are all built around this common fallacy: that some men have a right to the earnings of others. In the free world we recognize this as false.

Now, before anyone cries out that this is a cruel and unjust state of affairs, let me point out that *voluntary* charity is perfectly compatible with freedom. In a pure, capitalist society, everyone has the right to do with his income as he pleases; and if it pleases him to give it to the poor, then no will stop him. If it pleases him to give jobs to the incompetent or unskilled, then he is free to do so until his funds run out. If he wishes to provide homes for the homeless, he not only will find himself unobstructed, he probably will be congratulated as well.

The one thing that no man *or government* has the right to do is to take the property of others by force. This is what our own government does when it removes some of our income (by force) and gives it to others. This is the principle on which the whole collectivist economy is built: the right of some to rob from others in the name of "justice."

As long as the press continues to report both factual and fallacious arguments as if they held equal merit; as long as Soviet clichés go unchallenged; then the collectivists will continue to pull the wool over the eyes of millions. Since publications devoted to exposing these clichés are few and far between, it is up to us, the defenders of freedom, to spread the word. □

A Mirage

Socialism is a fantasy, and the illusion that it is being approached is in the nature of a mirage. No country in the world has attained even an approximation of the socialist vision. In communist countries, the state has not withered away, as Marx predicted; instead, it has grown in power and sway. Nowhere does "from each according to his ability, to each according to his need" prevail, nor can it do so. "Need" can no more be measured than men can be induced to produce according to their abilities when rewards are separated from efforts.

—CLARENCE B. CARSON

IDEAS
ON
LIBERTY



The Impracticality of Zoning

by John Gillis

Zoning, like any other public policy, should be analyzed on two levels—its moral status and its practical consequences. For the purposes of this essay, I will concentrate on the practical aspects of zoning. I will leave aside the basic moral questions surrounding the use of government coercion to prevent people from using their own property as they see fit.

What Is Zoning?

Zoning is government control of privately owned land in these two broad areas:

—The *use* of property.

—The *size* of a building on a property, or the portion of a property covered with buildings.

There are hundreds of subsidiary and corollary controls imposed by zoning, but most fall under these two classes of control. Most zoning laws control the *use* and *bulk* (the technical term for size) of any buildings on a parcel of land.

There are extensions of zoning laws called *growth* controls which (in a simplified way) can be described as inhibiting the *timing* of building. Such controls go beyond *use* and *bulk*, and take the form of moratoriums on any development of a certain kind. Alternatively, they may control the amount of a specific kind of building that may be constructed each year.

Growth controls usually supersede existing zoning controls. That is, if the zoning laws clearly allow you to build a factory or a house on a certain site, the growth controls can say:

“No, not this year, or not until further notice by the City Council.” So even if you can do such and such “as of right,” growth controls can eliminate your government-granted “right.”

“As of right” is a basic term in zoning. There are two ways of building something, or using your land, in a zoned community.

1) You can use the land within the precise limits of the zoning laws, which makes your action “as of right.” (Here the government is giving you a privilege which they call a right.)

2) You can attempt to use your land in a way that varies from the zoning laws, and take action to persuade or influence the zoning board to let you do this—and if the board agrees, they give you a variance. (A variance, in effect, is a permit to violate the zoning laws this one time, by you, at a specific site.)

Why Is There Zoning?

What prompted the creation of zoning laws? Here are some major motivations of zoning advocates.

- The desire to restrict or prohibit uses considered undesirable by established landowners and tenants, and the related desire to hold onto a specific appearance or atmosphere of an area which is threatened by newcomers.
- The desire to reduce the problems that come from the high density of people in urban areas.
- The desire by established builders/owners to protect themselves from the competition of new developers.

- The desire of political radicals to seize control of private property, or the desire of political moderates for public solutions instead of private contract solutions.

This list is not exhaustive, since the motives people may have for controlling other people's actions seem to have no limits. But this list covers much of the territory usually cited by zoning advocates, and will help in illustrating the consequences of zoning.

Oil Refineries, Garbage Dumps, and Your Home

Perhaps the most common practical argument for zoning is the demand to restrict or prohibit uses considered undesirable by established landowners and tenants. For example, the classic horror illustration is the specter of an oil refinery opening on the lot next to your lovely home.

Aren't limits on the uses of land and the sizes of buildings a sensible matter for cities, counties, and states to coordinate—to avoid damage to existing landowners by nasty new uses or massive buildings? Most people would like to have some assurance about the long-term status of the surroundings they have invested in. This is natural. Zoning advocates take this natural desire and offer an anti-market solution.

The next-door oil refinery, or auto parts store, or supermarket (or a thousand other examples) are generally economically absurd, betraying no sense of how businesses operate. No sane businessman would set himself up on a quiet, residential street, since his chances of success would be remote. Because most businesses require easy access to major highways, high visibility (for retail businesses), parking areas, loading areas, and room to expand, they would not locate on such a street. (Conversely, such businesses often oppose having residents moving into their business or factory area because such residential uses often are a nuisance to the businesses.)

An office building development is another specter often cited. But no developer will locate in an area that does not provide direct access to public transportation and highways,

commercial support stores, parking areas, and so on. There are businesses, such as law offices, doctors' offices, convenience stores, or other low-key economic activities that conceivably could be happy on some residential street. But what is the damage to the neighborhood? Businesses such as these are just as likely to be as quiet and compatible as the residents around them. And convenience stores are aptly named—most people are happy to have one nearby.

But what if you and people with similar tastes want to have an exclusive residential area untainted by commercial or professional activity, no matter how discreet? You still have no need for zoning.

A Way Out

If you and your neighbors want to insure that there will be no grocery stores, doctors' offices, and such in your neighborhood, or if you are fearful that someone, acting against his own interest, will open a shopping center on an inaccessible street, you can have your desire. You can achieve this end without forcing other landowners to bend to your wishes or the government's edicts.

There are different approaches depending on whether one is discussing an existing neighborhood or one being built.

The easiest method is in a new neighborhood being formed by a developer, or by several developers in a contiguous area. Agreements to limit *uses* and *bulk* can be made among the developers (or by each developer alone) and incorporated in the property deeds. In real estate law, these limitations are called restrictive covenants. This approach is in the interest of the developer, since he expects that many of his buyers will like the security of knowing their neighborhood will be stable and no garbage dump will sprout. The only usual way it can change is by a unanimous vote of the property owners, or by the expiration of one or more of the covenants.

But at the same time, the developer is unlikely to make the covenant overly restrictive, since he may find no buyers wanting to own a highly restricted property. So a balance is struck based on the best estimate of what the developer's prospective buyers will like, just as

in every other estimate of what buyers will want. The developer must please the buyer, or go bankrupt.

In an existing neighborhood, where a desirable atmosphere may have been created without zoning or restrictive covenants, property owners may decide at a later date that they need to preserve this state of affairs. This is much harder to do than in a newly developed area. Because of this greater difficulty, people desiring highly restrictive land use usually buy property that already has clear limitations in the deeds. This, in fact, is often one of the components that make up a decision to buy a specific property. However, the advocates of zoning, in effect, say that one need not make the issue of restrictions a part of the purchase decision, because one can later petition the government to force your neighbors to yield to your will.

But some measures can be taken in an existing area. A property association can be formed, and members can agree to abide by certain limits on the *uses* or *bulk* of new portions of buildings. And if there are some holdouts, there are two options. If the agreeing landowners feel strongly enough, they can offer to purchase the few holdouts, so that deed covenants can be added to those properties. Then they can resell the property to a new owner.

Another option is to ignore the few holdouts for the time being, since most of the neighbors have agreed on a certain set of conditions. Then as the few holdouts come up for sale over the years, the association can bid on them and slowly complete the process of protection. Putting money where your values (or mouths) are is an old American tradition. And it is much better than inducing the government to reduce your neighbor's rights of ownership.

In new communities, the practical results of a private, restrictive covenant approach are dramatic.

- There is clarity about the nature of your land's use and any limitations.
- There is security in the knowledge that no politician has special power over your property.
- There are no zoning meetings.
- There are no taxes for maintaining an army of bureaucrats to administer zoning laws.

- There are no special privileges that someone can inveigle.
- Land and building values will not be subject to wild speculation due to the possibility of governmentally granted changes in *use* or *bulk*.
- And it is unlikely that any covenants on your property will be so restrictive as to make the property forever uneconomic if conditions in your area change substantially. (If it became valuable to change the restrictive covenant, then this is a decision for the landowners to make, not a political group.)

Functionally, zoning and restrictive covenants have a basic similarity: They both provide some control over land use. Zoning laws, in fact, may be less restrictive than covenants in some neighborhoods. But zoning usually is more restrictive and more complex. Major city zoning laws share some qualities in common with the Internal Revenue Code: unwieldy, complex, ambiguous. But aside from a common functional origin, zoning and freedom in land use are opposites in every fundamental way.

The Problem with Crowds

Another motive for zoning is that few people like to be crowded. So it is natural to take measures to prevent that condition.

How do people come to live in crowded conditions? They may prefer the close contact and stimulation of myriads of people. Or they may grudgingly accept such conditions for professional or business reasons. Or they may have been in an uncrowded area that became popular and drew more people.

How can the person who was there in the first place, or the person who came later (contributing to the density, but not liking it) prevent further crowding? Zoning advocates say: limit landowners' rights. Establish laws that outlaw whatever use an owner may desire, and substitute the rule of political appointees.

When such laws are passed, the following happens: The price of land, the price of buildings, the price of renting, the price of doing business, the price of government, the price of being a newcomer and trying to estab-

lish yourself—all must rise (other factors remaining equal). Zoning penalizes everyone, and particularly the group that is the weakest: those without large resources or without political connections.

Why do these prices all go up? An example will illustrate.

A new zoning law limiting bulk is instituted, and says, in effect: “You thought you could build a 50,000-square-foot, ten-story apartment building here, but we now say you can make it only 25,000 square feet.” If the land has cost \$50,000, suddenly your cost of the land (per square foot of new building) goes from one dollar to two dollars.

Now you have to decide whether your project is economic or not. If it is uneconomic, you don’t build. In this case the number of places to live in that community stays the same, rather than going up. Thus the price of housing will tend to rise, since the presumed reason for a new building was an increase in demand for housing. Since there is less housing than there would have been, the price of existing housing rises.

Alternatively, if you decide it is still economic to build, the asking price of your new apartments will be higher since you want to include your increased costs in your sale or rental price. If it is offices or warehouses being built, the same conditions occur, and rents tend to go up. (As always, the city needs a bevy of officials to interpret these rules and enforce them. The price of building permits tends to include these higher costs.)

Since these price rises and all the other cost increases that can be traced through this process are mainly hidden, some people believe that zoning is beneficial and adds no real costs to anyone. But such “benefits” are illusory and, in the long run, are detrimental to everyone in the economy.

The Socialist Undercurrent

Most rationales for zoning given in this essay spring from pragmatic and self-interested motives—whether for financial or political gain—despite what public, altruistic reasons people may give. But there are those who have ideological motives. Some people want zoning be-



cause they believe that the marketplace should be strictly controlled. They are socialists at heart. And while this is not the place to critique socialism, the wider philosophical/economic issue of socialism vs. capitalism gives a valuable perspective on zoning.

Zoning should be seen as the local socialism it is—national socialism, city-style. Most Americans would object to the depiction of their “benign” for-the-public-good zoning boards as socialist organizations. But beneath the pragmatic politics, one can see the same arguments which are being offered by advocates of national economic policy. What they are pushing is straightforward socialist philosophy, wrapped in standard mixed-economy language making it palatable to pragmatic Americans. There is a clear similarity in principle to the fascist form of socialism, wherein government becomes a “partner” with the owners of capital. The unique aspect of this new “partner” is that it wears a gun (the police power) during negotiations.

The practical results of this local socialism are the same, in essence, as the consequences of socialist experiments in countries around the world. The living conditions of mostly free economies vs. mostly government-controlled economies stand out clearly. From the poor, anemic economies in socialist Eastern Europe, to the human devastation in socialist African countries, the impracticality of government control (or “partners”) of the marketplace is clear.

This zoning-socialism is an attempt to replace the myriad decisions of an area’s inhabitants with the decisions of a few politicians—and the people who influence those politicians. Just as the debate in a national economy is between the socialists (national economic policy advocates) and the capitalists (let-the-market-alone advocates), so a fundamental division exists between the zoning advocates (who believe overall planning is essential) and the op-

ponents of zoning (who believe in laissez-faire land policies).

Do Unto Others What You Would Hate

Developers and real estate investors who have built up a region, or invested in it, are as prone to narrow, unprincipled motives as any other people. They would like to stop new developers from entering the region and putting up competing apartment buildings, office buildings, or shopping centers. But the marketplace offers no opportunity for such venality to function. Only when the political process is introduced can some people's bad motives become public policy.

Those who are established in an area are more likely to be politically connected than newcomers trying to get in. This makes it easier for them to influence politicians who decide the fate of potential developers. Often those politicians and their friends on the zoning boards have received campaign funding from established real estate interests. This makes for conflicts of interest, and leads to distorted land use in the community.

In an unfettered land market, there is no way to restrict competition among businesses in an area by not allowing them to build—except by buying them out. Nor are there any restrictions on putting up homes, offices, or factories. The only restrictions possible in a free market are those of agreement by the landowners, acting in their own interests. Thousands of communities use such private means, and they work.

The Near and the Far

Since the concept of zoning—and to a lesser extent growth controls—has been accepted in our culture, socialist/zoners will keep pushing this particular frontier of statism. A recent development has been for city governments to require builders to pay them a sum of money before the builders are even allowed to begin a project. The premise is that developers make so much money that they should be singled out for special “taxation.” These are not ordinary taxes, but negotiated sums demanded by the city, earmarked for the homeless, or the less

privileged, or for public transit, and so on. Under this new approach (San Francisco has become a leader in using the police power for economic extortion), “as of right” becomes meaningless. A developer's ability to build becomes dependent on the views, feelings, and attitudes of those in power.

How can a businessman plan the costs of a development, or know how much to pay for a piece of land, if such power is held over his head? Thus development becomes even more risky than usual. And risk is always paid for, primarily by the future buyer and the renter.

However, there is reason to smile in the face of worsening land controls in some areas. Many localities vote down proposed zoning laws each year. Thousands of small to large cities are still zoning-free—with Houston being the largest U.S. city substantially free of zoning. Studies providing hundreds of concrete details, legal arguments, and practical problems have been presented in such works as Bernard Siegan's seminal *Land Use Without Zoning* (D. C. Heath and Co., 1972). And recent work by such scholars as Richard Epstein in his book *Takings* (Harvard University Press, 1985) has shown (with some zoning examples) the illegitimacy of government seizing property or a portion of the owner's rights. These principled attacks may turn Americans away from zoning in the coming decades.

Also encouraging is a recent Supreme Court decision. On June 9, 1987, the court ruled by a 6-3 vote that the Fifth Amendment, which bars the taking of property “without just compensation,” requires that landowners be reimbursed not only when the government seizes property through eminent domain, but also when it thwarts the use of property by land-use regulations (*The Wall Street Journal*, June 10, 1987).

An awareness of the impracticality, the costs, and the economic dislocations (which have been only lightly touched on here) will help change attitudes toward zoning. Americans, by and large, are a practical people and will respond to the damages wrought by zoning if these damages are explained. And many Americans also will be open to arguments regarding the errors of laws which violate good moral theory—because they want to be both practical and good. □

Do Unions Have a Death Wish?

by Sven Rydenfelt

Hans Vaihinger, known for his “as-if” philosophy, stated that researchers and philosophers sometimes have to work with “crazy” assumptions. Thus, Copernicus assumed that the earth is a sphere, although almost everyone living at the time was convinced that the world is flat. In a similar fashion, Sigmund Freud concluded that the behavior of certain people could be explained only by assuming that they have a death wish, contrary to the common assumption of a general instinct for self-preservation.

In recent years, many labor unions have behaved in a manner which can only be described as self-destructive. Can it be that unions, which have attained special privileges through the political process, are abusing their privileges to the point that they are destroying the public confidence and legislative support which have been the source of their power?

Let us consider three episodes of union behavior which seem to exhibit a death wish.

Unions and the Swedish Shipping Industry

According to the American economist, Mancur Olson (*The Rise and Decline of Nations*, 1982), powerful organizations in unholy alliances with strong governments have been the primary cause of the economic stagnation which has gripped the Western World during

the last fifteen years. There is no better example than the strangulation of Swedish shipping.

Since the mid-1970s, shippers all over the world have suffered from an overcapacity which has idled vessels and depressed shipping rates. If the market had been allowed to adjust, overproduction would have been eliminated quickly. In free markets private firms have to adapt supply to demand, because overproduction means losses. But the unions were able to extort large subsidies from the different Swedish governments—socialist as well as non-socialist—to preserve employment in the shipyards. Of course, they realized that production had to be cut, but they hoped that those burdens would be borne by other nations.

As orders for Swedish ships declined, more and more state subsidies were granted. Orders that didn't cover half the building costs were accepted, and finally, ships were produced without any orders at all. Despite the huge subsidies, all Swedish shipyards eventually had to be shut down.

With other countries subsidizing their own ship-building industries, the oversupply of ships grew worse. Freight rates plunged and the Swedish shipping industry called upon Swedish maritime unions to cooperate in cutting costs. The unions, however, with support from the Swedish government, were able to block meaningful cuts.

The ship owners soon realized that sailing under so-called convenience flags (Liberia,

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Panama, etc.) was their only hope for survival. The Swedish sailors were offered the same net wages, after taxes, that they would have received in ships under Swedish flags. However, they would have lost their government-guaranteed privileges—minimum crews, extra holidays, etc.—losses they refused to accept. Instead, they extorted from the government another privilege, a law prohibiting ships owned by Swedes to sail under convenience flags.

The only resource for the ship owners, threatened by bankruptcy, was a gradual sale of their ships to companies in other countries—a forced sale in a depressed market. The Swedish merchant marine, which ten years ago measured 13 million deadweight-tons, is now reduced to 2.5 million tons.

In *Human Action* (1949) Ludwig von Mises maintains that government-granted special privileges, designed to favor certain groups, often wind up hurting the groups they are supposed to help. The Swedish regulations which prohibited Swedish ships from sailing under convenience flags are an obvious example. Designed to aid the Swedish maritime unions, they combined with other regulations to destroy the very jobs they were supposed to save. The unions, who agitated for these regulations, acted in a manner which is perhaps best characterized as displaying an economic death wish.

Unions and the British Printing Industry

The British printing industry offers another example of the self-destructive behavior of unions in defending the privileges of their members. The printers always were an aristocracy among workers, so well organized and prepared to fight for their interests that the employers were forced to buy production peace at very high prices.

Their unions fought a last and bitter battle for their privileges in 1986-1987—privileges including automatic life tenure, job-assignment rights, and wage scales higher than those for most reporters. The basic issue was the introduction of labor-saving technology. The printers refused to use the new technology, and claimed the exclusive right to continue to work with the outdated technology that had granted

them a key position in the newspaper industry.

The outcome of the fight meant life or death for several large British newspapers, that had suffered losses for many years and were near bankruptcy. The new technology was their only chance for survival.

After years of vain negotiations, Rupert Murdoch, who published four large newspapers, had to sidestep the unions. At Wapping in the harbor district of eastern London he had a new printing office built, and in January 1986 he moved with his newspaper production (34 million copies a week) from Fleet Street to Wapping. At the same time he fired 5,500 striking print workers, whom he replaced with workers from the less militant electricians' union. The printers had been offered a generous economic package, which they refused to accept. The chairman of their union federation, Brenda Dean, realized that this offer was their last chance for an acceptable agreement, but a majority of union hawks chose to continue to strike.

British union members have always had the special privilege—unlike other citizens—to apply physical force against non-strikers and other adversaries in labor conflicts. Although not formally legal, the right functioned in practice as a legal right, accepted by the police and the courts. Of course, this was a very remarkable privilege, fully comparable to the privileges of the old European nobility.

The Thatcher government, however, abolished this privilege by means of laws prohibiting all physical force in labor conflicts—"violent picketing" included. According to union tradition, strike-breakers are to be treated like outlaws without legal rights. But only in fascist states can such legal discrimination exist. In a law-governed society all citizens should be protected by law.

When the fired printers—in spite of the new laws—attacked non-strikers as well as the Wapping office, the government ordered police to stop the attacks. The conflict, including a siege of the Wapping office, continued for more than a year. With empty strike funds and threatened with high compensation claims against law-breaking members, the printers and their union had to surrender unconditionally in February 1987.

Unions and The British Mining Industry

Still another illustration of union behavior patterns can be found in the strike of 120,000 British coal miners—out of a total number of 180,000—between March 1984 and March 1985. The strikers did not fight for higher wages. Their strike was a last desperate effort to stop the gradual closing down of the coal mining industry. At the nationalization in 1947, roughly 1,000 mines were being worked, a number that had shrunk to 170 by 1984. Simultaneously, the number of miners had decreased from 600,000 to 180,000.

The principal cause of the decline was the emergence of oil as a cheaper and better substitute for coal. When the British government tried to slow the substitution of oil for coal in industry by means of tariffs, taxes, and prohibitions on oil, energy prices in British industry rose above the prices in competing countries. This had a devastating impact on Britain's ability to compete.

The mines that remained open were sustaining heavy losses which had to be made up

by massive subsidies. But the striking miners insisted that mine closings be stopped and current production levels maintained. What they sought, in fact, were new privileges at the expense of the coal industry and the British taxpayers.

When the striking British miners, after a year-long conflict, abandoned their strike in March 1985, this was perhaps the greatest union defeat in British history. This defeat together with the defeat of the printers in February 1987 meant, in fact, a turn of the tide. The British union movement may never recover.

With strong organizations and government-granted privileges, the unions in their heydays had functioned like power blocs—states within states. But power leads to abuse, and the more power the more abuse. As a general rule, the privileged classes indulge in wishful thinking and interpret their acts of abuse as wise and just policies. But more and more people have been shocked by the union abuse of power. And in a democratic society, the turn of public opinion is bound to have consequences. □

Not a Public Interest

Unions have not achieved their present magnitude and power by merely achieving the right of association. They have become what they are largely in consequence of the grant, by legislation and jurisdiction, of unique privileges which no other associations or individuals enjoy. They are the one institution where government has signally failed in its first task, that of preventing coercion of men by other men—and by coercion I do not mean primarily the coercion of employers but the coercion of workers by their fellow workers. It is only because of the coercive powers unions have been allowed to exercise over those willing to work at terms not approved by the union, that the latter has become able to exercise harmful coercion of the employer. All this has become possible because in the field of labor relations it has come to be accepted belief that the ends justify the means, and that, because of the public approval of the aims of union effort, they ought to be exempted from the ordinary rules of law. The whole modern development of unionism has been made possible mainly by the fact that public policy was guided by the belief that it was in the public interest that labor should be as comprehensively and completely organized as possible, and that in the pursuit of this aim the unions should be as little restricted as possible. This is certainly not a public interest.

—F. A. HAYEK,
“Unions, Inflation, and Profit”

IDEAS
ON
LIBERTY



Asking the Right Questions

by John K. Williams

The distinguished scholars of the British Royal Academy once were asked why it is that, when a live frog is immersed in a container filled to the brim with water, the water does not overflow. A lengthy and vigorous discussion resulted. Rival theories explaining this phenomenon were elaborated and analyzed. At long last, however, one member of the Academy filled a beaker with water, lowered a frog into it, and the problem which had so perplexed the scholars was solved. The water *did* overflow! The asking of a flawed question had spawned countless flawed theories!

In seeking to understand the freedom philosophy, it can be helpful to consider not only the vision of a “good society” held by people embracing this philosophy, but also the subtly different questions these people ask and seek to answer. Indeed, one helpful way of attracting people to the freedom philosophy is simply to raise the questions that give birth to that philosophy. Let us consider some examples.

Nearly two and a half millennia ago the Greek philosopher Plato asked a question that he and numerous thinkers after him sought to answer. Putting Plato’s question in contemporary terms, we could phrase it thus: *What social structures maximize the good that the best people can do, given that such people exercise political power?*

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Plato’s answer, elaborated in *The Republic*, demanded the isolation and rigorous training of a genetically superior group of people he called “the Guardians.” They would rule. To ensure that they would not be distracted from their task or open to corruption, both family life and personal possessions would be denied them. Such deprivations, however, would be a small price to pay: Freed from emotional ties and the desire to accrue wealth, they could devote themselves to the contemplation of truth and goodness. Knowing the truth, and loving the good, they would be fit to govern.¹

Throughout the ages, many variants of Plato’s question have been asked, and diverse answers given.

- Jean Jacques Rousseau in France dreamed of rule by men with privileged access to what he called “the general will” of a community—a “will” wiser and more beneficent than any individual’s will or any group of individual wills.
- The “Radical Tories” of early nineteenth-century Britain advocated rule by an aristocratic elite, whose financial security and refined tastes would lift them above self-interest and enable them to steer a nation in directions benefiting all.²
- Karl Marx depicted rule by class-conscious workers and a liberated intelligentsia: Understanding that the ultimate goal of human history is the creation of a post-market, stateless society in which “class war” would be no more, their temporary dictatorial rule would lead to the truly “good” society.

Aristotle’s Question

Yet a question raised by the great successor of Plato, Aristotle, has long haunted philosophers: Who guards the guardians?

Plato, of course, would have dismissed the question. It assumes that the Guardians need to be guarded, whereas in truth the Guardians are so wise and so good that no safeguards are needed. That confidence, however, Aristotle did not share.

Neither did the classical liberals, the thinkers upon whose shoulders contemporary advocates of the freedom philosophy stand. They thus

asked a very different question to that posed by Plato and his successors.

“How,” asked the classical liberals, “can men and women organize political life so that, should the least morally admirable members of a community acquire political power, the damage they could do would be minimized?” They did not assume that such people would gain power. But suppose they did.

The point can be made another way. Opponents of classical liberalism shared a belief in human perfectibility.³ They asserted that at some point in time a superior class would exist which would be free from the flaws of most human beings. This class would be fit to rule.

This belief was rejected by the classical liberals. Writing in 1881 to Mary Gladstone, Lord Acton gave succinct expression to this viewpoint: “The danger is not,” he wrote, “that a particular class is unfit to govern. Every class is unfit to govern.”⁴ Why? Because all human beings are finite and fallible.

Hence, the classical liberals’ vision of the role of government. That role is no less and no more the protection of the equal liberty—the equal rights—of all. All men and women are to be free to formulate their own peaceful visions of the “good life” and to strive to make those visions a reality. No man or woman, no group of people—even the majority—is to be entrusted with the power coercively to “correct” the hopes and dreams of their fellows.

The corollary to this is economic freedom. In the absence of omniscience—complete and perfect knowledge—the centrally planned, socialist economy is a fantasy. No planners, however intelligent, could even begin to list the diverse and changing needs of the millions of human beings making up a modern nation, or somehow collate and synthesize all the information diffused among these millions of people.

Edmund Opitz once summarized the key political precept of the freedom philosophy: “Never give to a friend in government power you would not willingly cede to an enemy in government.” And that precept is born of the question first raised. Instead of asking, “What politico-economic structures maximize the good that the best can do, assuming that the best enjoy political power?” we should ask, “What politico-economic structures minimize

the evil that the worst could do, were they to enjoy political power?”

Means and Ends

Typically, opponents of the freedom philosophy believe themselves to be in possession of a detailed pattern to which a truly “just” society must conform. They know what distribution of wealth is fair. They know how men and women should use their property. They possess a blueprint for perfection, or at least near-perfection.

Recent philosophers have called this view of “justice” the “end-pattern” understanding of justice.⁵ The justice of a society is measured by the extent to which that society corresponds to the ideal pattern or blueprint.

The classical liberals, rather than asking what rules or laws make such outcomes possible, asked questions about rules and laws themselves.

In large part this was born of their skepticism that any person or group of people is in possession of a detailed blueprint for a perfectly “just” society. Yet a further insight led them to raise the questions they did.

Suppose one decides that in a “just” society, great disparities of wealth should not exist. To achieve this end, wealth must be transferred from rich to poor. Clearly, a rule specifying two groups of people—the “rich” and the “poor”—is required, and institutions must be created to effect the transfer.

Consider this rule in more general terms: Wealth shall be taken from group X and transferred to group Y. Given such a rule, and given the institutions making its enforcement possible, an obvious problem emerges. Who is to determine the identity of group X and group Y? Clearly, those in political power. Why should we assume, however, that these people will decide that group X shall be “the rich” and group Y shall be “the poor”? Why not a rule transferring wealth from the elderly to the young? From people of Jewish descent to Gentiles? Indeed, why not from the poor to the rich? Everything turns upon who happens to enjoy political power!

Considerable evidence has been gathered by public choice theorists for saying that the mo-

ment we accept rules discriminating between various groups in a community, wealth is invariably distributed from unorganized, information-poor individuals and groups to well-organized, information-rich special interest groups.⁶ The ideal situation, from a politician's point of view, is to distribute wealth from people who do not know what they are paying to people who know precisely what they are receiving.

To use an example from Australia, high tariffs on textiles and clothing achieve just such an outcome. The owners of textile and clothing companies know precisely how such tariffs benefit them, as do unions involved in these industries. But most Australians have no idea that the tariffs cost the average Australian family some \$900 a year. The politicians imposing the tariff alienate few of those who lose but are guaranteed the support of those who win.

Thus is born the politics of the jungle. Politicians carefully calculate how many special interest groups they must reward to be elected. These special interest groups shove their way to the government trough, utterly indifferent to the least organized, least politically significant members of society. And the entire sordid exercise is possible because rules discriminating between different sets of people are deemed proper!

The classical liberals saw one and only one way to avoid this state of affairs. They insisted upon the Rule of Law—and they defined *law* very carefully. They did not identify the Rule of Law with rule by any edict passed by representatives of the majority. Rather, they insisted that rule must be by general principles of just conduct, equally applicable to all people, in an unknown number of future instances.⁷

Consider a law against murder. It applies to all. It is irrelevant to ask to what ethnic, financial, religious, or other group a murderer belongs. Justice is blindfolded. When such a law was passed, it was impossible to predict in advance what persons would run afoul of the law.

Compare a government which passes a rule imposing a wealth tax. It is perfectly clear when the rule is passed just who will be affected by it, and what reordering of the community will result.

Two very different understandings of *justice*

have emerged. The first focuses upon some ideal pattern, the “justice” or “injustice” of a society being measured by its conformity to that pattern. The question to be asked is what rules and institutions enforcing these rules are needed to achieve conformity to the pattern.

The second meaning of *justice* focuses upon the form of the rules which govern a society. The question asked is whether those rules are laws classically defined—general rules equally applicable to all in an unknown number of future instances—or edicts which single out particular groups, awarding them special privileges or condemning them to carry special burdens. Once again, the question asked is all important!

The Problem of Poverty or the Problem of Wealth

In thinking about the different questions people ask, it is worth noting that questions often arise when people are confronted by the unusual or the unfamiliar. A bird in flight occasions no bewilderment; a man flapping his arms in full flight would.

Today the big question asked by men and women anxious to solve the problem of poverty is, “Why poverty?” The question is legitimate. Yet I suggest that the intensity and frequency with which the question is asked indicates that poverty is perceived as the puzzling exception to the normal state of affairs.

That abundance—material plenty—is taken for granted is perfectly understandable. Those of us living in relatively free-market economies have always known supermarkets with bulging freezers and groaning shelves. Yet, historically, the abundance we assume has been the exception rather than the rule. The life of all but a handful of men, women, and children who have walked this planet has been an unrelenting struggle for the material goods bare survival demands.

Two economic historians recently described historical reality by noting that the “economic lives of our ancestors . . . [were] of almost unrelieved wretchedness. The typical human society has given only a small number of people a humane existence, while the great ma-

majority have lived in abysmal squalor. We are led to forget the domineering misery of other times in part by the grace of literature, poetry, romance, and legend, which celebrate those who lived well and forget those who lived in the silence of poverty. The eras of misery have been mythologized and may even be remembered as golden ages of pastoral simplicity. They were not."⁸

The ex-Marxian French historian, Fernand Braudel, has authored a superb three-volume study, *Civilization and Capitalism: 15th-18th Century*.⁹ It constitutes an antidote to the romanticizing of humanity's economic past.

As Braudel so devastatingly documents, European nations from the fourteenth century until the eighteenth century were caught in what is sometimes called a "Malthusian trap." Frequently, communities increased their productive outputs, technological innovations leading to more plentiful crops. That, if you like, was the "good news." The outcome, however, was an increase in life expectancy. There were more mouths to feed. The rate at which population increased was greater than the rate at which economic growth occurred. In a few years, people were back where they had started.

Economic Escape

Then something unprecedented happened. In sixteenth-century England and the Netherlands, economic growth became a reality. More food, for example, began to be produced. The population of these two nations began to increase. So far, so familiar. But then came the historical shocker. As the population increased, economic growth continued at a rate surpassing the population growth. Fewer children died. Life expectancy began to climb. Two nations actually had escaped the Malthusian trap!

The economic lot of surrounding nations enjoying equal or greater supplies of natural resources and an equal or greater percentage of arable land remained as it always had been. Neither England nor the Netherlands was in possession of some new technological process. Nor could this marvel be ascribed to the acquisition of colonies. For no obvious reason, sixteenth-century England and the Netherlands

were beginning to experience the abundance we today take for granted. Why there? Why then? The questions seemed unanswerable.

At long last economic historians, particularly Fernand Braudel and another ex-Marxian French historian, Jean Baechler, have thrown light on these questions.¹⁰ In the sixteenth century, England and the Netherlands independently witnessed the birth of a new system of property rights, a system approximating what we today call private property rights. The legal and political structures defining and enforcing this system were taking form. And the specters of recurrent famine and destitution began to retreat.

This system—private property rights—is the key to understanding a free market economy.

Voluntary exchanges of goods and services are as old as human history. Markets where such exchanges can take place are not new—Jerusalem of biblical days was a market city, as were all the great ancient cities. Private property in a limited sense obtained before the emergence of the free market economy, being one of the few constants of human history. The notion that primitive peoples rejected the concept of private property defies all available evidence. For example, prior to the coming of white settlers, the natives of South Africa took private property for granted, even though, not surprisingly, different tribes had different rules as to what sort of property could be privately owned.¹¹

What is unique to the system of private property rights at the heart of the free market economy is (1) the extension of private ownership from some goods to virtually all goods, (2) the extension of the right to property from some class or caste of people to all people, and (3) the efficient enforcement of private property rights by governments. Do not misunderstand me: The system of private property rights which emerged in sixteenth-century England and the Netherlands did not display these features in their fully developed form. But even if only embryonically present, the free market economy, and its handmaiden of limited government, began to grow.

Given that private property rights are fundamental to the operation of a market economy,

the distinction between production and distribution collapses. Admittedly, that may sound strange at first hearing. After all, did not even John Stuart Mill make the distinction? In the first chapter of Book II of his *Principles of Political Economy* Mill writes:

The laws and conditions of the production of wealth partake of the character of physical truths. There is nothing optional or arbitrary in them. . . . [I]t is not so with the distribution of wealth. That is a matter of human institution solely. The things once there, mankind, individually or collectively, can do with them as they like.¹²

The point is that the phrase, “the things once there” is incomplete. What is “there,” so to speak, are owned things. At every stage of the productive process, what exists is owned, from machinery through raw materials through partially completed goods to the final product. To speak of a distribution of wealth that somehow is distinct from the production of that wealth is to make the absurd statement that, at the end of the productive process, there is a huge pile of unowned goods.

Such thinkers as Adam Smith, Carl Menger, Ludwig von Mises, and Friedrich Hayek, to name just a few, have shown us how any attempt to redistribute wealth disrupts the productive process, so that the creation of wealth declines. But even in a hampered market, production goes on. The United States continues to produce wealth even though the operation of the market has been sadly fettered. However, resources, particularly labor, are increasingly misallocated. The decisions of men and women whether to buy or to refrain from buying, to consume or to save, to invest in one industry or another, are more and more influenced by political decisions, rather than by price signals through the market.

When people owning some good find that their liberty to peacefully use or dispose of that good is curtailed, they “own” that good in a very attenuated sense. An element of uncertainty is introduced that affects people’s decisions and the productive process. Add to that what many of us perceive as the sheer immorality of transgressing an individual’s property rights, and a most disturbing state of affairs has

been created. And all this is ultimately bred by confused thinking which separates the productive process of the market from the allocation of goods and services it creates.

Summary

Let me summarize my three main points:

- Ask not how to maximize the good that the best people can do with political power. Ask rather what economic and political structures minimize the evil that the worst people can do, were they to achieve political power.
- Ask not what laws are needed to impose upon a people some blueprint of an allegedly “just” society. Ask rather what limitations upon the law are needed if tyranny is to be avoided.
- Ask not how wealth is to be distributed. Ask rather how it was that a world which hitherto had known only destitution suddenly witnessed the birth of nations where abundance prevailed; and, how what these nations learned can be used for the enrichment of humanity and thus to the glory of God. □

1. For a useful commentary on *The Republic* see Cross, R., and Woosley, A., *Plato's Republic: A Philosophical Commentary* (New York: St. Martin's Press, 1966).

2. A fascinating account of the “Tory radical” mentality is provided by Driver, C., *Tory Radical: The Life of Richard Chandler* (New York: Octagon, 1970).

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Human Nature and the Free Society

by Edmund A. Opitz

Is there anything in the basic makeup of the men and women we know, or those we read about in the press, or encounter in the pages of history texts, which encourages us to believe that the free society we strive for is a realistic possibility?

Edward Gibbon, the great historian of Rome's decline and fall, offered, as his considered judgment, the opinion that "History is little more than a register of the crimes, follies, and misfortunes of mankind." The bleakness of this assessment is redeemed somewhat by the inclusion of the words "little more." Human nature does have its dark underside which pulls us down below the norm and produces the crimes, follies, and misfortunes recorded by historians.

But there is more to our story than this; there is also a record of the geniuses in every field—including heroes and saints—who demonstrate the realized potential of our common humanity. And then there are the multitudes who are just plain, ordinary, decent, hardworking folks, uplifted on occasion by the magnetism of those who rise above the average, and sometimes seized by a madness of sorts when the criminal and depraved acquire a kind of glamour.

Every society takes on its unique characteristics from the people who compose it; we are the basic ingredients of our society. The human story is a checkered affair; some ups, many downs. Does a realistic appraisal of our history on this planet provide any warrant for believing

that we human beings are capable of approximating a truly free society with its market economy?

I propose to deal with four features of human nature and conduct which give me confidence that in the constitution of ordinary men and women are the characteristics which incline them to strive for a freer life with their fellows. I shall list these four points and then discuss them.

1. There is a strong instinct in all men and women to be free to pursue their personal goals.

2. There is a universal need in each of us to call something our very own; an instinct for property.

3. There is an upward thrust in human nature to live a life that is not simply more comfortable, but better in a moral sense. We really believe in fair play; we respond to the ideals of justice.

4. The market is everywhere; people in every part of the globe have sought to better their economic circumstances by barter and trade. The market is universal; but only occasionally does the market become institutionalized as the market economy.

First Point—Freedom

Every person has a deeply rooted urge to be free to pursue his chosen goals; it is impossible to imagine a person, who is determined to accomplish a certain task, inviting people to hinder or prevent him from getting his job done. Even a dictator as vicious as Stalin, one

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of whose aims was to extinguish personal freedom in a great nation, demanded complete freedom to pursue his evil goals. Anyone who tried to hinder him was shortly referred to in the past tense.

But despite the universal urge for full personal liberty, most people who have ever lived have been slaves, serfs, bondsmen, thralls, helots, Sudras, retainers, lackeys, vassals, liege men, and the like. Despite the fact that every person wants to be free to live on his own terms, most of the earth's people have lived wholly or in part on terms laid down by someone else. There are more of them today than ever before. A powerful instinct for individual liberty animates virtually every man and woman, but this universal urge to be free has been fully institutionalized only once in history—in the theory and practice of old-fashioned Whiggery and Classical Liberalism, rising and falling during the period, approximately from the American Revolution to the early twentieth century.

Second Point—Property

The sense of personal identity is aroused in us early in infancy; it suddenly dawns on each of us that "I am me!" The seeds of our lifelong personal uniqueness are planted early. As soon as we learn to think "me" we begin to think its inevitable corollary, "mine." Every child, early on, comes to regard certain toys as his own. Each of us grows into a property relationship with things in his environment long before he evolves a theory of property, that is, a theory of the correct relationship between ourselves and the things that belong to us. Your property is an extension of your self; no one can live his life to the full unless he owns the things on which his life depends, things which he may use and dispose of in any peaceful way he chooses. Justice demands that every person have a right to acquire property, for every person's sense of self is powerfully linked to the things he owns.

Because property is right, theft is wrong. The belief that property is right is so nearly universal that even thieves believe it. The pick-pocket who steals your wallet does not intend his action as a symbolic gesture against the idea

of private property; he may be a crook, but he's no socialist! Every crook believes in the sanctity of private property—he doesn't want people stealing from *him!* His attitude toward other folks' property is, shall we say, somewhat liberated. And there's the rub. "Me" and "mine" is a natural instinct; it's the "thee" and "thine" that needs to be fortified by moral values, by manners, and by the law. Gradually, as we mature into moral beings, reciprocity—the idea of "do as you would be done by"—generates the belief that mutual respect for individual property rights is the cornerstone of the free society.

Since the dawn of history, getting hold of other people's property by war, plunder, piracy, pillage, and looting has been a way of life for a large segment of mankind. "Robbery is perhaps the oldest of labor saving devices," wrote Lewis Mumford fifty years ago, "and war vies with magic in its efforts to get something for nothing." And Ludwig von Mises points out that "All ownership derives from occupation and violence." (*Socialism*, p. 32. See also *Human Action*, p. 679.) English civilization emerged in the aftermath of the Norman Conquest; most modern nations have followed a similar pattern, including our own. A people or a tribe acquires its territory by successfully doing battle. It is only the slow progress of civilization and the development of the idea of The Rule of Law that generates the belief that every person's property should be regarded as inviolate by every other person.

A corollary of this is the belief that the primary task of a just legal system is to secure every person's right to that which is his own. We do this by stressing the sanctity of private property and, when moral deterrents to theft are not enough, we seek to discourage thievery by invoking a swift and sure justice designed to increase the risks of robbery and diminish any conceivable benefits.

Third Point—Justice

The practice of pillage is ancient, but so is mankind's concern for justice. Some fifteen hundred years before Christ, a legislator of ancient Israel wrote: "You shall not pervert justice, either by favoring the poor or by subser-

vience to the great. You shall judge your fellow countrymen with strict justice" (Lev. 19:15). Pericles, the Athenian statesman of the fifth century B.C., said in his great funeral oration, "If we look to the laws, they afford equal justice to all in their private differences." And Cicero, one of the last of the old Romans, in the century before our era: "Of all these things respecting which learned men dispute there is none more important than clearly to understand that we are born for justice, and that right is founded not in opinion but in nature."

Long before some unknown genius framed a theory of justice, men and women knew when they had been wronged, betrayed, let down, dealt with unfairly. The capacity to make moral judgments is built into human nature itself; and human nature is constituted as it is because our nature is derived from the ways things are in the universe.

We are "in play" with the universe as we try to keep in time with its music. We have, for example, categories of round and square because these shapes and others are found in the nature existing outside us. The concepts of long and short would be meaningless to us were length not one characteristic of the way-things-are. We have a sense of beauty because we have seen lovely things and listened to melodious sounds. And by the same token, the distinction that mankind universally makes between right and wrong or good and evil presupposes a moral dimension in this universe from which our personal categories derive.

As far back as we can trace man's story we find him drawing ethical distinctions, employing the categories of right and wrong. Jeane Kirkpatrick speaks of ". . . the irreducible human concern with morality." Obviously, we would not expect universal agreement as to which actions should be classified as right and which wrong; but the classification would stand—nearly everyone has agreed that some things are right and others are wrong. It is a long trail that leads from these primitive beginnings to the insights of the moral geniuses of the race—the Hebrew Prophets, Jesus, Confucius, St. Francis—and to the refinements of moral theory of the great philosophers of ethics—Aristotle, Marcus Aurelius, Aquinas, Spinoza, Adam Smith, to name a few.

The distinction that mankind universally makes between right and wrong or good and evil presupposes a moral dimension in this universe. . . .

At this point some timid folk may fear that we are treading on dangerous ground here. Start with the philosophical distinction between right and wrong, they point out, and the next step is to divide people into the multitudes who are wrong, and the few of us who are right. A third step seems to follow: We who are right are commissioned to correct the evil ways of the rest of you. Hence, crusaders against the infidel, suppression, prohibitions, and the like. A spoilsport like Carrie Nation goes around with her hatchet busting up saloons! Innocent pleasures and festive occasions come under attack. Reaction against such real or imagined sequences of events contributes to the widespread ethical relativism of our time. Right and wrong, we now hear it said, is a matter of taste, a matter of feeling; everyone is entitled to decide for himself what is right or wrong for him. In today's vernacular, we are told: "Do your own thing."

But when you discard ethical yardsticks, the weak doing their thing are at the mercy of the strong doing theirs, as the twentieth century atests. Ours is the age of ethical relativism and nihilism, and it's no coincidence that "we live in an age unique for the unrestrained use of brute force in international relations." The words are those of Pitirim Sorokin, from his four-volume study of war during the past 2,500 years. The most widespread, potent, evangelizing religion of our time is communism, and communist theory has no place for the traditional ethical yardsticks; in Marxist theory, right and wrong are whatever the party commands. In consequence, communist policy during the first seventy years after the Russian Revolution has exacted a toll of more than a hundred million lives, and what it has not destroyed it has damaged.

These horrors do not faze the liberals who,

when their attention is called to the facts, like to refer to Lenin's remark that you cannot make an omelet without breaking a few eggs. Human life is cheap in the twentieth century.

You can burn down the barn and get rid of the rats, and you can discard the idea of a moral order and get rid of the reformers. But at what price! If there are no ethical standards, moral relativism holds sway, right gives way to might, and disaster overtakes us in the ways made familiar in this century.

Traditional ethical theory maintains that right is right and wrong is wrong. Why? Because the universe has a built-in moral dimension, a moral law, often identified with God's will. In any event, this moral law is anchored in something deeper and more fundamental than private feelings, majority opinion, party dictates, or the will of some despot. The moral law is an important facet of the nature of things, and it is binding on all men and women.

Every one of us is fallible; no one can be certain that he has correctly read some deliverance of the moral law. So we shouldn't be surprised when some would-be reformer comes out of the woodwork and annoys us with his eccentric interpretations of the moral law. He may earnestly desire to do good, but he goes about it in the wrong way. But such a person is harmless, unless he comes to power. Moreover, if we solicit the counsel of the most ethically advanced men and women we find that they are unanimous in telling us that the right and the good can be advanced in three ways only: by reason, by persuasion, and above all by example.

Fourth Point— Economic Action

It is a fact of the human situation—regardless of the nature of the social order—that man does not find, ready-made in his natural environment, the wherewithal to feed, house, and clothe himself. There are only raw materials in nature, and most of these are not capable of satisfying human needs until someone works them over and transforms them into consumable goods.

Man has to work in order to survive. He learns to cooperate with nature, making use of

natural forces to serve his ends. Work is built into the human situation; the things by which we live do not come into existence unless someone grows them, manufactures them, builds them, and moves them from place to place.

Work is irksome and things are scarce, so people must learn to economize and avoid waste. They invent labor-saving devices, they manufacture tools, they specialize and exchange the fruits of their specialization. They learn to get along with each other, our natural sociability reinforced by the discovery that the division of labor benefits all. Division of labor and voluntary exchange constitute the marketplace, which is the greatest labor-saving device of all.

"This division of labor, from which so many advantages are derived," wrote Adam Smith, "is not originally the effect of any human wisdom which foresees and intends that general opulence to which it gives occasion. It is the necessary, though very slow and gradual, consequence of a certain propensity in human nature . . . the propensity to truck, barter, and exchange one thing for another. . . . It is common to all men, and to be found in no other race of animals."

It is natural for us human beings, as we seek to improve our circumstances, to bargain, swap, barter, and trade. This is the market in action: men and women trading goods and services in a noncoercive situation. The benefits of such activity are mutual and obvious, which is why the market is everywhere. The market has always existed, and it's in operation today all over the world. Virtually no tribes are so primitive, and no collectivism so totalitarian as to prevent people from engaging in voluntary exchanges for mutual advantage. But only rarely has the market ever got itself institutionalized as the market economy—the thing called capitalism.

What does it mean to say that something has been institutionalized? When practices which heretofore have been informal and sporadic become formalized, regular, habitual, and customary they are said to be institutionalized. As institutions they operate by an established rule or principle; they draw support from the moral code and are buttressed by appropriate laws.

For example, education is institutionalized as the school; religion is institutionalized as the church. And the market—individuals trading, bartering, and swapping—is institutionalized as the market economy, or capitalism. This occurs when free-market practices are allied with appropriate moral, cultural, legal, and political structures. Has this ever happened? Yes, but probably only once, and in a few countries only, when free-market practices coalesced with the Whig social order in the eighteenth and nineteenth centuries. This was the social order Adam Smith referred to as his “liberal plan of equality, liberty and justice.”

I have briefly set forth four convictions of mine—which I would put into the category of self-evident truths. First, every person has an unquenchable urge to be free to pursue his personal goals—but seldom translates this into the idea of “equal freedom.” Second, every person has an instinct for private property—every “me” requires a “mine.” Third, every person has moral sense; he knows when he has been dealt with unfairly or treated unjustly. When we become mature persons we strive for equity; we try to treat others as we would like to be treated. In the fourth place, it is a fact of common observation that people of every culture, and at every level from the most primitive to the most civilized, engage in trade and barter; the market is ubiquitous.

A Fifth Point— Political Plunder

And now for the bad news: Whenever a society moves above the level of desperate poverty, and has generated even a modicum of prosperity, some citizens set up institutions which enable them to live on the fruits of others’ toil. The law, established to achieve justice between person and person, is perverted into an instrument of plunder. This is the central message of Frederic Bastiat’s *The Law*.

Citizens of our own nation have gone far in this direction. A recent news item reports that 66 million Americans receive 129 million checks each month from the Department of Health and Human Services. Tens of millions of additional Americans derive their incomes in part or in full from money taxed from produc-

tive working people. These 80 or 90 million people constitute what Leonard Read used to call a plunderbund.

We are now a nation where almost everyone is trying to live at the expense of everyone else. We have written a form of theft into our statutes. Why? Because there’s a little bit of larceny in our souls! Large chunks of the American electorate have discovered that living off government handouts is easier than working for a living and safer than stealing, so they create political parties in their own image; and they elect politicians who promise them an inside track to the public treasury.

Present-day Americans are not unique in this respect. The legal transfer of wealth from producers to beneficiaries goes on today in every nation, and something like this has occurred in virtually every society since the dawn of time.

The Roots of Plunder

How did this politico-economic pattern originate? The most plausible answer is that the system of plunder was installed in the aftermath of a conquest. A hardy band of warriors swoops down from the hills and overcomes the people of the plain. The victors enslave the vanquished, setting themselves up as a governing body over a permanent underclass. Time passes, intermarriage occurs, and gradually the former warriors go soft and a hardier tribe overcomes *them*, and history repeats itself.

Apart from whatever excitement some men feel in battle, and the gratification that some people get from being the boss and giving orders, there is an economic motive behind the conquest and the subsequent system of rule. There is a natural drive in human beings to live better while working less; or, better yet, to live well without working at all.

Now, no one can get something for nothing unless he wields political power or is a friend of those in power. If you have such power you don’t have to go into the marketplace and try to woo customers; you *take* what you want. This is not considered theft because the legal system has been set up to facilitate this transfer of property from those who produced it to those in power.

Such is the political pattern exhibited by

most nations known to history. This pattern can be viewed as an effort to answer three questions:

1. Who shall wield power?
2. For whose benefit shall this power be wielded?
3. At whose expense shall this power be wielded?

What we are describing here is the well-nigh universal arrangement by which nations have been governed over the centuries by kings, presidents, and potentates; by emperors and mikados; by shahs, czars, maharajas, and pooh-bahs of all kinds. Their institution is usually called "government." The word "govern" is derived from the Latin *Gubernare*, to steer. So when a group of people is elevated above the generality of citizens—as a result of conquest, usually—to ride herd on them, rule them, regulate them, control them, and exact tribute from them, they are "governing."

This was the *modus operandi* in the governance of nations, everywhere, and in every century. Then came the Whig breakthrough in the eighteenth century. It was the polar opposite of "rule" in the old sense; it was a new vision of a society which aspired to achieve liberty and justice for all. It was the novel idea of a *government that did not "govern,"* but sought instead to protect the life, liberty, and property of all persons alike. The keynote of Whiggery was the ideal of equality before the bar of justice: The Rule of Law.

It is an idea familiar to everyone that the same instrument may be put to radically different uses. The knife you use to slice the roast may be used to kill someone. The hand that now caresses may, next hour, deal someone a mortal blow. And the law, as Bastiat points out, may serve justice, or it may violate justice when it is employed as an instrument of plunder.

The law serves justice when it acts to restore the peace, broken when someone's rights were violated. But the law may misuse the power entrusted to it by itself violating someone's rights, for its own ends or to further the purposes of a third party.

The Whigs used the word "government" but

gave it a radically new meaning; from now on its role was to be limited to the actions required to maintain justice between person and person. Government was no longer to intervene positively in people's lives to rule them, regulate them, or interfere with the peaceful actions of anyone.

Confusion is sown when two radically different functions are tagged with the same label; the agency designed to serve the ends of justice by securing each person's rights to life, liberty, and property may rightfully be called "government." But the institution set up to *impair* people's rights to the life, liberty, and property ought to bear some other name. Albert Jay Nock suggested that the law, when perverted into an instrument of plunder, be called The State. The functional distinction between the two institutions—government and state—is clear.

It is in the nature of government, we might say, to use lawful force against aggressors for the protection of peaceful people. Government does not initiate action; government is triggered into "re-action" by earlier criminal conduct which causes personal injury to innocent people or otherwise disrupts the peace of the community. The state, on the other hand, initiates action. The state initiates legalized violence against peaceful people in order to advantage some people at the expense of others, or to further some grandiose national plan, or to promote some impossible dream. To paste the same label on two such radically different actions is to promote misunderstanding.

The problem is ancient, as witness the testimony of St. Augustine, dating back to the fifth century A.D.:

Without justice, what are kingdoms but great robber bands? For what are robber bands themselves, but little kingdoms. The band itself is made up of men; it is ruled by the authority of a prince; it is knit together by the pact of the confederacy; the booty is divided by the law agreed on. If, by the admittance of abandoned men, this evil increases to such a degree that it holds places, fixes abodes, takes possession of cities, and subdues people, it assumes the more plainly the name of a kingdom.

The Whig Idea

The Whigs got the point. Whiggery was the eighteenth-century creed of such men as Edmund Burke and Adam Smith; on these shores it was embraced by the likes of Thomas Jefferson and James Madison. Whiggism became Liberalism after 1832, and this noble creed projected a pattern for the lawful ordering of a society which was radically different from every political pattern known to history prior to the eighteenth century. Since the eighteenth century many nations have gone from monarchy to republicanism to democracy to socialism, but this is merely to rearrange the furniture while the political plundering continues much as before.

Whiggism is a difficult philosophy to grasp, for old ways of thinking stand in the way—and so does the ingrained reluctance of many to give up the ages-old political racket which operates whenever the law is perverted into an instrument of plunder.

Jefferson and his friends had a solid grasp of the old Whig idea when they wrote that “all men are created equal,” and that they are “endowed by their Creator with certain unalienable rights,” and that governments have no other reason for being than to secure people in their God-given rights.

The Whig idea filtered down into the popular mentality and came out as a piece of folk wisdom wrongly attributed to Jefferson: “That government governs best which governs least.” Close, but no cigar. Thoreau did better with his play on words: “That government governs best which ‘governs’ not at all,” perhaps having in mind Aesop’s fable about King Log versus King Stork.

The Whig idea, the American idea as voiced in the Declaration of Independence, viewed “government” as an instrument of justice, set up to interpret—and enforce when necessary—the previously agreed upon rules without which a free society cannot function. “Government,” then, would be analogous to the umpire in the game of baseball. The umpire does not direct the game, nor does he side with either team; the umpire acts as an impartial arbiter who decides whether it’s a strike or a ball, whether or not the runner is safe at first, and so on. In the nature of the case these decisions cannot be made by the players or by the fans; the game of baseball needs an independent functionary who sees to it that the game is played within the rules. Every society, likewise, needs a nonpartisan agency to act when there is a violation of the rules on which that society’s very existence depends.

The uniquely Whig and American political breakthrough was the conception of a government that did not “govern,” an umpire government limited to insuring that the rules upon which a society of free people is premised are maintained—and with the authority to penalize anyone who violates those rules.

We have moved a long distance away from a truly free society; and we’re even further from the theory or philosophy which gave rise to the free society. The restoration of that philosophy begins with a candid exploration of the issues.

However, no clarification of the issues is sufficient by itself to rehabilitate the old ideals of freedom and justice. The next step must be adequate educational attention to the matters in question; and from there on we rely on informed moral choice. □

Authors of Values

For if the essence of men is that they are autonomous beings—authors of values, of ends in themselves, the ultimate authority of which consists precisely in the fact that they are willed freely—then nothing is worse than to treat them as if they were not autonomous, but natural objects, played on by causal influences, creatures at the mercy of external stimuli, whose choices can be manipulated by their rulers, whether by threats of force or offers of rewards.

—ISAIAH BERLIN

IDEAS
ON
LIBERTY



A New Space Policy: Free Enterprise

by J. Brian Phillips

Since the Challenger Shuttle disaster effectively grounded America's space program in January 1986, President Reagan has increasingly called for private businesses to enter the space industry. Space Services Inc., which made a successful test launch in 1982, plans to begin commercial operations in late 1988, as does start-up firm American Rocket. Aerospace veterans Martin Marietta and McDonnell Douglas already have received orders for satellite launches. Despite this, America still trails the Soviet Union in satellite launches, and the Europeans and Japanese are quickly catching up.

The launching of Sputnik in 1957 was taken by many Americans as a signal of Soviet technological superiority. To calm a frightened public, the U.S. government poured billions of dollars into the space race and, to this day, the American space program has been a virtual government monopoly.

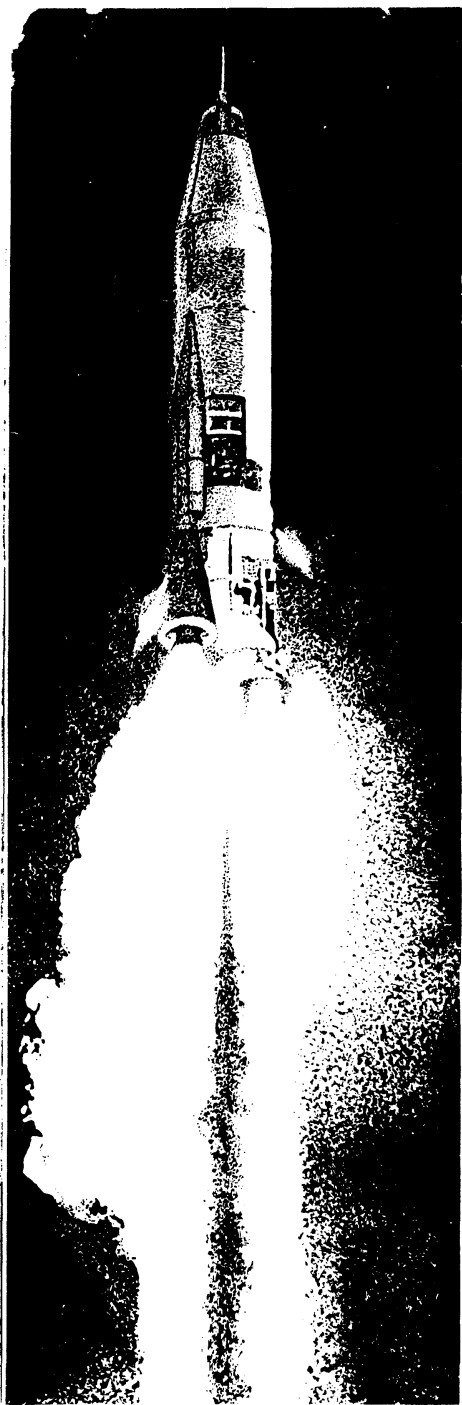
In the aftermath of the Challenger explosion, editorial writers and columnists across the nation condemned the politicalization of NASA. However, they failed to realize that any agency whose budget is politically controlled—such as NASA—is eventually politicized. As Challenger demonstrated, when political expediency replaces scientific judgment, the results can be tragic.

Over the years, NASA's monopoly has been enhanced by subsidization, legislation, and regulation. Space Services Inc. President David Hannah Jr. told a Houston space conference shortly after his company completed its successful launch: "I consider the slowest aspect of our program is going to be politics. Getting the necessary approvals from the State Department and the United Nations is going to be much harder to work than the technical implementations."

In a report for the National Center for Policy Analysis, Dr. Jerry Grey, publisher of *Aerospace America*, elaborates on this: "Private companies in the satellite communications industry must answer to 13 federal regulatory bodies, two international organizations, and four international treaties."

Using Proven Technology

Proponents of a government-run space program argue that the vast capital and resources required for such ventures can best be obtained by government. But private firms are responding to this problem by moving toward smaller equipment and by using older, proven technology. This saves millions of dollars. Additionally, many companies are forming partnerships on projects, such as Space Industries Inc. and Westinghouse, which are planning a joint space laboratory. McDonnell Douglas is



the development of space. Furthermore, once many of the risks have been eliminated, other firms will be more inclined to exploit the unique opportunities offered by space.

Some backers of NASA contend that there are parallels with the federal government's role in the development of the early West. Space, they argue, is merely another frontier to be conquered. While this is true, it must be noted that the government's role in developing the West was pretty much limited to protecting property rights, e.g., establishing the rules by which the vast tracks of unsettled land could be claimed, and building a series of forts to protect pioneers. The real development of the West—railroads, mines, agriculture, etc.—was mostly a product of private enterprise.

When political expediency replaces scientific judgment, the results can be tragic.

Until the Challenger disaster, the Shuttle was to be America's principal launch vehicle. expendable launch vehicles were to become obsolete. Consequently, when the Shuttle program shut down in the wake of the loss of Challenger, America was left without a dependable launch system, and U.S. satellite launches have fallen more than a year behind schedule.

Private companies, by their very nature, will not all use the same launch vehicles. Martin Marietta will use its Titan rocket; McDonnell Douglas will use its Delta rocket; Space Services will use the Conestoga, while American Rocket will use a hybrid vehicle. Thus, if one system fails, there will be others to fill the gap.

There is an old adage about putting all your eggs in one basket. America's "space eggs" have all been placed in one basket—NASA—and the consequences are painfully clear. It is time for a space policy which eliminates this government monopoly and allows America's entrepreneurs the freedom they need to reach for the stars. □

looking for a partner to manufacture pharmaceuticals in space.

The costs of doing business in space are high, but so are the potential rewards. Companies which start small and use their profits to expand could quickly become major factors in

The *Unemployment Act* of 1946

by John Semmens and Dianne Kresich

Government in America has been on a spending binge for over 40 years. Much of this spending has been for the express purpose of stimulating the economy. The rationale behind government stimulation is the presumed need to maintain aggregate demand and avoid recessions or depressions.

During the Great Depression of the 1930s, John Maynard Keynes concocted a “cure” for depressed business conditions. This “cure” involved deficit spending and debt monetization (i.e., inflating the money supply) as a means of generating adequate aggregate demand, while surreptitiously reducing the real prices of idle inputs, especially labor. The “cure” was designed to inject money into the spending stream at a time when entrepreneurial timidity and nominal price rigidity combined to produce high unemployment.

The Keynesian “cure” was a radical departure from the classical approach to business recessions, which relied upon free-market price adjustments to reallocate resources and thus reverse the economic decline. This approach had always worked in previous depressions, yet seemed to be ineffective during the early years of the Great Depression. The reason for this apparent failure is not hard to find: Government interventions eliminated any semblance of free-market pricing. These interventions included (1) high tariffs to “protect” American jobs, (2) manipulation of the money supply—first in-

flating, then contracting the quantity of money, (3) tax increases to fund expanded government programs, and (4) price and wage “fixing” via the National Recovery Administration. Given these interferences, it should not have been surprising that the economy was having difficulty righting itself.

The Keynesian approach to this politically engineered economic impasse was to seek downward price flexibility in *real* terms by debasing the monetary unit. Thus, even though nominal prices and wages would remain high, real prices and wages would be reduced via inflation. To assure that the newly created money would get into the economic flow, the government itself undertook to spend it. That much of this newly created money was wasted on non-productive activities was irrelevant to the Keynesian program, since it was only supposed to be a short-term remedy. The episodes of fiscal deficit and monetization of debt were to be offset by balancing fiscal surpluses and monetary restraint during periods of prosperity. In this way, economic policy-makers supposedly could act to counter the excesses of the business cycle and achieve stable growth.

The latter half of the 1930s saw a heavy dose of deficit spending and debt monetization without the attainment of stable economic growth. World War II injected the motive of patriotism to spur economic output of war goods. The ills of the economy were submerged in the effort to win the war. As the war drew to a close, though, the fear of a return to depressed business conditions dominated the economic policy debate.

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Support for the Employment Act of 1946 was generated by those sympathetic with more government control of the economy. Henry Wallace, Vice President under Franklin Roosevelt in the 1941-45 term, vigorously backed legislation committing the government to a more active role in the economy in order to achieve full employment. As Wallace saw it, the high unemployment of the 1930s was the result of the “planlessness” of the U.S. economy.¹ The *New Republic* gave editorial support citing, with great admiration, the Soviet Union’s constitutional guarantee of a job for every citizen.²

While the more mainstream members of Congress did not necessarily buy the entire case for the planned or socialized economy, they did enact the Employment Bill. Falsely blaming laissez faire for the Great Depression, this law made the federal government responsible for creating and maintaining the conditions for full employment. It established the President’s Council of Economic Advisers to furnish the expertise that was supposedly needed to anticipate and avoid future recessions.

The Act provided that full employment was to be maintained by “compensatory spending.” That is, the government was to make up for “inadequate” private sector spending by running budget deficits and spending money it created. This anti-recessionary program was to be put into effect when the President’s economic advisers foresaw a decline in the business sector. That these advisers could do a better job of forecasting than the numerous participants in the marketplace was assumed without evidence.

Whether economic fluctuations have been avoided and whether this has been because of, or in spite of, the increasing government intervention in the economy over the last 40 years are the crucial issues in evaluating the Employment Act. Defenders of government intervention eagerly point out that the nation hasn’t seen a repeat of the Great Depression since the Act. This seems impressive until one recalls that *until* the Great Depression the nation had not seen as devastating an economic decline. The 150 years of U.S. history prior to the Great Depression were generally laissez faire when compared to the 50 years following this period.

The policy of heavy government intervention would have to weather another 100 years without producing a Great Depression before we could even pretend to congratulate ourselves for discovering a key to perpetual prosperity.

Are We Better Off?

Even though the post World War II era has not produced another Great Depression, this alone does not tell us whether we are better or worse off for governmental attempts to manage the economy. From the outset, critics of such management pointed to timing, information, and political problems that would thwart government efforts to engineer prosperity. Since there is a lag between the initiation of fiscal or monetary stimulation and their impact on employment, timing is critical. Government experts must anticipate fluctuations in the economy and take action prior to the anticipated events. If predicting the future course of the economy were a science, then all economists would be fabulously wealthy. That they are not is ample evidence that there is considerable difficulty in making accurate forecasts.

Obtaining the economic information with which to make forecasts is time-consuming and costly. By the time data are gathered and analyzed they most likely are obsolete. To speed up this process or to make it more comprehensive is expensive. This raises the prospect that the cost of the information may be more than it is worth. Of course, in the final analysis, factual data are only inputs to a fundamentally judgmental process.

Using sophisticated computers to plot and project the future course of the economy based on past information misses the essential nature of the forecasting task. The future is unknown. It will not be a simple replication of current trends or past cycles. If the future were routinely predictable there wouldn’t be so many forecasting errors. The trick in forecasting is to anticipate when and how the future inevitably will differ from the past and present. This requires judgment.

Judgment can be cultivated through learning and experience. On the micro level—where we try to comprehend and deal with developments

in our own family finances, businesses, and industries—this is not an insurmountable task. Economic decision-makers, whether businessmen, employees, or consumers, can have some success in understanding the conditions and requirements of their particular circumstances. Determining what to sell, where to work, or whether to buy requires detailed knowledge of specific needs and capacities.

At the macro level, however, where government planners try to comprehend and anticipate the course of the entire economy, detailed specific knowledge doesn't exist. The aggregate statistics which are available do not reveal the many ways in which economic expansions and contractions may occur simultaneously in different products and different markets. Since the purpose of production is the creation of specific products for specific uses, how particular resources are used is critically important. The Keynesian macro-management premise that merely maintaining aggregate demand—no matter what is produced—is sufficient to assure full employment is hopelessly in error. The government, lacking the necessary information, cannot efficiently deploy resources for the betterment of the economy.

To the impediments of improper timing and insufficient information, government intervention adds political manipulation. Even if the government's experts agreed on the data and timing for prospective interventions, political factors would distort policy. Keynesian macro-management calls for a balanced program of deficits during recessions and surpluses during booms. Strangely, though, the surpluses over the last 40 years have been small and infrequent. In contrast, the federal government's deficits have been huge and repetitive.

Macro-management has degenerated into an excuse for excessive Federal spending. When the economy is in recession, politicians can rely upon the Keynesian prescription for stimulative spending. When the economy is strong, politicians are encouraged to spend more because we can afford it. So, no matter what condition the economy is in, politics opts for more spending.

The penchant for spending has far outrun the inflation it has spawned over the last 40 years. As might be expected, a Keynesian program of

deficits and money creation has pushed price indexes up by over 400 per cent since 1946. At the same time, nondefense spending by all levels of government has risen by over 3,000 per cent. This diversion of private resources to government use has imposed large and mostly hidden costs on our nation's economy.

Consider that funds can be employed productively or nonproductively. In the private sector, it makes a difference to the economic decision-maker which outcome or use results. In the public sector, however, the attitude is more casual. Unlike entrepreneurs who must employ funds productively to stay in business, government bureaucrats rarely concern themselves with the return on their use of resources. Many in government proudly assert that the public sector's indifference to profits assures a more socially useful deployment of resources. However, this attitude misconstrues the meaning of profit and leads to policies that waste the funds appropriated from the taxpayer.

The Role of Profit

The creation of profit indicates that value has been enhanced by the undertaking earning the profit. The maker of profit has accurately identified needs and efficiently fulfilled them. The resulting profit is the difference between value and cost as determined by the marketplace. The larger the profit, the greater the social gain in value over cost. Accumulation of gains like this enables the economy to grow to meet even wider needs in the future.

For example, an enterprise that made a consistent 10 per cent profit on its investment year after year would be able to expand 45-fold over a 40-year period. In contrast, an enterprise that consistently lost 10 per cent each year would shrink to less than 1½ per cent of its original value after 40 years. The assets available to society from these contrasting results are significantly different. Assume that each enterprise started with a million dollars. After 40 years, the enterprise making the 10 per cent annual profit would have grown to \$45 million in assets. The enterprise losing 10 per cent per year would have shrunk to \$15,000.

Obviously, it does matter how resources are employed. The notion of spending funds on

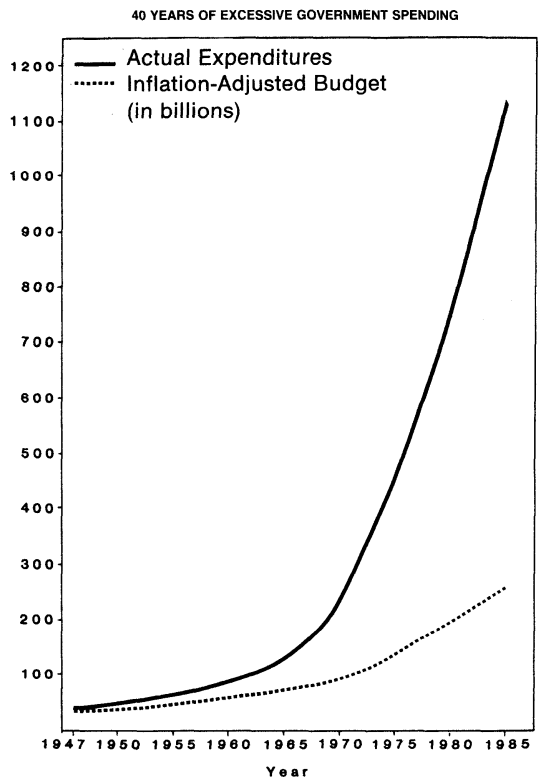
make-work schemes to sustain aggregate demand has a devastating impact on the economy over time. Clearly, a business with \$45 million in assets can employ more workers than a business with \$15,000 in assets. Yet, government spending has been transferring resources from profitable enterprises for the past 40 years. Indeed, the long-term impact of growing government spending has been the destruction rather than the creation of jobs. Far from being the friend of the working man, big-spending politicians have pursued programs that have dramatically restrained opportunities and compensation in the U.S. economy.

What Might Have Happened?

The magnitude of the negative impact on employment from excessive government spending can only be estimated. We can't really know what specific options were sacrificed by this spendthrift era, but we can make a crude approximation. For this purpose, let us imagine that in 1946, instead of committing the government to a wastrel course, politicians at all levels determined to hold government spending constant with respect to population and the purchasing power of the dollar. What might have happened?

The accompanying graph tracks actual expenditures by all levels of government versus a hypothetical inflation-proof, population-growth adjusted budget. This hypothetical budget assumes that the government would have maintained the same real (inflation-adjusted) per capita expenditures that prevailed in 1947 (the first year after the Employment Act). These budget comparisons omit defense outlays. Rather than debate over whether defense outlays of the magnitude experienced were necessary due to forces (hostile nations) outside the U.S.'s control, these expenditures were excluded from both the actual and inflation-adjusted budgets.

Over the 40-year period, the inflation-proof, growth-adjusted budget grew from \$33 billion to \$272 billion: a 700 per cent increase. Actual government outlays grew from \$33 billion to \$1.1 trillion: a 3,200 per cent increase. The cumulative excess of spending over that needed to maintain real per capita government services



was nearly \$8.1 trillion. Current government spending is now over \$800 billion higher than the inflation-adjusted budget would have required.

If the excessive spending had not occurred and if the funds had been left in the private sector through reductions in corporate, business, and income taxes, a considerable amount of additional capital could have been created. Using the rather modest rates of return earned by companies comprising the Dow Jones Industrials, we calculate that an additional \$22 trillion in assets could have been accumulated. Inasmuch as the actual estimated corporate assets of the U.S. economy approximate \$13 trillion, the impact of excessive government spending is clearly substantial. The failure of public policy to allow the economy to compound profits in this fashion over the past 40 years has significantly reduced job opportunities and real wages—the goods and services an individual's wages can buy.

It must be remembered that this little exercise is hypothetical. We have not measured the impact of excessive government spending so

much as we have gained some insight into the magnitude of the real, long-term burden placed on the economy. One can't really measure the size of a growth that did not occur.

Many defenders of government spending are quick to allege that these outlays "create" jobs. While it is true that some specific jobs would not now exist if the spending binge had been contained, it is difficult to see how a *net* gain from this consumption of resources can be claimed.

Transfer Programs Grow

The largest growth in government spending has been in income transfer programs. There is no doubt that these programs have created jobs for many bureaucrats. However, this is hardly a net gain in employment. A similar amount of money spent on goods and services by consumers and businesses would likely employ a comparable number of people, albeit at different kinds of jobs.

In addition, transfer payments discourage people from working. As Charles Murray points out in *Losing Ground*, the more generous the benefits are for being poor or unemployed, the greater the temptation to be poor or unemployed. The loss of the output of large numbers of discouraged and unmotivated individuals clearly reduces the wealth of the society. Less wealth means fewer employment opportunities and lower real wages.

Public funds also are used to provide services that lose money. Whether it be the construction of dams and canals that produce fewer benefits than costs or the operation of deficit-ridden transit systems, almost every government-produced service generates less value than it cost. As a result, capital is consumed and society's wealth declines.

Capital also is consumed by government regulations. Some people, of course, may argue that regulations provide jobs for clerks, statisticians, administrators, lawyers, and the like. But at the same time, the resources consumed

in pursuing or defending against litigation are resources unavailable for research, new equipment, training, or other more productive uses. The ultimate result of litigation is a transfer, not a creation, of wealth. The more time and energy diverted to such efforts to transfer wealth, the less that can be invested in adding to wealth. This also has a negative effect on employment.

The crushing burden of taxation and government debt necessary to finance the explosion in spending also contributes to lower levels of employment. On the one hand, taxing profits and wages reduces the rewards for generating valuable output. The motivation to work hard and risk money in investments is diluted by high rates of taxation. On the other hand, the mushrooming public debt has crowded out many private sector ventures, while raising the cost of financing others. At the same time, Federal Reserve monetization of Federal debt has inflated the money supply, eroded the value of the dollar, and penalized savers. Excessive government taxing and borrowing have battered down both the incentives and the means of accumulating wealth. This also negatively effects employment.

Examination of the 40 years since the Employment Act of 1946 does not produce evidence for the success of government intervention aimed at promoting employment. Instead, our economy has suffered the loss of a significant opportunity to have improved the wealth and well-being of working people. While we cannot retrieve the sunk costs of 40 years of government waste, we can try to go forward to reduce and eventually eliminate this profligacy. Whether the government can be broken of the habit of excessive spending is the crucial question. □

1. G. J. Santoni, "The Employment Act of 1946: Some History Notes," *Review* (Federal Reserve Bank of St. Louis, November 1986), pp. 5-16.

2. George Soule, "The Full Employment Bill," *The New Republic* (August 6, 1945), pp. 154-156.

To Choose Freedom

by John Chamberlain

Vladimir Bukovsky was one of those pesky Russians who, when Leonid Brezhnev was running things in Moscow, took the question of human rights as guaranteed by the Soviet constitution seriously. He deliberately defied the KGB, and he would have been permanently lost in the Gulag or in a succession of psychiatric hospitals if friends in the West hadn't taken up his cause. The clamor got on Brezhnev's nerves. So, to get rid of a man whom he regarded as a bothersome kook or flake, Brezhnev, in 1976, released Bukovsky in exchange for Luis Corvalan, a Chilean Communist.

Robert Hessen, in a foreword to Bukovsky's new book, *To Choose Freedom* (Hoover Institution, Stanford University, 188 pp., \$19.95), says that Bukovsky has flourished in a climate of freedom. His first book, *To Build a Castle*, has been a best-seller around the world. A reprint of a Bukovsky essay protesting against advocates of unilateral disarmament sold more than fifty thousand copies. But in spite of his welcome in the West, Bukovsky is highly dissatisfied with much that he has found.

The main theme of *To Choose Freedom* is that we, in the West, take our rights and liberties entirely too much for granted. We have what Bukovsky calls "an astonishing incapacity for thinking." All around him he sees "socialism arousing the greatest sympathy; people see it as a genuine solution. And yet no one really knows what socialism is. . . . I am irritated by the number of people all over the

world who are persuaded that the way to solve human problems is by a simple redesigning of social structures."

Bukovsky says he has been looking for capitalism in the West but has been unable to find it. "As for capitalism," he writes, "I have never seen it and don't even know if it is possible." But then, after chastising us for "parasitism," Bukovsky reverses his field. "It is possible," he says, "to abolish money, to destroy articles of luxury, to institute stringent rationing of food and basic necessities . . . to reduce human life to any kind of bestial level in the attempt to establish equality. . . . But it would be a venture doomed from the start. The individual will always find a way of standing out, and people will unfailingly assign value to something of which there is not enough to go around equally."

In all its history, says Bukovsky, the Soviet Union has failed to extinguish the instinct for private property. Nor have the Soviets been able to eliminate social classes. But "the State, that monster with a thousand heads," continues to pursue the property owner "as if he were a criminal."

In the West, Bukovsky tells us, the role of the KGB is, in part, taken over by the agencies in charge of taxation. "The issue," he writes, "is not money so much as keeping one's independence, an idea profoundly offensive to socialism."

Bukovsky doubts that Gorbachev's "glasnost," or openness, will make any great differ-

ence. Nobody in Russia believes in communist dogma anymore, "but at the end of the day the Communist Party is still in firm control of every aspect of Soviet life, and communist ideology is never challenged within the party." We cannot expect even a "pragmatic" and a "young and energetic" Gorbachev to change a system that is dominated by a bureaucracy so thoroughly entrenched. It does not matter, so Bukovsky says, how young and energetic a Communist General Secretary may be "because he is not a human being—he is a function . . . Big Brother Andropov, Chernenko, or Brezhnev could be practically dead at the end of their reign, yet their letters, decrees, and interviews continued to appear. Their function continued to exist as if nothing had happened, like communist ideology continues to exist and control Soviet life, although nobody believes in it." In Bukovsky's opinion the difference between being an old "function" like Brezhnev or a young "function" like Gorbachev is nil.

So why should we struggle to get to the negotiating table to deal with a "function"? Why bother to procure another piece of paper which the Soviets will not respect? Addressing himself to the western authorities, Bukovsky asks: "Aren't you tired of this endless paper game?"

Bukovsky has no trust in our Congress, which he accuses of "cowardice." "When the American Congress," so he wrote in disgust, ". . . refuses to support the popular resistance to the communist regime in Nicaragua, or when we hear about the intention to recognize the communist government in Angola we must consider it a defeat for us all."

Although on most of his pages Bukovsky comes through as a profound pessimist, he is still capable of kicking like a steer. At the very least he has some hopes that we will reform our language, and when we are done with that we will be able to tell ourselves the truth that detente is a snare and a delusion. Clinging to paper is nonsense, he says, at a time after our human rights have been "so blatantly violated, after 'Solidarity' was crushed in Poland and Afghanistan was invaded, after an attempt on the Pope's life had been masterminded by the KGB, after Andrei Sakharov nearly died in exile and practically all members of the Helsinki Monitoring Groups were persecuted."

Bukovsky's final advice is simply to keep the pressure on. The Soviets cannot successfully continue their military competition with the West, and they cannot continue to support their evergrowing empire. □

LIBERALISM: IN THE CLASSICAL TRADITION



Ludwig von Mises

LIBERALISM: In The Classical Tradition by Ludwig von Mises is a book-length essay that sums up the ideas and principles of classical liberalism as they apply to the twentieth century. First published in Germany in 1927, it was published in the United States under the title *The Free and Prosperous Commonwealth* in 1962 and reissued in the mid-seventies by The Institute for Humane Studies. It has just been republished by The Foundation for Economic Education in association with the Cobden Press.

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IDEAS ON LIBERTY

CONTENTS
NOVEMBER
1987
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NO. 11

404 David: From Beggar to Entrepreneur—In a Day

Bruce Alan Johnson

A Peruvian street urchin, aided by an American partner, discovers the rewards of the market.

409 “Insider Trading”: The Moral Issue

Ridgway K. Foley, Jr.

The ethics of gaining and using inside business information.

415 Voluntary and Coercive Cartels: The Case of Oil

David Osterfeld

An analysis of the various monopoly and cartel arrangements in the oil industry—and their effect on market efficiency.

426 Federal Job Training: Road to Nowhere

James Bovard

Federal programs to alleviate teen unemployment are all too often a dead-end.

428 Why Government Jobs Programs Destroy Jobs

Thomas J. DiLorenzo

Government efforts to create jobs are bound to fail.

431 The Trade Deficit

Ken S. Ewert

Overcoming the old mercantilist notion of a national “balance of trade.”

437 A Reviewer’s Notebook

John Chamberlain

A look at two recent best sellers: “The Closing of the American Mind” by Allan Bloom and “Cultural Literacy” by E. D. Hirsch, Jr.

439 Other Books

“Crisis and Leviathan: Critical Episodes in the Growth of American Government” by Robert Higgs. “The Rule of Experts: Occupational Licensing in America” by S. David Young.

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Give Thanks for Freedom

The Pilgrims are usually credited with having celebrated the first Thanksgiving in this hemisphere. And rightly so. However, the custom of giving thanks became nationwide only much later.

Our first President, George Washington, was grateful for the Constitution. In his view, it offered an opportunity for the new nation to start afresh. On October 3, 1789, he proclaimed one day nationwide, Thursday, November 26, for "acknowledging with grateful hearts the many and signal favors of Almighty God, especially by affording them an opportunity peaceably to establish a form of government for their safety and happiness." In Washington's view, the new Constitution limited the power of government, leaving the people free "to perform our several and relative duties properly and punctually." He gave special thanks also "for the civil and religious liberty with which we are blessed."

Ever since Civil War time, beginning with Abraham Lincoln, our Presidents have issued a similar Proclamation each year, setting aside one special day for giving thanks. Thanksgiving Day has become a national holiday, celebrated by some in prayer, by some in sports and parades, and by others with feasts.

We in this country today enjoy economic prosperity on a scale unequaled in any other time or clime. We pride ourselves on our "American way of life." We truly have a great deal to be thankful for. However, as we count our blessings this November, let us give some thought and thanks to the freedom on which these many blessings rest.

It is commonplace to say that the colonies were settled, the West explored, the nation developed, and the country populated by individualists who wanted to be independent. The tired, the poor, the huddled masses who yearned to be free came to our shores. They sought the opportunity to speak, to write, to work, to worship, and to live where and as they chose. The Statue of Liberty now symbolizes

their desire to escape oppressive government and to seek opportunity in this land of the free.

We still pay lip service to freedom. But many have forgotten our ancestors' fear of oppressive government. Many have come to rely on some government privilege or protection. We no longer understand how such piecemeal interventions, regulations, and controls can gradually erode our independence. We no longer realize what a big debt we owe to freedom and to the freedom of others.

Practically everything we have today has stemmed from the ideas, initiative, and efforts of free men and women, working and producing together. The food, clothing, shelter, and luxuries we now enjoy represent the output of men and women working, planning, and producing in voluntary cooperation with one another. Countless individuals have labored without being coaxed or coerced by government to till the soil, cultivate the fruits and vegetables, harvest the grains, herd the sheep and cattle, build the skyscrapers, erect the churches and synagogues, build the factories, manufacture the automobiles, trains, planes and buses, weave the textiles, invent the radio, moving pictures, television, computers, appliances, and other conveniences, produce the medicines, build the hospitals, write the books and stories, print the newspapers, compose the music, produce the plays and films, and so on, that all of us now use and enjoy. We are apt to forget that this entire process of voluntary social cooperation could disintegrate if government obstructions are permitted to expand and to proliferate.

Countless individuals, each with his or her own particular aptitudes, talents, and interests, have contributed to the good life we now enjoy. In giving thanks this year, therefore, let's count our blessings. But let's do more than that. Let's not forget the debt we owe to free men and women everywhere, whose ideas, initiative, in-

novativeness, energy, and efforts contribute to our well-being. In all humility, therefore, let's give thanks also to the freedom that makes our blessings possible.

—BBG

Peru's Informal Economy

Peru's Institute for Liberty and Democracy (ILD) estimates that 40 per cent of the nation's GNP is produced by the subterranean economy. "Informal" (unlicensed) entrepreneurs build houses, repair motor vehicles, and run their own small factories. In the capital of Lima, half the population lives in housing built by the informal sector, and informal entrepreneurs provide 95 per cent of public transportation.

Why are so many workers and entrepreneurs operating without licenses and other government permits? Red tape. Peru has more than 500,000 laws and executive orders. When ILD tested the bureaucratic waters by trying to open a small workshop with two sewing machines, it took 289 days to get the needed permits. It took a group of low-income families almost seven years to acquire a vacant lot to build a house. And it takes an average of two decades to obtain formal title to a home. When people are poor, they can't afford the time and expense of dealing with an endless parade of bureaucrats.

But ILD cautions that the informal sector is far from an ideal business environment. There are no legally enforceable contracts, businesses can't incorporate, capital is difficult to acquire, and entrepreneurs must self-insure. Still, for millions of people in Peru and other nations, the subterranean economy is the only hope for survival.

Bruce Alan Johnson, an American businessman who recently visited Peru, helped launch a young Peruvian on an entrepreneurial career. Mr. Johnson recounts his experiences in his article beginning on page 404.

—BJS

David: From Beggar to Entrepreneur—In a Day

by Bruce Alan Johnson

The difference between education and intelligence is this: intelligence will make you a good living.

—Charles F. Kettering

The backstreets of Lima, Peru, are cobblestoned alleys of poverty and squalor. Yet, as G. K. Chesterton remarked, it is the task of the artist always to see beauty behind the masks of even the most depressing human suffering. To be sure, amid these narrow, winding lanes there are countless colonial balconies overhanging the cobblestones, many of them dating back to the early nineteenth century and all of them reflecting the grace of a departed era.

While walking in these backstreets one Saturday afternoon this winter, I heard a young boy's voice call out to me, in half-educated Spanish, "Señor, you got a hundred *soles* [about 22 cents] for a starving boy?"

I paused. Third-World cities are crowded with hungry children, many of them orphans, as families migrate to the cities in hopes of finding the employment that simply isn't available. When I turned around and saw him, I faced a boy of about ten or eleven years, with black hair and a torn T-shirt. He walked toward me, and his eyes fairly flashed with intelligence

and the wariness that only the "street-wise" seem to acquire—a special toughness that is their very defense against the hustlers, the petty thieves, and the unprincipled.

"You're chubbier than I am!" I answered him, smiling.

"Yeah, well, it works on *most* tourists," he said lamentedly.

"Ah, but I'm not a tourist!" I thought I had him.

"I know. There's something about you. . . ." The street wisdom again? "Well, thanks anyway. *Hasta luego.*"

"I was just looking for a tamale and some good Peruvian coffee," I said in a loud voice as he turned away from me. "You know any good places?"

His eyes smiled back, and he approached me briskly. "*Amigo!* I know the best tamales in all of Lima!" I believed him. And he was right.

At a tiny, rundown tamale stand only a few kilometers from the crystalline glamor of the Sheraton, we stood and ate hot tamales wrapped in cornhusks. And drank coffee. I had seen suffering children all over the world, for years. I always had given them money, but what was it about this boy that told me there was something extra—perhaps something even redeeming? At this point, it was only a vague feeling.

"Señor," he said suddenly to me, "you like Peruvian wine?" Peru makes one of the best rosé wines in the world.

Mr. Johnson is chairman of Four Seasons International Corporation (Raleigh, North Carolina), an international business consulting firm. He has had 18 years of experience in developing countries.

“You’re too young to like wine,” I said gruffly. At least I thought I had said it gruffly. But his eyes twinkled:

“Ah, señor, can one ever be too young to love the nectar of the gods?” Then I knew what had captured me: not just his obvious intelligence, but his passion and love for life. Despite the horrors of daily living on the streets—and off his wits—and despite the taunts of other children striving like him to eke out a bare subsistence, this boy had risen above them by seeing beauty where they saw terror, and by seeing hope where they saw only despair. I was hooked.

“¿*Como se llama Usted?*” I asked him, for it had just occurred to me that we didn’t even know each other’s names. I continued to address him in the polite rather than the familiar form used normally when talking with children. This he clearly was not accustomed to, and he responded enthusiastically. You’ve recognized my dignity, he seemed to be saying in return.

“David!” he answered with gusto. “¿*Y Usted?*”

David. The slayer of Goliath. He who rose to greatness out of his love for his own people. I tried to shake off what was clearly only a romantic image of a small street orphan in the modern-day backstreets of a developing city.

“Bruce!” I answered back. But I knew he was not going to be able to pronounce it without considerable difficulty. I was taken aback when he modified it so quickly to suit his Spanish and his own sense of propriety:

“Ah, Señor Brúcel!” he said with satisfaction, pronouncing the Scottish name BROO-say. I was quite used to this variation by adults, but had never heard a child adopt the name so readily. I was pleased.

He was licking the cornhusk wrappers of his tamale, and I took the hint to order him another. He beamed.

“David,” I began, “What do you want to do? How do you want to live?” He obviously was not in school but, I was to learn later, he had taught himself to read phonetically, and was the proud owner of two bedraggled copies of Miguel de Unamuno’s novels, as well as an even more dog-eared paperback Spanish-English dictionary.

He stared straight into my eyes as he an-

swered with resolution I had never heard in any child. “I want to have my own shoeshine business.”

“Really?”

“Really!” A fierce determination underscored his answer—not arrogance, just the plain determination of someone who knew what he wanted and knew *somehow* that he would get it. How could anyone fail to be moved by this little boy’s confidence and precocity?

Shoeshining is an occupation of thousands of young boys throughout the developing countries of Latin America, Africa, and the Middle East. Most of them use cheap polish and no skill in their craft, but it struck me at once that here might be an exception.

“David, going into business entails capital, and I know you know the meaning of that word. Have you any money at all?”

He reached into the side pocket of his tattered and filthy jeans, and withdrew a small bundle of 500-*soles* banknotes. Altogether, he had the equivalent of nine dollars. “Where did you get this?” It was a good deal of money for a small boy in Peru to have.

“I saved it from *turistas*.” I believed him. Tourists—especially American tourists—typically have hearts of gold, and beggar children know this only too well. The next question was easy.

“David, I believe you. And I believe that you’re serious about wanting your own business. I’ll tell you what.” His big eyes were fixed on mine, unmoving. “I’ll be your venture capitalist, and I’ll explain what that means. It means that I’m willing to provide the rest of the money you need for your venture, but only if you’re willing to share part of your earnings with me: If I’m going to invest in you, I deserve a return on my investment. Fair?”

I had expected him by this time to look puzzled. I should have known better.

“But capitalism is evil—it’s what makes us starve!” he spit back. It really wasn’t surprising. Throughout the Third World, this time-worn cliché is being bandied about by sociologists and academics at an alarming rate. Now I was confronted by an inordinately sensitive and capable little boy who did not have the tools with which to refute something that I sus-

pected he knew, inside, was false.

"David, in the years before your new President, did you live better or worse than you do now?"

"Things were not good before President Belaúnde," he replied. "My friends have told me bad things."*

"Exactly. And that was because your friends were not allowed to practice what they wanted to do, and they were not allowed to keep what they had earned by their own hands. Right now in Perú, anyone in the country can make a living any way he sees fit, just so long as he doesn't break the law." He nodded. "David, I just paid this lady for some tamales and some coffee. Now, she's a capitalist because she's in business for herself. But when I paid her, who benefited?"

He paused a minute. "Well, I guess *both* of you did!" He knew he was right. His eyes showed me that he was beginning to catch on to an idea he had only felt before.

"Exactly! Now, what if she had wanted 1,000 *soles* for a tamale, rather than only 25?"

"Hey, amigo, you would have been a real *gringo turista* if you had paid that price!" He was genuinely excited, and it was contagious; two other customers at the tamale stand were watching us now, smiling.

"Yes, I would have been just that. But more likely, I would have refused to buy them from her, right?" He nodded again, enthusiastically.

"In a business transaction, the price of anything is determined not by what *you* want to charge, but by what the customer is willing to pay. In other words, the market reflects fairness, just so long as no one is allowed to get away with fraud."

"Well, amigo, there's a lot of jerks in this

town, and they rip off everyone. . . ." I interrupted him.

"There's a fine line, David, between fraud and just foolhardy buying habits. If you get me to pay you, say, 100,000 *soles* in advance for a car, and then deliver me an old horse, *that's* fraud. But if I willingly walk up and buy your horse, after looking it over, even though I might know that neither the horse nor the price are such a good deal, then I'm just plain stupid. In other words, it's *my* responsibility to look after myself, not yours and not President Belaúnde's."

"Okay. *Bueno*. So how much am I going to charge?" Smart kid, but moving in the fast lane before he's learned to drive, I thought to myself, amused.

"What's the going price for a shoeshine in Lima?" I asked.

"I guess 275 *soles*," he answered quickly. About 65 cents.

"And do you think you'll be as good as the other boys in Lima? Remember, they're your competitors."

"I'm *better!*" he shouted. "I'm better than all of them!" He believed that, and so did I, because enthusiasm is the father of excellence.

"Now *that's* the spirit! Okay. So why don't you do this: offer a better service, and try charging just a few *soles* more for it. If you're really that good, people will pay for the difference, quite happily."

"Really?"

I ruffed his hair. "Really!"

I put my arm on his shoulder and pulled him back into the lane. "So let's go and get your equipment," I said. It was like suggesting a glass of water to a parched desert hiker.

As I had expected, young David had picked out his equipment weeks before, in hopes that he might somehow be able to buy it soon. In a small, dingy, general-goods store, we found a shoeshine box, well used. We then went around the corner to a shoe repair shop to find the polish, brushes, and rags he needed. Altogether, the total came to about \$18.00. (Shoe polish is imported from North America, and goes for a very steep price, after customs duties are added.) So David was in debt for \$9.00.

* Peru, under Mr. García's administration today, is suffering once again the impoverishing effects of socialist policies. As Michael Novak remarks in his new book, *Will It Liberate? Questions About Liberation Theology*: "In Peru, the liberal activist Hernando de Soto has pointed out that state regulation almost totally strangles the economic liberties of the lower classes. Some 2.5 million street vendors, artisans, and manufacturers work without legal protection because they cannot cut through governmental red tape. Ninety-five percent of Lima's public transportation (buses and taxis) are run by this illegal 'informal sector.' Forty-three percent of all Peruvian housing built during the past 30 years has been built informally. Sixty percent of Lima's food is distributed informally. To build homes requires 7 to 14 years to receive government authorization. It can take 289 days to form a legal corporation, and the cost in bribes, government fees, and foregone income is five times the average worker's annual earnings, some \$8,700 [US]."

Now it was my turn to be eager. Where had he decided to set up shop?

“At the Plaza San Martín!” He responded.

“What? Along with twenty other shoeshine boys?” It was time for a little marketing lesson.

“Yeah, but I’m *better*, remember?”

“And those twenty competitors already have their steady customers. So how are you going to break into a market that’s already filled?” I tried to be firm without sounding disappointed in him.

“*Está bien*. But where can I go, where there’s lots of people?” He was sincere in his concern. Plaza San Martín was one of the central hub areas of Lima.

“The Sheraton Hotel, David.” I handed the shoe box over to him. “That’s where there are busloads of *turistas* with big hearts and lots of dusty, dirty shoes!”

He was grinning broadly now. “Ay, *gringos!*” I wasn’t sure I liked his enthusiasm this time.

On our way to the Sheraton, we discussed the fact that there were already a few boys shining shoes near the front door of the hotel. “But there aren’t *twenty* of them, are there?”

We talked about fairness, and about competing without harming the other boys. Their skills should be the only standard by which they will win business. Besides, I urged him, sometimes there will be more *turistas* outside than he could handle, so sharing the business was in the best interest of everyone. He accepted this, but grudgingly.

Moments after arriving at the Sheraton he popped the question that I had completely overlooked. “Hey, Señor Bruce—how much do you get from me? Half?”

I paused to study this young entrepreneur with the stained jeans. “One per cent,” I answered. He stared back.

“How much is that?” I had forgotten that his education was sparse.

“That means I get one *sole* out of every hundred you collect,” I answered.

He beamed. “You *are* a *gringo*, amigo!”

Five minutes later, I had talked an unsuspecting British tourist into stepping outside for the best shoeshine of his life. “Oh, really now,” he had objected, “I don’t at all take to



David

these little urchins rubbing cordovan polish all over my slacks, you know, what?”

Yes, I knew. But, a few minutes later, he acquiesced, probably out of intrigue for this strange Yank who was so taken with the little enterprise.

We approached David with some trepidation. After ascertaining that the hesitant British gentleman spoke only tourist Spanish (“How much is that in *real* money, *por favor?*”) I looked sternly at my young charge.

“David, if you use the wrong color or get one smitch of polish on this man’s slacks, I’ll chase you all the way over the Andes into Ecuador!” He knew I meant it, but he was amused nonetheless.

His brown eyes said, “Okay, boss!” My own eyes said, “Maybe I’d better go up to my room until this is all over and done with. . . .”

David went to work with a ferocity and steadiness that was intoxicating. I decided I didn’t need to disappear, after all. Even the British gentleman was taken aback by the skill that this little boy was displaying—snapping his polish cloth about with the same panache as Jascha Heifetz wielded a bow. Moments later,

it looked as if David had created a new pair of shoes. I was visibly relieved. So, I could tell, was his first customer.

"That is a smashing job, young man!" said the man.

David looked at me, puzzled. "¡Fantástico!" I flashed back. He grinned proudly.

"How much do I owe you?" David, of course, knew the words "how much," probably in more languages than Berlitz. He looked at me. I turned both palms up, to signify that it was his decision completely. I only hoped that he had done a minute's thinking about what we had discussed that afternoon. He had.

"Trescientos soles, por favor, Señor!" I smiled. Three hundred soles—three and a half cents above the competition, for a job worth much more.

The British tourist dug into his pocket and withdrew a 500-soles note. "This is for an outstanding job!" he said, handing it to an overwhelmed David. "And I've got a few others in my group who I'll send out to you later this afternoon. Cheers!"

Cheers, indeed! Here before me stood a young man with tears in his eyes, staring hard at the first money he had ever *earned* in his life. I knew the feeling, and you know it, too.

I winked at him, and turned on my heel to go back into the Sheraton—this time to stay.

I returned to my room on the sixteenth floor, and began to write reports associated with my own employment. But from time to time I peered over the balcony of my room, only to see young David slaying the Goliath of competition he never feared, and only once did I see him without a customer. I laughed as I watched him develop a style that never failed to hook a passerby: He would bow stiffly to them, and say in an unhalting voice, "Señor, I am zee BEST!"

A few hours later, after sunset, my phone rang. It was the concierge in the lobby. They had, he said, caught a little street urchin trying to sneak up the elevators to my room, but be-

fore they threw him out they felt they should call me, because he kept threatening them that I would "chase them over the Andes" if indeed they threw him out.

"Señor," I said as formally as I could, accenting every syllable, and carefully trilling every "r," "That young street urchin is my business partner. Send him up at once!" I couldn't see David's face, of course, but I could picture him drawing himself up to his full four-foot height, dusting off his shoe box, and marching smugly to the elevators.

When I opened my door, he held out his hands. They were piled high with 100-soles coins, atop a stack of 500-soles notes. I was astonished.

"I don't know how much is yours, Señor Brúce, but I must pay you," he said quite seriously. We counted the money. He had earned enough to pay back my \$9.00 investment, and to pay me my return of 1 per cent, which itself amounted to 12 soles, or 2.7 cents. He was left, at the end of his first day, with the equivalent of \$2.70. But he knew that from here on he was going to make a good deal of money, now that his initial debt had been paid off in full.

As he turned to leave, he extended his small, polish-covered hand. "Señor," he said softly, "Someday I will have enough money to come see you in America!"

I gripped his hand firmly. "David, that's a wonderful thing to say. But there's plenty of time for that. You've got a lot to give to *Perú!*"

A few moments of silence passed before he looked up at me. "I will give it," he said, and I released his hand.

He stopped and turned back on his way down the hall. I thrust out my hand, with my thumb pointed firmly upwards. "¡Arriba!" I shouted down the hall. Upwards!

"¡Arriba!" he shouted back, arching his free arm into the air. Then we both laughed, for dangling precariously from his blackened thumb was a polish cloth. □

“Insider Trading”: The Moral Issue

by Ridgway K. Foley, Jr.

Sabena Dowd, an engineer for Super Software, overhears a conversation during a morning elevator ride to her office on the 38th floor of the New Market Building. She observes the two passengers leave the elevator on the 27th floor. She knows—as does anyone who can and will read the building directory—that the 27th floor is the exclusive domain of Reuben & Rotten, investment bankers reputed to specialize in acquisitions, mergers, leveraged buy-outs, and other common financial market activities. Sabena also recognizes one of her departing fellow passengers as Richard Rotten, a partner whose visage has appeared on several recent occasions in both the social and the financial pages of local publications. Neither Mr. Rotten nor his companion make any attempt to hide or disguise their discussion from others in the car; indeed, they take no notice of anyone else.

The gist of the conversation leads Sabena Dowd to conclude that International Thundermug Corporation (ITC) may represent an excellent investment opportunity. She confirms her conclusion by a venture to the public library that noon hour, during which time she reviews not only the latest annual and quarterly reports of ITC, but also the analyses of several financial writers; this quick study suggests that ITC has scant debt, solid cash assets, strong market share, and experienced management. Sabena calls a national brokerage house where her account executive assures her that, in his mind, ITC is an “excellent stock.” She buys 1,000

shares of ITC at \$25.00 a share, the midpoint of the selling range for the last twelve months. Within a week, *Barron's* and *The Wall Street Journal* report that International Thundermug, counseled by Reuben & Rotten, has agreed in principle to acquisition by Old Arrogant Foundry (OAF), a nationally known conglomerate famed in the news as a “raider.” Both ITC and OAF are listed on the New York Stock Exchange. ITC stock opens the next day at \$57.00 a share. Sabena calls her friendly neighborhood discount broker and sells out her position, pocketing a neat short-term \$32,000 profit. Has she engaged in that currently odious and heinous offense of “insider trading”?

Shocking as it may seem to those of us steeped in traditional ethics, the answer is not clear-cut. In fact, situations such as these perplex many honest and well-intentioned individuals daily, stifling their productive endeavors and creating a fear of criminality in the decent and the ethical. No one disputes the necessity for rules preventing fraudulent conduct and overt misrepresentation; unfortunately, the “insider trading” arena extends far beyond ordinary boundaries of proscribed activity and accepted ethical definition.

This paper will not discuss the “extension of knowledge” or entrepreneurial analyses of normative rules regarding security transactions. More qualified scholars have honed in on the value of open information markets in the absence of activity which is coercive or deceitful in the customary sense.¹ Instead, this essay seeks to consider, in cursory fashion, the essential *ethical* or *moral* standards which are as-

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sumed, seldom enunciated, and virtually never understood under the "insider trading" rubric. The hypothetical situation proposed in the opening paragraph—sounding all too much like a law school examination question—with some modifications, illustrates some of the issues which settle like a plague upon our marketplace.

Is Sabena Dowd an "Insider"?

Is Sabena Dowd an "insider"? Not in any ordinary sense. She merely overhears an open conversation; she occupies space where she has every right to be; she has not eavesdropped, as by tapping a telephone or employing a spike mike; she does not represent any party to the transaction, nor is her employment in any manner connected to the acquisition, save in the fortuitous sense of use of a common elevator to unrelated offices. Under these circumstances, one would suppose that Sabena Dowd would be free to act on this information; after all, she does run a real risk of *loss*, as anyone who has acted on "tips" gleaned from the beauty shop, the shoeshine stand, or the singles' bar can testify with sorrow.

Nonetheless, the current frenzy instilled by the envious busybodies of the day forecasts a trend which would or could indict Sabena Dowd.

One could modify the hypothetical to justify conviction. Suppose Sabena Dowd to be a lawyer retained to represent ITC or OAF. Most codes of professional responsibility prohibit attorney conduct violative of the retainer, at least in the absence of full disclosure and knowing consent by the affected clients. These rules form express or implied contractual promises; the breach of these promises provides justification for a civil action by any victimized party. Note well, however, that under traditional legal analysis, the only "victim" would be Sabena's *client*, and proof of any *harm* (assuming a freely traded security) is difficult to fathom.² While the common law recognized a few "third party beneficiaries" entitled to sue for a broken contract to which they were not parties, such occasions represent the extraordinary rather than the commonplace. Again, it is diffi-

cult to conjure up a readily recognized third party beneficiary in the example.

A similar modification could result in a similar analysis if Sabena were employed by Reuben & Rotten, and if her employment agreement expressly forbade participation or investment in transactions in which the employer acted as counsel. Accountants and auditors, for example, often insert such covenants in their employment agreements if the governing professional body does not expressly prohibit professional-client transactions.³

In similar fashion, if Sabena had broken into the offices of ITC, OAF, or Reuben & Rotten, and secured private information by stealth or force of arms, few would find her innocent of all wrongdoing, although "insider trading" would prove to be a particularly inept description of her crime.

Thus, Sabena Dowd in the opening example does not come within any of the suspect categories which might justify penal sanction. She violated no implied or express covenant in a recognized professional code. She breached no term of an employment contract. She engaged in no deceit, no theft, no robbery. She merely received information (which proved to be accurate and valuable) not available to the general public, acted upon it, and profited. Under what justificatory talisman could the law find her guilty of a criminal act or a civil wrong in the category of "insider trading"?

The most likely fundamental response is a resort to a redistributionist theory of envy: a perceived "public," represented by government minions, mistakes or labels Sabena's actions as blameworthy merely because she profited and someone else did not; therefore, under standard redistributionist theory, the law ought to take away her "ill-gotten gains" and figuratively spank her as well!

It would pay conceptual dividends to consider the theoretical support for rules and regulations prohibiting security transactions in cases where no force, fraud, or breach of contract takes place. Suppose Sabena Dowd served as an officer and director of ITC and that her employment agreement was silent as to investment in her company. Suppose further that she sat in the very inner councils of her company and participated actively in the ITC/OAF acquisition.

Suppose that, by virtue of her position and participation, Sabena heightened her attitude concerning ITC as a profitable investment. What moral wrong does she commit by investing in, or trading, ITC stock on the open market? I suggest that Sabena Dowd, under such circumstances, has done no wrong and that the crime of “insider trading” (beyond the basic force-fraud-contract analysis) is *mala prohibita*, not *malum in se*.⁴

The Sources of Knowledge

One might urge that Sabena Dowd has engaged in misconduct by profiting from select or special knowledge. Two answers appertain. First, as the introductory hypothetical example illustrates, “knowledge” may be derived from several sources; also, “knowledge” may be quite wrong, as the redoubtable attorney, Charles Mackay, chronicled in 1841.⁵ In the opening example, note that while Sabena overheard an “inside” conversation, she supplemented that information before making her decision by using sources available to anyone willing to dig: published company reports, written commentaries, and broker recommendations. In addition, she employed her background observations and deductive reasoning in recognizing Mr. Rotten from the daily press, and in deducing the measure of a good company (strong and vital balance sheet, market share, management). Each of these sources—and more—would be available to Sabena Dowd in the altered hypothetical case where she serves as an officer and director.

Second, and more importantly, no recognized and acceptable principle of ethics bars an entrepreneur, observer, or anyone else from taking action and making decisions based upon any and all information secured by means unconstrained by laws against fraud, breach of contract, and use of force.⁶ Consider the fundamental tenets of personal behavior which are of such a nature as to deserve to be encrusted into law. One ought not cheat another or coerce him or steal from him; Sabena Dowd, in our “officer/director/insider” example does none of those things. Hence, one can argue cogently *against* the imposition of any civil or criminal barriers or penalties.

Can we torture some extended definition of deceit or misrepresentation which would bar Sabena’s use of “inside knowledge” so posited? I think not. The common law elements of the civil wrong of “fraud and deceit,” having survived the test of at least five or six centuries, still stand us in good stead. Fraud requires proof that A made a (1) knowing or intentional (2) false (3) representation (4) of fact (5) to B (6) intending that B rely upon the representation, and that (7) B did reasonably (8) rely upon the false statement (9) to his loss, detriment, or damage.⁷ Modern tort law has extended liability in some jurisdictions to encompass negligent or inadvertent misrepresentation,⁸ thereby modifying the first and sixth elements. Sabena has not violated either the strict or the attenuated version: In the “officer/director/insider” example, *none* of the elements can be shown!

Could or should the law *imply* a misrepresentation by Sabena’s silent acquisition and use of knowledge? Not reasonably. Not pursuant to any established and logical moral code. As a practical matter, any rule of law compelling “full disclosure of all essential (or material) matters” would open up an unlimited realm of absurdity. For example, what is “essential” or “material”; to whom must disclosure be made and by what means; to what extent must the speaker ascertain that her disclosure is heard and comprehended; is disclosure required solely as to matters of investment or finance; if some disclosure must be made beyond the ordinary investment and financial context, what boundaries exist and whither privacy; if knowledge is acquired inadvertently and purely fortuitously (as in the original hypothetical) must that information be imparted; and myriad other inquiries too numerous to mention. The resulting quagmire of uncertainty leavened with a tattletale mentality could only increase the growing frustration indigenous to government regulation in an age of the busybody.

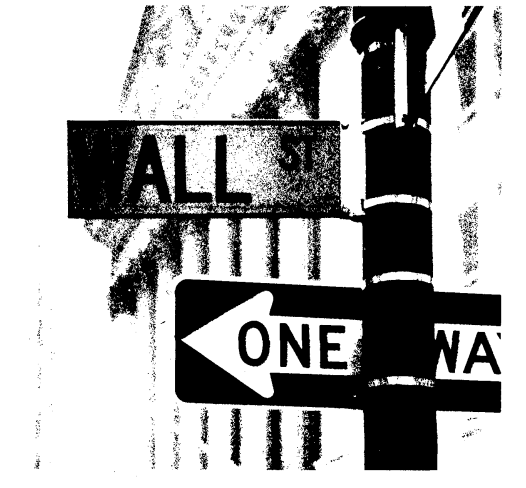
Ought the law impose a duty upon Sabena to abstain from use of “inside information” acquired without force, fraud, or breach of contract? Again, thoughtful ethical rules invoke a negative answer. No one *ought* to be compelled to share knowledge; the very essence of the ballyhooed right to privacy lies in a recognized domain from which each individual may ex-

clude all others at will. To compel the distribution of knowledge not only truncates the normal workings of the marketplace but also erodes the essence of the individual by chipping away at his private preserve.

Conversely, no one *ought* to be constrained from the gainful (if risky) employment of knowledge secured without force, fraud, deceit or in breach of a binding contract. Extension beyond these given rules of constraint would, once again, create a living theater of the absurd. For example, under what circumstances should the noncoercive, nonfraudulent acquisition of knowledge result in prohibition or forfeiture? Indeed, the current murk of Federal and state statutes, regulations, and decisions concerning "insider trading" demonstrates the inadequacy, artificiality, and utter foolishness of regulators run amok.

Apparently, the proponents of "insider trading" legislation rest their case upon some sort of "fundamental fairness" argument.⁹ Unfortunately, few lawmakers trouble themselves with essential analysis; they avoid difficult questions and engage in untenable assumptions. Hence, in the context of "insider trading," those lacking in secondary linguistic sophistication *assume*, without reflection, that Sabena has not acted "fairly" in our "officer/director/insider" modification. Yet, the vital inquiry persists: Why this assumption? She has not cheated or robbed anyone. She has not broken any contract. In short, she has not engaged in traditionally dishonest conduct.

"Aha!" cry Sabena's traducers. She has gained an "unfair advantage" and that, in and of itself, calls her conduct into question. Reflect. Almost everyone enjoys, or could create, an analogical "unfair advantage." After all, despite the pains and plans of generations of normative witch doctors, each individual remains precisely that, a discrete individual, ever so much distinct from every other living creature before and since. Moreover, an additional complication crops up inasmuch as the inexorable passage of time and events, leavened by the interaction of myriad human beings, constantly creates new and different challenges and circumstances. This ebb and flow of time and persons presents opportunities for the acquisition and employment of knowledge in many



Could or should the law *imply* a misrepresentation by Sabena's silent acquisition and use of knowledge?

arenas of life, one of which concerns the creation, production, and distribution of goods, services, and ideas available to satisfy the subjective desires of fellow sojourners on this planet.¹⁰

Nor can one argue convincingly that Sabena acquired her "edge" fortuitously, although a random acquisition of values, talents, health, and the like ought not undermine the governing moral postulate. Normally, an "insider" such as Sabena in our "officer/director/insider" modification has achieved her status as a result of the satisfaction of the wants of others in the market,¹¹ and not by random chance.

In some circumstances, the law provides civil or penal sanctions for conduct which thwarts reasonable expectations of third parties or the public; does Sabena Dowd's hypothesized activity in the "officer/director/insider" example fall within this emerging jurisprudential concept? Again, I think not. Assuming, for argument's sake, the efficacy of such a legal doctrine,¹² under any standard the broken expectation must be *reasonably* held. Since the pertinent issue here concerns the existence or nonexistence of a *moral* condemnation of "insider trading," the inquiry must properly re-

flect this limit. Properly phrased, then, does any individual possess a *reasonable* expectation that, as a moral principle, the “officer/director/insider” *ought* to avoid participation in security transactions where the actor may possess special knowledge?

No, for several reasons. First, one could not will the rule as a universal,¹³ for the identical reasons discussed heretofore regarding the reduction to absurdity of an open limit on the use of knowledge. Second, any expectation would be unreasonable inasmuch as inconsistent and disparate rules of conduct would appertain to analogical situations: Consistency would vanish as the human tendency to create exceptions for self and to require strict compliance for others would prevail. Third, and most saliently, the general moral law which most neatly accords with human action in this ordered universe decries breach of express contractual covenants, theft, and deceit in this regard, but otherwise permits free, self-determined conduct. This historically accepted and proven norm rests upon a recognition that no individual ought to select for another and a rejection of the doctrine of “might makes right.” Since Sabena’s supposed conduct does not involve force, fraud, or breach of contract, no reasonable third person could expect her to renounce or eschew her opportunity or position.

This moral analysis gains currency from an examination of the nature of the use of “inside information.” Two characteristics stand out.

First, “inside information” may be wrong, unprofitable, or both. Few commentators dwell on the point; yet, how many civil or criminal proceedings are prosecuted against users of “inside information” who lose? The information may be faulty; e.g., Sabena Dowd may overhear a conversation concerning an ITC/OAF buyout which is untrue. Or, the information, while accurate, may not produce expected and profitable results; e.g., the ITC/OAF buyout takes place but the market (the discrete conduct of millions of parties who act upon their subjective value systems) does not believe the combination to be beneficial and the price drops from \$25.00 a share to \$12.00 a share in a few hours. In either event, Sabena Dowd has lost as a result of her “insider trading”; who will weep for her?¹⁴

Second, consider the transient nature of much of what the pontificators label “inside information.” In many instances, one can liken any price advance and profit to a tour of Reno blackjack tables or, more fittingly, idle participation in a government-sponsored lotto game. Often, the price fluctuation results not from some disguised use of secret knowledge but, rather, from psychological stampedes akin to those described by Charles Mackay.¹⁵ The careful and *successful* investor normally considers fundamentals ever so much more important than hunches. Thus, the deductive investigation performed by Sabena Dowd in the opening example—review of reports and published opinions, study of management and markets—assays more likely success than a chance elevator encounter. Viewed in this manner, the assault on the “insiders” amounts to an envious claim upon gambling proceeds in place of a hypocritical but high-toned plea for ethical renewal.

Making Distinctions

In final analysis, then, the moral case for prohibition of “insider trading” hinges upon facile words lacking analytical depth. As with myriad other fields of concern, the human inability or unwillingness to make fine distinctions imparts a seminal flaw to the required study. Most folks—past and present—agree that the law ought to prohibit and punish assault, aggression, murder, fraud, deceit, cheating, and breach of solemn, voluntary contracts. In similar lingo, most accepted moral codes recognize and propound these normative principles.¹⁶ Thus, if Sabena broke her contract, or stole her information, or achieved her gain by means of force or fraud, most civilized individuals would consider her conduct reprehensible and a fit subject for punishment. To the extent that “insider trading” constraints deter or penalize such acts, the law coincides with accepted moral principles.

The difficulty appears where some individuals or groups seek to impose different standards upon other parties. Expediency often impels these “law seekers” to equate their new propositions with a supposed rule of ethics; a “moral-ought” argument probably increases

the chance of passage of legislation where Congressmen (1) cannot or will not think, and (2) fear voting against (what is perceived as) a moral rule. In these instances, ignorance or venality impede wise action: Normally, the "moral" or "ethical" doctrine proposed is questionable or inimical to a free society. Nonetheless, the proponents confuse those few, standard, accepted, historically tested moral principles with their own evisceral, proposed, self-serving beliefs of right and wrong.

It is one thing to assert that, as an ethical tenet, an executive ought not to own shares or trade in the securities of his employer, and to impose that qualification upon one's own activity. It is quite another matter to enact that proposition as an immutable normative rule, compelling all others to adhere to the standard. It is not so much the inefficacy of willing the postulate as a universal;¹⁷ instead, it devolves to a recognition of the essence of human nature and the respect for the nonaggressive choice of all individuals.

In a free society, all individuals ought to remain untrammelled in their creative activities; the state should solve insoluble disputes pursuant to common rules of law, and should prevent or punish the aggressive use of force and fraud. The fundamental moral principle underlying the premises of a free society—that each human actor ought to remain at liberty to seek his own creative destiny as he sees fit—cannot exist in harmony with most of the common lore and foolish rules now applied to "insider trading." □

1. See, Manne, Henry G., *Insider Trading and The Stock Market* (The Free Press, New York, 1966); Manne, Henry G., "Insider Trading and The Law Professors," 23 *Vand L Rev.* pp. 547-590 (1970). But see, Ferber, David, "The Case Against Insider Trading: A Response to Professor Manne," 23 *Vand L Rev.* pp. 621-30 (1970); see also, Manne, Henry G., "Economic Aspects of Required Disclosure Under Federal Securities Laws," a Charles C. Moskowitz lecture published in *Wall Street in Transition: The Emerging System and Its Impact on the Economy* (pages 21-110) (New York University Press, 1974).

2. Professor Manne has argued long and cogently that empirical evidence demonstrates that "insider trading" does not harm long-term investors, and that insider transactions may well perform a very efficient and salient role in compensating the innovator and the entrepreneur. See, Manne, *op. cit.*, note 1, *Insider Trading and the Stock Market*. However, the presence or absence of a "victim" does not necessarily determine the moral propriety of human conduct, the touchstone of this paper.

3. This essay assumes, for sake of argument, the propriety of the existence of private codes of conduct, e.g., rules of professional

bodies prohibiting representation of multiple interests. Clearly, such an assumption deserves a closer look on some other occasion, for mandated proscriptions tend to violate the fundamental rules of a free society to the extent they exceed the proper governmental function to prevent aggression and deceit and to settle disputes in a forum of common justice.

4. The traditional criminal jurisprudence of the common law employed this differentiation. "*Mala prohibita*" referred to an act which was unlawful only by virtue of legal proscription; "*malum in se*" connoted penal laws which punished conduct which was "evil in and of itself," something all civilized societies would consider wrong, with or without a formal legal sanction.

5. Mackay, Charles, *Extraordinary Popular Delusions and the Madness of Crowds* (London, Richard Bentley, 1841) recounts myriad examples of common knowledge gone awry. Among the analyses contained in the first 100 pages of this remarkable tome are the investment debacles of "tulipmania" and John Law. Legend records that Bernard Baruch, the wizard of Wall Street, took Mackay's chronicles to heart in achieving his astonishing financial success.

6. While it is also true that a market society thrives upon the free flow of information without the artificial barriers noted earlier, I will refrain from addressing that argument here since it is tangential to my main purpose. Professor Manne handles the matter most admirably. See note 1, *op. cit.*

7. See, e.g., *Kaufman Inv. Corp. v. Johnson*, 623 F2d 598 (9th Cir. 1980), cert den 450 U.S. 914; *Meador v. Francis Ford, Inc.*, 286 Or 451, 595 P2d 480 (1979); *Metal Tech Corp. v. Metal Techniques Co., Inc.*, 74 Or App 297, 703 P2d 237 (1985). Confirm 3 Restatement 55, et seq., *Torts Second* § 525 ff.

8. See, e.g., *Weiss v. Gumbert*, 191 Or 119, 227 P2d 812, 228 P2d 800 (1951); 3 Restatement 126-145, *Torts Second* §§ 552-552C.

9. Another practical impetus resides in the bureaucratic and dictatorial mind. Once regulation passes into law, the enforcement apparatus tends not only to perpetuate its own position but also to expand its territory. In some instances, this occurs out of a misplaced belief in the inerrancy of the administrative mind and vision; in other cases, the administrative agency seeks raw power. Since the primary impetus toward application and enforcement in the present milieu derives from the Securities and Exchange Commission, the reader can draw his own conclusion as to the effective motivation of that agency.

10. I suppose it is equally "unfair" that I was not born with the innate ability to play basketball in the manner of Bill Russell. A disappointed swain in an earlier time might have rued the fact that he was not born handsome or winsome, or that he did not meet his dream girl prior to her betrothal to another. An inventor might despair that he lacked the insight or the intelligence to recognize and apply the properties available to him to solve a problem or to provide a new product. Yet, these equally "unfair" situations cannot and ought not be redressed by law; Job wrestled with seeming unfairness many centuries ago.

11. The satisfaction of market demand may result from the activities of a third party. For example, perhaps Sabena inherited her position in a close corporation from her father or mother, or received it in a marital dissolution settlement. If the acquisition is noncoercive and untainted by fraud, the essential analysis prevails.

12. I will resist any hankering to digress into a discussion of the merits of the concept of "thwarted expectations" as a premise for legal responsibility. Observe, however, that the theory possesses a number of shortcomings, at least in its embryonic form.

13. Kant, Immanuel, *Fundamental Principles of the Metaphysics of Morals* (New York, The Liberal Arts Press, 1949), p. 19.

14. Both of these events may just as well occur in the "officer/director/insider" modification of our hypothetical. Executives also wear blinders; indeed, sometimes close vision proves the most myopic.

15. Note 5, *op. cit.*

16. One ought to except the Marxist and Fascist view of things in this regard, since those codes of conduct rest on the "might makes right" premise. Query: How many true adherents—as distinguished from the gulled and the quelled—to those doctrines exist?

17. Note 13, *op. cit.*

Voluntary and Coercive Cartels: The Case of Oil

by David Osterfeld

An important policy consideration is the ability of cartels to control prices. Too often this issue is discussed without distinguishing between voluntary, or free market cartels and coercive, or state-supported cartels. This distinction is fundamental. Coercive cartels distort the market, resulting in serious inefficiencies which harm consumers. Voluntary cartels, on the other hand, enhance market efficiency and therefore benefit consumers. An examination of the various monopoly and cartel arrangements in the oil industry will highlight these distinctions.

1. Origins of the Oil Industry¹

By the turn of the nineteenth century, whale and sperm oil had replaced wood and peat as the principal new energy sources. The whale industry boomed. By the 1850s whale and sperm oil prices began to soar as whales were being slaughtered faster than they spawned. Selling for less than 25 cents a gallon in the 1820s, whale oil prices rose to over \$3 a gallon by mid-century, and occasionally reached as much as \$10 a gallon—the equivalent of about \$200 a gallon at today's prices.

Such high prices naturally led to the search for substitutes. Coal oil was viewed as the most likely replacement. But after visiting scientists at both Dartmouth and Yale, in 1854, a New York lawyer, George Bissell, became interested in the commercial possibilities of crude oil. He founded the Pennsylvania Rock Oil

Company and hired an out-of-work drifter, "Colonel" Edwin Drake.

The usual method for producing oil at the time was to dig pits and allow the oil to seep to the surface where it was then skimmed off. Too little oil was obtained by this method to make it economically viable, and Drake decided that a more efficient method might be to apply to oil the same techniques that were used in searching for water and salt: drill for it. At Titusville, Pennsylvania, in the summer of 1859, Drake struck oil at 69½ feet and the crude oil industry was launched.

Supplying 25-30 barrels a day at \$20 a barrel, Drake's well grossed \$600 a day. Word quickly spread and the northern Pennsylvania landscape was soon dotted with oil rigs. Within a decade the Oil Creek Region of Pennsylvania was producing nearly 5 million barrels of oil a year and the price per barrel plummeted to 10 cents, less than the cost of the barrel itself. By 1870 about 75 per cent of the oil refineries were losing money.

2. The Standard Oil Monopoly

John D. Rockefeller, who in the 1860s founded what was to become Standard Oil, resolved, as John Chamberlain put it, "to 'stabilize' the oil market by eliminating competition."² Between 1860 and 1870, Standard Oil's share of the market rose from less than 10 per cent to nearly 90 per cent. During the so-called "oil war" of the 1870s, Standard began to buy out its competitors. Those who refused to sell were often driven out of business by Standard's prices. But the reason Standard was able to

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“buy out” so many of its competitors—by 1874 it had purchased 21 of the 26 Cleveland refineries—was that given the depressed state of the oil market at this time many *wanted* to be bought out and, as D. T. Armentano noted, the simple fact of the matter is that “the original cost of a refinery in 1865 was irrelevant in 1875” and Standard “paid the *best* market prices for properties that were almost bankrupt and so inefficient that most were subsequently closed down by Standard.”³

Legend has it that those who refused to be bought out were driven out of business by Standard’s “predatory pricing,” i.e., selling below cost to drive competitors into bankruptcy and then exploiting the monopoly position by raising prices. There is no doubt that Rockefeller was a “savage competitor.” But it is equally clear that Standard Oil did *not* practice predatory pricing. Such a policy, John McGee has pointed out, “would have been foolish; and, whatever else was said about them, the old Standard organization was seldom criticized for making less money when it could readily have made more.”⁴

For one thing a policy of predatory pricing is very costly, and its cost is directly proportional to the firm’s share of the market. Thus, predatory pricing is *most* costly to the largest firm in the industry since it has the largest share of the business. Losing more money than any other firm in the industry is hardly a way to establish “market dominance.” Second, the notion of predatory pricing is logically flawed since it assumes “a ‘war chest’ of monopoly profits to see the firm through the costly battles,” thereby implying that it *already* possesses the very monopoly the policy is supposed to achieve.⁵

Rather, in an industry characterized by waste and inefficiency, Rockefeller made Standard a model of efficiency and innovation. Standard Oil was the first firm in the industry to emphasize research, the first to expand its operations beyond the Appalachian area, the pioneer in developing overseas markets, in exploiting economies of scale, and in developing new marketing techniques. Thus, while the price of kerosene fell from 26 cents to 8 cents a gallon between 1870 and 1885, Standard was able to reduce its costs from 3 cents a gallon in 1870 to

.45 cents in 1885. Standard, notes Armentano, “was relatively efficient, and its efficiency was being translated to the consumer in the form of lower prices for a much improved product, and to the firm in the form of additional profits.”⁶ Standard Oil’s success resulted not from the illogical notion of predatory pricing but from the efficiency of its operation.

Nevertheless, even at the height of its success Standard was never able to fully monopolize the market. Between 1880 and 1895 Standard’s share of the refining market fell from about 90 per cent to 82 per cent despite the fact that during the same period it reduced its prices from 9½ cents a gallon to only 5.91 cents. Standard’s share of the market began to decline rapidly after 1900, i.e., well before the court-ordered dissolution of the “monopoly” in 1911, when gas and electricity began to cut deeply into kerosene sales. And the discovery of huge oil reserves in Texas, Oklahoma, and California—reserves which literally dwarfed those in the oil regions of Pennsylvania—further undercut Standard’s position. By 1901, John Chamberlain has written, “the Rockefellers could no more dominate oil than King Canute could dominate the tides.”⁷

Clearly, it was the free market, not the courts, which thwarted Standard Oil’s attempts to monopolize the oil industry. Even more importantly, the case of Standard demonstrates that there is nothing evil or pernicious about a free market “monopoly.” On the contrary, the consumers were the chief beneficiaries since the pinnacle of Standard’s success coincided with the lowest prices in the history of the industry. In short, so long as there are no legal barriers to entry, i.e., so long as the market is free, no firm, even if it is the sole producer, can prosper unless it is able to benefit the consumers better than its competitors, actual or potential.

3. Domestic Cartels: The Role of State and National Governments

With a steady stream of new discoveries, domestic and foreign, the oil industry was beset during the first part of this century by what Christopher Tugendhat calls “an embarrass-

ment of riches." The market price for oil fell from \$1.30 a barrel in the late 1920s to 5 cents a barrel by 1930.⁸

The "waste" of both oil and natural gas during this time was astonishing. Since oil was more valuable than gas, wells were often permitted to simply "blow wild," allowing the gas to escape until oil was reached. The Bureau of Mines estimated that in Oklahoma between 1910 and 1912 the quantity of gas "wasted" or lost totaled 100,000,000,000 cubic feet annually. This was equivalent to 5,500,000 tons of coal, or enough to supply the fuel needs of nearly one million families for three years. This was not an isolated occurrence. The Glenn Pool field in Kansas "wasted" 50,000,000,000 cubic feet of gas between 1906 and 1912. The Cook Pool field in Texas allowed gas to escape at the rate of 250,000,000 cubic feet a day for 34 days before oil was produced. And the Santa Fe Springs field in California lost 50,000 cubic feet of gas for every barrel of oil produced.

Enormous quantities of oil were also lost. With the market flooded with oil, the excess was often stored above ground in gullies, creeks, and earthen reservoirs, where as much as 50 per cent was lost through seepage, evaporation, or burning. Stanley Clark reports that in 1914 the Healdton, Oklahoma oil field was so saturated with oil that motorists driving near the field complained that their autos were "axle-deep in oil." In the Cushing, Oklahoma field some 25,000 barrels of oil were allowed to run into the Cimarron River. And a nearby cotton field was "covered with oil for one fourth of a mile in all directions."⁹

The tremendous loss of this nonrenewable resource not only bothered the industry but offended the public, which viewed such activities as amoral if not actually immoral. And after the repeated failures of numerous industry price-fixing schemes and proposed production cut-backs and shutdowns, the industry turned to government for help.

Originally the industry looked to the state governments. But while several producing states established agencies to control production, with Texas' Railroad Commission and Oklahoma's Corporation Commission being the best known, enforcement was difficult. Illegal or "hot" oil continued to be produced in great

quantities and transported across state lines, hampering state enforcement agencies. Thus, state regulation proved ineffective and prices remained "distressed." As Robert Engler writes:

Voluntary restrictions on drilling and output along with private prorationing by the pipelines were inadequate for checking rising production. State laws were limited and disparate. . . . [Thus], the president of the API [American Petroleum Institute] pleaded for federal intervention to end the flush and famine cycles with their accompanying price fluctuations.¹⁰

A "Petroleum Code"

On March 7, 1933, just three days after President Franklin Roosevelt assumed office, the industry appealed to him for Federal assistance, and the President called a meeting for later that month. The result was the creation of a national "Petroleum Code" whose provisions, Engler notes, "paralleled the recommendations of the API." The oil bill was included as part of the National Industrial Recovery Act and passed on June 11, 1933. It gave the Secretary of the Interior "the power to fix prices, wages and hours of labor and to limit production to demand, and to control the importation of oil."¹¹ The drilling of any new well now required the advance consent of the Department of the Interior. Moreover, on July 12 the President issued an executive order making the shipment of "hot oil" a Federal offense. The result was quick and clear. In May 1933, the price of crude oil was 25 cents a barrel. By October it had risen to \$1.08.

The Code established a rather complicated system known as "prorationing," in which the Interior Department would work through state agencies such as the Texas Railroad Commission to restrict production and thus raise prices. Each month the industry would supply the Bureau of Mines with information regarding the expected demand for oil. The Bureau then would fix production quotas for each producing state. The states were obliged to adhere to these quotas by virtue of their "voluntary" membership in the Interstate Compact to Conserve Oil

and Gas, better known as the Compact Commission. Each state commission would then allocate its quota among the producing fields within the state. Production in excess of the prorationing orders was subject to confiscation.¹² When the Supreme Court declared the NRA unconstitutional in May 1935, Congress promptly passed the Transportation of Petroleum Products Act, better known as the Connally Act after its sponsor, Texas Senator Tom Connally, thereby keeping the components of the complicated price-fixing scheme—prohibition of “hot oil,” input restrictions, and production quotas—intact.

But why the appalling waste of oil and gas? Usually reference is made to the magnitude of the new oil discoveries, both in the U.S. and abroad, which drove prices down, and to the relatively primitive technology, which made regulation of gas pressure and the control of gas and oil flows very difficult. There is no doubt a kernel of truth here, but there is a far more fundamental, underlying factor: the property rights of an owner of a plot of land, or more precisely the lack of such rights, to the minerals lying beneath the surface. According to the prevailing legal doctrine known as the “rule of capture”:

The owner of a tract of land acquires title to the oil and gas which he produces from wells drilled thereon, though it may be proved that part of such oil or gas migrated from adjoining lands. . . . A landowner, however small his tract, or wherever located on the producing structure, may drill as many wells on his land as he pleases and at such locations as meet his fancy, and he is not liable to the adjacent landowner whose lands are drained as a result of such operations. Likewise he may by means of a compression or vacuum pump, increase the production from his well though the result may be to drain his neighbor's property. The remedy of the injured landowner . . . has generally been said to be that of self-help—“go and do likewise.”¹³

Clearly, the “rule of capture” made it rational, in fact necessary, to “waste” oil and gas. By legalizing what, in effect, was the principle of “loot thy neighbor,” the “rule” re-

quired property owners to follow the strictly short-run policy of drilling and producing as rapidly as possible. Even if an oilman or speculator felt that the price would rise in the future, he could not hold the oil or gas off the market, for if he stopped his operations and capped his wells while his adjacent competitors continued their activities, the owner would lose both his oil and his capital investment.

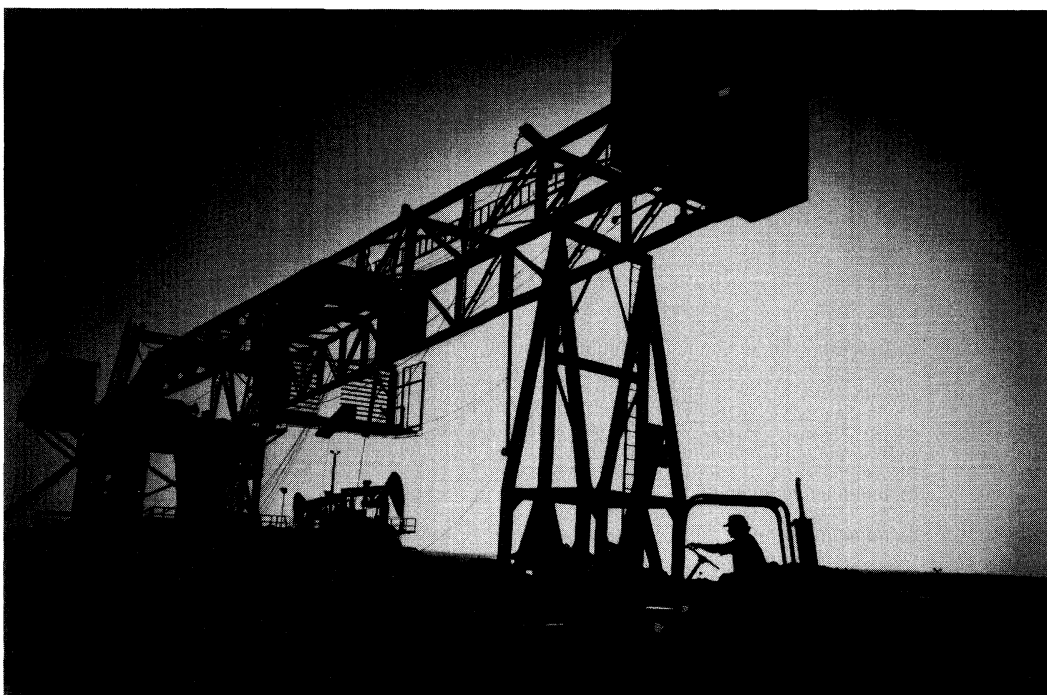
For example, an operator near the town of Okmulgee struck a huge natural gas reservoir. He offered to sell it to the gas company. The company refused the offer but was able to get the local authorities to require the operator to cap his well to prevent the gas from escaping. The company then acquired the gas by drilling its own well on an adjacent plot of land and tapping into the same reservoir.¹⁴

“Wasting” Oil and Gas

Because of the “rule of capture,” drilling at times became “so intense that the legs of derricks would intersect,” says Tugendhat. Consequently, underground pools often would lose pressure so rapidly that great quantities of oil, perhaps as much as 90 per cent, would be lost, or recoverable only by expensive repressuring.¹⁵

Thus, the property owner was caught in a bind. He could not chance storing oil and gas underground where it could be looted by adjacent competitors. But neither could he afford to store much of it above ground since the cost of storage usually exceeded the market value of the product. Given the “rule of capture,” the only “rational” policy was to permit wells to run open, allowing the “excess” oil and gas to be “wasted.”

There can be little doubt that had the courts adopted the doctrine of “correlative rights” or “ownership in place”—that the landowner owns the oil and gas originally beneath his surface—the situation would have been much different. There would have been about as much chance of companies wasting their oil and gas as there is of a cattle rancher or chicken farmer wantonly destroying his entire stock of healthy animals. Since ownership in place would have required that an adjacent operator caught draining another's oil or gas would make repa-



rations to the original owner, the principle would have permitted oil and gas to be stored underground, ready for use when prices began to rise. The result would have been to permit, in fact encourage, operators to adopt long-run conservation policies, thereby moderating the “flush and famine” cycles and their corresponding price fluctuations so bemoaned by operators and consumers alike.

In brief, the “rule of capture” produced appalling waste which was seen to justify government intervention to restrict production. But, as is so often the case, one intervention leads to another. As production was restricted and prices rose, imported oil began to enter the country and “illegal” domestic oil was produced. The former was dealt with by the imposition of tariffs, the latter by the Connally Act. Had the courts adopted a sensible approach to property rights, oil would not have been wasted and the justification for government intrusion into the industry would not have arisen.

There are additional ramifications. From about 1930 to 1970, Federal policy was to keep domestic oil prices high, relative to international prices, by a combination of rationing and import restrictions. The result, sometimes referred to as a “drain America

first” policy, was to artificially stimulate the consumption of American oil while reducing the consumption of foreign oil.

But American oil tended to be more costly than foreign oil. Even as early as 1930 a barrel of Venezuelan oil could be produced and shipped to the U.S. for 75 cents while the production cost for a barrel of domestic oil was about \$1.75. And as American oil was being depleted, with the ratio of domestic reserves to annual production falling from about 20 to 1 to only 12 to 1 by 1960, costs began to rise. Meanwhile, with vast new discoveries, especially in the Mideast, the world reserves to production ratio rose to 40 to 1. For the Mideast it stood at 100 to 1.¹⁶ While a barrel of Texas oil sold for \$3.45 in the 1960s, a barrel of Persian Gulf oil sold for less than \$1.00 and its cost of production was estimated at 10 cents.

Largely for military and national security reasons, duties on oil imports were relaxed during the 1940s, falling to just 10½ cents a barrel so long as the volume remained less than 5 per cent of domestic production and doubling if imports exceeded 5 per cent. Given the low import duties, rising domestic costs, and the international glut, imports began to soar.

In 1948 the U.S. became a net importer of

oil. In 1950 imports were about 5 per cent of domestic production. By 1954 they were nearly 17 per cent and the industry began to push for higher tariffs. In 1955 the President's Committee on Energy Supplies and Resources suggested that imports not be allowed to rise above their 1954 level but recommended enforcement through "voluntary restraint" implemented through the oil companies. Voluntary restraints proved ineffective and, with imports well over 20 per cent of domestic production, mandatory quotas were decreed by President Eisenhower in 1958.

The quotas succeeded in shoring up domestic prices but created what *Fortune* termed "carnage in the world market." "Now that the U.S. is so hard to get into," said *Fortune* of the foreign producers, "where can they sell it and at what price?" "Prices abroad . . . are taking a beating. More and more crude . . . is being sold at reduced rates."¹⁷

With about 90 per cent of the budgets of the Mideast governments coming from oil revenues, the price collapse wrought havoc. Panicked by the price declines and angered at their virtual exclusion from the U.S. oil market, the producing countries began to map out a counter-strategy in 1959. In 1960 the Organization of Petroleum Exporting Countries, a "cartel to confront a cartel" as one delegate put it, was formed.

There is no doubt that in the absence of government intervention domestic oil prices would have been lower and international prices higher. Nor can there be any doubt that proportionally less American oil and more foreign oil would have been consumed. Finally, it is quite possible that with open access to the American market, and thus both higher prices and a larger volume of sales, OPEC might never have been formed. The next question is: What has been the impact of OPEC?

4. International Cartels: Achnacarry to OPEC

There has been a great deal of public concern over the repeated oil industry attempts to cartelize itself in order to regulate competition and raise prices. But in every case the results fell considerably short of the goals.

The first concerted effort to establish an international cartel occurred when secret meetings, sponsored by the "Big Three"—Jersey, Shell, and Anglo-Persian—were held at Achnacarry Castle in Scotland during the summer of 1928. The result, officially termed the Pool Association of September 17, 1928, but more commonly known simply as the Achnacarry Agreement, was an ambitious plan to "stem the rising tide of competition" by "freezing the market in its existing mold." Prices were to be determined by the "Gulf-plus pricing system" i.e., oil prices throughout the world would be equal to oil prices in the Gulf of Mexico plus shipping costs.

But agreement was short-lived. First, the members themselves found it next to impossible to agree on production quotas and price levels. And second, the "majors" were unable to secure cooperation of the "independents" who, Tugendhat says, "continued to export their oil at lower prices than the cartel members." As a result, "by November 1929 the association had collapsed."

There were repeated attempts during the next half decade to develop workable modifications of the Achnacarry Agreement. These included the 1930 Memorandum for European Markets, the December 1932 Heads of Agreement for Distribution, and the June 1934 Draft Memorandum of Principles. But, as Tugendhat says, these agreements "were treated rather like the Ten Commandments, as a set of rules to which all pay lip service but few follow to the letter. . . . For all their power, the majors could never gain complete control over most of the larger markets, any more than Rockefeller had been able to impose his will in the United States during the 19th century."¹⁸

In brief, the extensive experience of the oil industry with voluntary cartelization—cartelization not enforced by government—clearly shows that it was never effective in controlling either production or prices. It has been estimated that no more than 50-60 per cent cooperation was ever attained, and it seems likely that this figure exaggerates the amount of actual collusion since it ignores the role of markets in spontaneously equalizing prices for the same products. Moreover, the *only* way the majors could "control" their markets was through the

maintenance of low prices accompanied by, as in 1966-67, periodic "price wars" to drive out the independents. Since cartels are supposed to be bad because of their ability to exploit consumers by charging high prices, the question is: If this is the way *voluntary* cartels operate, what is the harm? The answer: There is none!

But what of OPEC, which is normally seen as the prime example of a cartel which has been effective in controlling oil prices? There are two important questions: (1) Is OPEC a coercive or voluntary cartel? (2) How effective has it been in controlling prices?

The first question is relatively easy to answer. According to its principal founder, Venezuelan Minister of Mines and Hydrocarbons, Dr. Juan Pablo Perez Alfonso, OPEC was to be a "worldwide Texas Railroad Commission." Its goal has been to raise and then control the international price of oil by restricting its production. But the Texas Railroad Commission is a government agency. Since it can use the apparatus of the state to compel companies to comply with its edicts, the Texas Railroad Commission and other state regulatory agencies have been the key components of a coercive cartel.

It is true, of course, that OPEC members are countries. But they are *sovereign* countries. Thus, no OPEC member can coerce any other member. Nor is there any supra-OPEC agency empowered with coercive authority. Thus, the effectiveness of any OPEC agreements depends on the *voluntary* acquiescence of its members. In short, OPEC is a *voluntary* cartel, or a "club" as Perez Alfonso put it. It is a Texas Railroad Commission without the power of the state to back it up.

The second question is more difficult to answer. How effective has OPEC been in controlling prices? First, OPEC was formed in 1960 with the stated purpose of raising prices. But its members never could agree on a scheme to reduce production, and it was clearly ineffective during its first decade. In 1960 the volume of oil in international trade was 9.0 million barrels a day; in 1970 it was nearly 26 million barrels. Thus, "the price of oil did not go up; in fact it declined through the 1960s."¹⁹

It is the "price shock" of 1973 that is commonly seen as the beginning of OPEC's control

over prices. In October of that year OPEC announced an embargo on oil to the United States because of U.S. support for Israel in the 1973 Arab-Israeli War. OPEC also announced a cut-back in production and a price rise to \$5.12 a barrel. In December the price was increased to \$11.65 a barrel, a quadrupling of prices in just a few months. Doesn't this indicate market control by a voluntary cartel?

There are several factors which need to be considered to understand why this is *not* the case. First, there is substantial evidence that by 1970 the oil "glut" was gone and the world, in fact, was facing an oil "shortage." Demand for oil had increased 7 per cent a year from 1950-73. In 1940, for example, coal accounted for two-thirds of the world's energy. In 1965 coal and oil each accounted for 37 per cent of total energy consumption. By 1980, oil's share of world energy consumption stood at over 40 per cent; coal's had fallen to 30 per cent.

On the other hand, due in part to the artificial stimulus of the controls on foreign oil, U.S. reserves were quickly being depleted. This problem was compounded by the fact that as new sources of domestic oil became increasingly difficult to find and extraction costs rose, U.S. production peaked and by the early 1970s was actually declining.²⁰

The result of these trends was an extremely "tight" market. This is shown by the fact that prices began to rise even *before* the 1973 embargo. In February 1971, for example, oil prices rose 50 cents a barrel. And by early 1973, months before the October embargo, prices on the spot market—a free market for small quantities of "excess" oil—were up to \$20 a barrel, or over five times the official or "posted" OPEC price at the time.

Second, an analysis of oil industry profits shows that with rising production costs associated with offshore and deep drilling, the high returns of the 1950s were gone. During the 1960s profit rates fell below those in the far less risky manufacturing sectors, and by the early 1970s they stood at an all-time low.²¹ Since incentives and exploration are closely related, it is clear that domestic production could not be maintained much longer at their current levels in the absence of significant price increases. In fact, U.S. production was already declining.

The final factor is the 1973 Arab oil "embargo." An embargo is an attempt to punish a country or region by imposing an abrupt halt in the flow of a particular good, in this case oil, to the embargoed country. When the embargo is imposed, prices in the embargoed country should rise while production in the embargoing countries should be curtailed. And when the embargo is lifted, production in the embargoing nations should increase, causing prices in the embargoed countries to return to "normal." The problem is that the 1973 "embargo" didn't work this way. First of all, although prices did quadruple, the embargo was never very effective. It was marked by massive "cheating" and defections among cartel members. Moreover, OPEC production declined less than 15 per cent in 1974-75, and its exports to the "embargoed" U.S. increased dramatically between 1973 and 1977. And finally, rather than declining at the termination of the embargo, oil prices actually *increased* slightly.

All these factors indicate that, as Paul MacAvoy put it, OPEC "never really controlled the world crude oil market. Rather, market forces were the dominant factor all along."²² The pre-1973 prices were far too low to be maintained much longer.

High prices are neither good nor bad in themselves. Prices are signals revealing relative scarcities. The embargo merely highlighted how swiftly, dramatically, and unexpectedly the situation had changed from glut to famine. It also stimulated a market response to the new situation. In fact, the temporary 15 per cent decline in OPEC production appears less likely to have been the product of a conscious cutback by OPEC than a rational response to reduced world demand stemming from the 1974 recession. OPEC's policy, both collectively and individually, has been aptly described as that of "groping" toward an unknowable 'optimal' pricing path," that is, of charging what the market would bear.²³

Likewise, the doubling of prices in 1979 cannot be attributed to cartel-like behavior by OPEC for, as Dermot Gately notes, by 1979 OPEC discipline "had broken down." Rather, the price rise was a result of another tightening of the market—prices on the spot market

reached \$40 a barrel—due to attempts by consuming countries to stockpile oil and thereby protect themselves from a possible loss of access to Mideast crude following the political upheavals in that region, especially in Iran. While the panic buying was in response to political events, there can be little doubt that oil prices were market-driven rather than cartel-determined.

The worldwide dependence on OPEC oil was aggravated by the U.S. government's imposition of price controls on domestic oil and gas in 1973. It is ironic that the U.S. government, which for decades had artificially stimulated the production of U.S. oil, responded to the "shortage" by imposing price controls on domestic producers which, by discouraging domestic production, artificially stimulated increased reliance on foreign oil.

Finally, it should be noted that consumers reacted to the higher energy prices just as one would expect—higher prices stimulated more efficient use of energy. Between 1973 and 1984 the Western industrialized nations increased energy efficiency by one-third. As a result, by 1984 energy consumption was actually less than it was in 1973, despite higher GNPs.²⁴ Between 1973 and 1985 OPEC's share of world crude oil production fell from 56 per cent to 30 per cent. During the same period, oil's percentage of total energy production declined from 48 to 39, while the shares for oil substitutes such as coal, gas, nuclear, and hydroelectric all rose.

It therefore became increasingly difficult for OPEC to maintain prices at their 1979 level. Between 1979 and 1985 OPEC production was halved, falling from about 30 to 15 million barrels a day, with Saudi Arabia bearing the bulk of the cutbacks. Finally, in an attempt to increase its dwindling oil revenues, Saudi Arabia reversed course in November 1985, and began to increase production. Oil prices plummeted, with OPEC members trying to underbid not only non-OPEC countries, but each other as well.

In brief, OPEC never was able to act with the cohesion required for the successful operation of a cartel. While OPEC may have affected the *timing* of the oil price increases, it does not appear that it affected their ultimate levels. The

quadrupling of prices in 1973 was not the result of cartel price-fixing, although it may have appeared that way at the time, but reflected the dramatic change in the world oil situation. Moreover, the increases helped to rationalize a market that had become badly distorted due to decades of government meddling. Finally, the normal market-induced adjustments to higher prices stimulated a movement away from OPEC oil and, ultimately, the 1985 collapse of OPEC prices.

From Achnacarry to OPEC, history shows that attempts to create international oil cartels with the ability to control prices have uniformly failed. To the extent that they "controlled" the market, they have done so by keeping prices extremely low. To the extent that they have increased prices, they have been undercut by non-member rivals, and the cartels have collapsed.

5. A Sensible Energy Policy

The final issue is to determine a sensible energy policy. Such a policy may be defined as one which assures access to ample energy at minimum cost, i.e., with the least sacrifice of other goods and services.

Businesses must operate efficiently to earn profits or at least avoid monetary losses. Those that provide consumers with what they want at the lowest prices earn the largest profits. Those that fail to do so suffer losses and, if changes are not made, go bankrupt.

Government, in contrast, is *inherently* inefficient. Government does not acquire its revenues by the voluntary purchases of consumers but by compulsion, i.e., taxes. These are then allocated among a multitude of competing programs and agencies.

There are two fundamental differences between the operations of businesses and governments. First, payments to businesses are voluntary. Payments to governments are compulsory. Second, payments to businesses are made in exchange for specific goods or services. That is, they are part of the *same transaction*. But with government, payments and receipts of services are *two distinct operations*. Payments are made at one time; services are rendered at another time. Payment may be made by one set of

individuals; services may be rendered to another set. The problem is that since there is no direct market test for government services, there is no way for consumers to evaluate their effectiveness and worth.

For example, government may claim that there is a shortage of roads, police, teachers, or oil, but it has no market test to see whether there actually is a shortage. And since government is not in a position to ascertain accurately the relative demands for its services, there is no way for it rationally to allocate its revenues among its competing uses.²⁵ This has important ramifications for energy policy since if access to energy can be achieved through other, non-governmental, methods, then efficiency considerations would rule out the use of government.

The question then is: Is government necessary to insure access to ample energy? Energy access can be achieved by (1) securing access to oil, (2) developing adequate substitutes for oil, or (3) a mixture of the two.

Let us first consider oil. The major concern is that OPEC now possesses over 60 per cent of proven world reserves. The industrialized nations of the West, including the United States, have 13 per cent. The U.S. alone possesses slightly less than 5 per cent.²⁶ The fear is that, as Unocal chairman Fred Hartley has put it, given the magnitude of inexpensive oil in the Mideast—production costs in Mideast oil fields are estimated at less than \$2 a barrel, while costs in Alaskan and North Sea fields are about \$20 a barrel—OPEC is in a position to increase production drastically. This would drive down oil prices, thereby "stimulating demand even as it shut down American production and virtually ending this country's search for new energy sources." Since this would make the U.S. "dangerously dependent on foreign—OPEC—oil," America, he says, simply "cannot afford so-called cheap oil." The proposal is for an oil import fee which would "create a floor price of, say \$27 per barrel, which should be high enough to support continued American exploration and development."²⁷

The irony of the proposal is apparent: It would be a return to a "drain America first" policy that, as we have seen, is largely responsible for the rapid depletion of American oil re-

serves in the first place. Moreover, its ramifications are also clear: By substituting higher-cost American oil for cheaper Mideast oil, an import fee would stimulate the rapid consumption of the already small American reserves, thereby making the U.S. *more*, not less, dependent on OPEC. Finally, the position reduces itself to the rather paradoxical proposition that the government should institute permanently higher oil prices now because of the possibility of temporarily higher energy prices at some unspecified time in the future.

It is simply not true that "energy security" is directly correlated with the quantity of imported oil. "Energy security" depends at least as much—probably even more—on the diversity of suppliers. The 1973 price increases stimulated the search for oil in many countries. As a result, the oil industry has become immeasurably more diverse. The U.S. now imports oil from close to 30 countries. The problem is that since many of these are relatively high cost producers, an import fee, by isolating the American market from imports, "would push down the world price for oil, thereby discouraging exploration for oil in other countries."²⁸ This would reduce the diversity of supply, thereby rendering the U.S. *more* dependent upon a single supplier—OPEC. In short, the immediate effect of an import fee would be higher domestic energy prices. Its long-run result would be the *exact opposite* of its intended effect: It would make the U.S. *more*, not less, dependent on OPEC.

In contrast to an import fee which would create a dual price structure—higher oil prices domestically and lower oil prices internationally—free trade could equalize domestic and foreign prices. Since this would keep domestic prices below what they would be with an import fee, free trade would reduce production of American oil. And, by increasing demand for foreign oil, it would help to maintain the diversity of the current oil market, thereby insuring continued American access to oil. It is logical to conclude, therefore, that the free market is far more likely to insure continued access to oil than a policy of government intervention.

But what of alternative energy sources?

Although there are many who disagree on both the low and high sides, the consensus is

that there is somewhere between a 50- and 90-year supply of recoverable oil left in the earth. Clearly, alternatives to oil will have to be developed. Over the past decade the Department of Energy has spent literally billions of dollars to develop such alternatives but, as Christopher Flavin, a Worldwatch researcher and hardly an exponent of the free market, recently wrote: "Crash government programs to develop major new energy sources have generally been dismal failures, and similar efforts to deal with future crises show no signs of being any more successful. But smaller efforts, taken by companies and individuals in response to higher prices, have an excellent record."²⁹

In fact, such government programs have probably done more harm than good. The reasons are not hard to find. Government decisions are based on political, not economic, criteria. The basic problem is the asymmetry between the costs and benefits of government programs. Since the costs of each program are dispersed among the taxpayers as a group, the cost of any *particular* program to any *individual* taxpayer is minute. This means that the individual usually is not even aware of the program and, if he is aware of it, would quickly recognize that the costs *to him* of opposing the program overwhelm the benefits that would accrue to him from the program's termination. Thus, his rational strategy is to minimize his losses by *not* actively opposing the program.

But when the beneficiaries of a program are a relatively small group, the benefits can be considerable for *each member* of the group. Consequently, while the average taxpayer has no incentive to lobby against a particular program, the potential beneficiaries have a strong incentive to lobby for its passage. Given this asymmetry, it's not difficult to see which side will win.

Gasohol is a classic example. Gasohol is a mixture of 90 per cent gasoline and 10 per cent ethanol. Grain is used in the production of ethanol, and the farm lobby has been able to channel large amounts of tax money into farmers' pockets by getting the government to establish a program to subsidize the production of ethanol. But it is so expensive that some economists "have compared that process to stretching our supplies of hamburger by adding

a few extra pounds of tenderloin steak. The value of the resources necessary to produce gasohol is simply a great deal more than the value of the resources (even at high crude oil prices) necessary to produce straight gasoline."³⁰

The tragedy is that the commitment of large sums of money to such wasteful projects reduces the amount of investable capital and, correspondingly, the degree of innovative activity that normally would occur in the market. Such programs, therefore, actually *impede* the development of alternative energy sources. For example, the high cost of supplying electricity to the remote rural areas of this country in the early part of this century stimulated the development of windmill and hydroelectric industries. But the decision of the national government to supply rural residents with heavily subsidized and thus artificially "cheap" energy priced these alternative sources out of the market.³¹

Whether the alternative to oil will be coal, nuclear, solar, hydroelectric, an entirely new discovery or invention or, as seems likely, some mix of these, is impossible to tell. But it is clear that the free market, where investors and entrepreneurs risking their own money are rewarded with profits for successful ventures and penalized with losses for unsuccessful ones, is far more likely to produce viable alternative energy sources than the government.

If the above analysis is correct, then the market is not only more likely to supply energy more efficiently than government, it is also more likely to supply it in ample quantities and without interruptions.

In short, *regardless of what OPEC does*, the best energy policy is *laissez faire*.

6. Conclusion

The distinction between voluntary (market-spawned) and coercive (government-created) cartels has been examined. It was found that while coercive cartels have seriously distorted the market, thereby harming consumers and wasting oil, voluntary monopolies and cartels, from Standard Oil to OPEC, have actually benefited consumers by eliminating waste and increasing the overall efficiency of the industry.

Finally, it was shown that the free market is far more likely to insure continued access to energy than a policy of government intervention. □

1. The information on the early history of the oil industry was taken from the following sources: D. T. Armentano, *The Myths of Antitrust* (New Rochelle: Arlington House, 1972), pp. 63-85; John Chamberlain, *The Enterprising Americans* (New York: Harper and Row, 1963), pp. 148-156; Christopher Tugendhat, *Oil: The Biggest Business* (New York: G. P. Putnam's Sons, 1968), pp. 9-42; Stanley Clark, *The Oil Century* (Norman: University of Oklahoma Press, 1958), pp. 3-41; and Leon Louw, "A Critical Review of Prevailing Energy Predictions and Policies," presented to the Thirteenth Annual AIESEC Congress on "Energy: A Factor in Economic Development," 1985.

2. Chamberlain, p. 153.

3. Armentano, p. 68.

4. *Ibid.*, p. 74.

5. *Ibid.*

6. *Ibid.*, p. 70.

7. Chamberlain, p. 155.

8. Tugendhat, p. 93.

9. Clark, pp. 147-165. Also see Robert Engler, *The Politics of Oil* (New York: Macmillan, 1961), pp. 132-139.

10. Engler, pp. 137-138.

11. Clark, p. 194. An oil tariff was first embodied in the Internal Revenues Act of 1932. See Clark, p. 239.

12. See, for example, Howard Williams and Charles Meyers, *Oil and Gas Terms* (New York: Banks and Co., 1957), pp. 197-198; and Engler, pp. 140-141.

13. Williams and Meyers, p. 216.

14. Clark, p. 159. Also see pp. 84-103.

15. *Ibid.*, p. 99.

16. Gilbert Burck, "A Strange New Plan for World Oil," *Fortune* (August, 1959), p. 96.

17. Gilbert Burck, "World Oil: The Game Gets Rough," *Fortune* (May, 1958), p. 125.

18. See Tugendhat, pp. 97-111.

19. "Adam Smith" (a.k.a. George Goodman), *Paper Money* (New York: Summit, 1981), p. 163.

20. Charles Doran, *Myths, Oil and Politics* (New York: Macmillan, 1977), p. 56. And "Smith," p. 164.

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22. Paul MacAvoy, "The Punishing Costs of Fixing Oil Prices," *The New York Times* (December 29, 1985), Business Section, p. 3.

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24. Norman Fieleke, "The Decline of the Oil Cartel," *New England Economic Review* (July/August, 1986), pp. 34-35. And World Resources Institute, *World Resources, 1986* (New York: Basic Books, 1986), pp. 114-115.

25. See Thomas Sowell, *Knowledge and Decisions*, (New York: Basic Books, 1980), pp. 140-143; Ludwig von Mises, *Bureaucracy* (New Rochelle: Arlington House, 1969); and David Osterfeld, *Freedom, Society and the State* (San Francisco: Cobden Press, 1986), pp. 250-253.

26. The percentages have been calculated from OPEC, *Facts and Figures*, (Vienna: Carl Umberreuter, 1980), Table, p. 17. See also Christopher Flavin, *World Oil: Coping With the Dangers of Success* (Worldwatch Paper, 66, 1985), Table, p. 28.

27. Fred Hartley, "Predatory Saudi Tactics Peril U.S. Petroleum Industry," *Los Angeles Daily News* (April 13, 1980). Also see "Import Fees: The Reason Why," *World Oil* (May, 1986), pp. 20-24.

28. G. Anderson and K. J. Kowalewski, "Implications of a Tariff on Oil Imports," *Economic Commentary* (September 1, 1986), p. 2.

29. Flavin, p. 53.

30. Richard Stroup and John Baden, "Responsible Individuals and the Nation's Energy Future," *Cato Journal* (Fall, 1981), p. 432.

31. *Ibid.*, pp. 427-429.

Federal Job Training: Road to Nowhere

by James Bovard

In 1964, at the height of the Great Society, the Johnson Administration decided that government should provide a job for every teenager who couldn't find employment. The first summer jobs program, the Neighborhood Youth Corps, was established in 1965 to give poor urban youths "meaningful" work experience and to encourage them to stay in school.

The Neighborhood Youth Corps was the first of a long line of failures. According to several General Accounting Office (GAO) reports, the program had no effect on dropout rates and did not prevent a large increase in youth crime rates. In fact, the GAO concluded in 1969 that some workers "regressed in their conception of what should reasonably be required in return for wages paid." (GAO, *Review of Economic Opportunity Programs*, 1969)

Ten years later, conditions were no better. GAO found that "almost three of every four [urban] enrollees were exposed to a worksite where good work habits were not learned or reinforced, or realistic ideas on expectations in the real world of work were not fostered." (GAO, "More Effective Management is Needed to Improve the Quality of the Summer Youth Employment Program," February 20, 1979)

When a Federal program fails, politicians can always change its name to create the appearance of reform. In 1972, after years of embarrassing failures, the name of the Neighborhood Youth Corps was changed to the Summer

Program for Economically Disadvantaged Youth. In 1977, after more exposés and boondoggles, the name was changed to the Summer Youth Employment Program (SYEP). But the new names have not solved old problems.

To call SYEP a "jobs program" is a serious abuse of language. In Washington, D.C., kids last summer busied themselves building a model cardboard city or attending a "Basketball Reading Incentive Camp." (*Guide to the Mayor's 1986 Summer Youth Programs*) Some "workers" complained to the *Washington Post* that they spent all their time listening to lectures about South Africa, nuclear war, and birth control. One "enrichment exercise" consisted of tours around Washington, visiting Capitol Hill, the Washington Harbor, and elsewhere. In Phoenix, SYEPers painted pictures of cars on sides of buildings. In Baltimore, kids were paid for passing out toys and for chauffeuring cats and dogs to old folks' homes. (*Baltimore Blue Book of Summer Jobs*, 1986)

With Federal funding on the line, local governments are becoming aggressive employers of first resort for young people. The New Hampshire Job Training Council used a rock band to drum up interest among teenagers. Phoenix tried to get Jesse Jackson to come and dignify their program with his presence. These gimmicks are understandable since many localities cannot find enough young people to fill Federally funded positions.

Programs like SYEP are a prime contributor to illusions and unrealism among young people about the world of work, and actually may have increased long-term unemployment. Columnist William Raspberry noted, "We are raising a

James Bovard is a Washington-based journalist who has written on jobs programs for The Wall Street Journal and several other leading publications.

generation of kids who don't know the meaning of work." (*Washington Post*, December 2, 1977) Raspberry cited summer jobs programs among the culprits.

A study by Harvard professors Jon Crane and David Ellwood concluded that "roughly 40% of SYEP jobs simply displace private employment" for minority youth. This is especially damaging to young people since, as the Task Force on Youth Unemployment reported in 1980, "private employment experience is deemed far more attractive to prospective employers than public work."

Government jobs programs saturated black inner cities in the late 1970s. In 1978, up to half of all employed black teenagers had jobs with government programs. In the following years, the sharpest declines in employment and labor force participation were among the groups most heavily targeted by government jobs programs. A National Academy of Science study (*Youth Employment and Training Programs*, 1985) found that government employment and training programs isolate disadvantaged youth, thus making it harder for them to fit into the real job market. At the same time, these programs did not reduce criminal activity among participants.

The federal government also offers youth job training under the Job Training Partnership Act (JTPA). According to the Labor Department, less than 40 per cent of JTPA youths get jobs—even for a single day. JTPA inflates its apparent success rate by adding job placements to other "positive terminations"—including returning to school and development of "youth competencies." "Youth competencies" usually refer to "employability skills"—such as "world of work awareness," making change from a dollar (*Pittsburgh-Allegheny Co. PIC Newsletter*, November 14, 1984) and demonstrating "effective non-verbal communication with others." (Department of Labor, *An Introduction to Competency-Based Employment and Training Programming Under the JTPA*, 1985) This allows administrators to measure their success by the number of certificates they hand out, rather than by the number of people who get jobs.

The fallacy underlying all government job training programs is that the private sector

lacks incentives to train workers. Naturally, private employers prefer that job applicants be already trained; but where there is a shortage of skills and a demand for services, there always are incentives to train.

If Congress wants to help unemployed teenagers, it should abolish the minimum wage. This is the greatest impediment to the hiring and training of teenagers with no skills or experience. The higher the minimum wage, the less money employers can afford to devote for training and still hope to earn a profit. Were it not for the minimum wage, workers could exchange less pay for more training, and the process would be far more efficient and cheaper than any government intervention or subsidy.

The failure of Federal training programs is especially tragic since most teenage unemployment is caused, directly or indirectly, by government labor market interventions.

In 1947, the minimum wage was very low, and teenage unemployment was not significantly higher than the general unemployment rate. But, in the 1950s and 1960s, the minimum wage was repeatedly raised—and teen unemployment soared. By the 1970s, black teen unemployment was double that of whites—around 40 per cent.

The minimum wage, by trying to increase wage rates artificially, makes it no longer profitable to hire the least skilled workers. Without a minimum wage, even the least skilled worker can negotiate a price at which it is profitable for an employer to hire him. But, with a \$3.35 an hour minimum wage, plus Social Security coverage and other state and Federally mandated costs, a worker's productivity must at least cover these total costs, or he will not find work.

Teen unemployment is also boosted by government restrictions on the jobs and hours teens are permitted to work. For example, while government provides expensive, ineffective training programs to prepare teenagers to be construction workers, regulations in many states and localities prohibit 16- and 17-year olds from working in the construction industry.

The answer to teen unemployment is less government, not more. If government would remove its minimum wage and other barriers to employment, there would be jobs for all teenagers who want to work. □

Why Government Jobs Programs Destroy Jobs

by Thomas J. DiLorenzo

In an effort to spur economic development, several bills have been introduced in Congress to resurrect Depression-era “public works” programs. Such legislation has been heartily supported by organized labor and other interventionist groups.

But such programs cannot reduce unemployment any more than the Depression-era programs did. The unemployment rate was higher in 1939—despite millions of workers placed in government jobs by the Roosevelt administration—than it was in 1931 on the eve of President Roosevelt’s election.

The reason why government jobs programs cannot create jobs is straightforward: Even though the programs may “create” jobs for some workers, the resources to pay for the programs must be extracted from the private sector. Taxing the private sector reduces *its* ability to create jobs, so, at best, government jobs programs can only alter the *composition* of employment, not the total volume. More government jobs are created, but at the expense of fewer private-sector jobs.

This basic economic truth is nothing new. In 1848 French economist Frederic Bastiat wrote that he “loses patience completely” over claims that government spending programs can create jobs. Whenever the state opens a road, builds a palace, repairs streets, or digs a canal, wrote Bastiat, “it gives jobs to certain workers. That is what is *seen*. But it deprives certain

other laborers of employment. *That is what is not seen.*”¹ Bastiat concluded that so-called government jobs programs were, therefore, “a ruinous hoax, an impossibility, a contradiction.”

Indeed, there is much evidence that government jobs programs not only do not create jobs; they actually eliminate them. For instance, in 1982 the Wharton Econometric Forecasting Associates estimated that a government jobs program proposed during that year would cause a net *reduction* of 20,000 jobs. In another study of the same program, Nobel Laureate economist Milton Friedman forecast that as many as 100,000 jobs would be lost by that particular government “job creation” program.

This might seem illogical at first, but there are sound reasons why government jobs programs are bound to destroy jobs. One is that public works projects must comply with the Davis-Bacon Act, which stipulates that wages paid on Federal contract work must be the “prevailing wage” in the area, which is usually the union scale, as determined by the U.S. Department of Labor. The jobs that are “created,” therefore, are relatively highly paid; the ones that are displaced elsewhere in the economy are usually lower paid. So if a union worker makes, say, \$12 an hour in Davis-Bacon wages, he or she may be replacing two less-skilled workers who, because of their lower skills, might be able to make only \$6 an hour. One job is created, two are eliminated.

Another reason why government jobs programs increase unemployment is that much of

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the money extracted from the taxpayers to pay for the programs isn't used for wages, but for "administration." The federal government's own Office of Management and Budget (OMB) reported that during the 1970s only 2 per cent of all the money allocated for local public works programs went to persons previously unemployed. Much of the money apparently went to "the lawyers, accountants, engineers, and consultants" brought in to plan the programs and to workers already employed.² And many public works programs are capital intensive, requiring large expenditures on tools, machinery, and raw materials, not wages. Those expenditures may stimulate employment in the tool and machinery manufacturing industries and in the raw materials industries, but it still must come at the expense of fewer private-sector jobs elsewhere.

Because of these expenses OMB found that the cost of "creating" jobs with public works programs has been as high as \$198,059 per job annually. Thus, the tax money spent on each government job could have paid for as many as ten \$20,000 a year private-sector jobs.

A Substitution Effect

Another stumbling block to governmental job creation is that many local governments typically substitute Federal subsidies for their own spending on public works. As Robert Vaughn, an adviser to former New York Governor Hugh Carey explained, "federal jobs programs retard public works spending by state and local governments because they defer their own projects in the hope of getting federal aid."³ An example of this substitution effect is the CETA program. East St. Louis, Illinois, once had two-thirds of its municipal work force on the CETA payroll; San Diego and Miami had 47 per cent; and 16 per cent of all municipal workers nationwide were on the CETA payroll in 1978.⁴

Despite the logic and evidence suggesting that government jobs programs are unable to create jobs, on net, they are still politically popular, as they were over 100 years ago in Bastiat's time. Their popularity stems from the fact that the jobs "created" are highly visible, whereas the jobs lost are difficult to identify as being caused by the programs.

Politicians always make a great fuss over the jobs they create, but understandably ignore the ones they have taxed out of existence. Jobs programs promise something for nothing, but in reality they rob from Peter to pay Paul. This is an inevitable consequence of governmental intervention in the economy, for as James R. Schlesinger once wrote:

The tool of politics . . . is to extract resources from the general taxpayer with minimum offense and to distribute the proceeds among innumerable claimants in such a way as to maximize support at the polls. Politics, so far as mobilizing support is concerned, represents the art of calculated cheating—or more precisely how to cheat without *really* being caught.⁵

Thus, there is a moral as well as an economic dilemma posed by governmental jobs programs. The dilemma will not be resolved until it is widely recognized that it is illegitimate for government to grant special favors to one group of citizens at the expense of another. Those who defend government jobs programs on moral grounds (i.e., that they display compassion toward the unemployed) must be asked the following questions: How is it moral to put one group of citizens out of work, for reasons they do not understand, in favor of another? How is it moral for politicians to deceive their constituents by telling them that government is "creating" jobs, when they know in fact that it is not?

The best situation is one in which more jobs are available to *all* citizens at the expense of no one. And the evidence is overwhelming that free enterprise and economic growth are the only means of achieving this. The real job generator in the economy is not the public but the private sector.

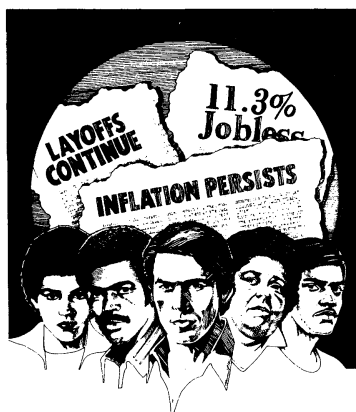
The performance of the U.S. economy from 1983 to 1987 is a textbook example. During that time the private sector created over 13 million new jobs despite the absence of any new government jobs programs, making the United States the envy of the world as far as job creation is concerned. Moreover, contrary to claims by organized labor and other interventionists that these new jobs are low paying, the U.S. Department of Labor recently reported

that nearly half of the new jobs are in the highest-paid category as classified by the Labor Department, and only 6 per cent are in the lowest paid. This performance is in stark contrast to our European trading partners. Despite a greater reliance on governmental jobs programs, there has been a net *loss* in jobs in Western Europe during the past 15 years.

The key to job creation is private-sector economic growth. And it is no secret that governmental policies conducive to economic growth are tax reduction, expenditure restraint, monetary stability, and regulatory relief for American industry. The best way to create jobs is to

have a healthy private sector. Government spending on jobs programs (and most everything else) may provide some citizens with valuable benefits, but job creation is not one of them. □

1. Frederic Bastiat, *Selected Essays on Political Economy*, ed. George B. de Huszar (Irvington-on-Hudson, NY: Foundation for Economic Education, 1964), p. 16.
2. See James Bovard, "Busy Doing Nothing: The Story of Government Job Creation," *Policy Review*, Spring 1983, pp. 87-102.
3. "Broad Recovery Called Essential to Job Creation," *New York Times*, November 28, 1982.
4. Bovard, "Busy Doing Nothing," p. 95.
5. James R. Schlesinger, "Systems Analysis and the Political Process," *Journal of Law and Economics*, October 1968, p. 285.



The Politics of Unemployment

by Hans F. Sennholz

Why is unemployment so high in the United States? Why will unemployment continue to rise in the years to come? Why do politicians continually attempt to legislate "full-employment" even though such programs are doomed to failure?

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Professor Sennholz has been affiliated with The Foundation for Economic Education in Irvington-on-Hudson, New York, and Grove City College in Grove City, Pennsylvania, for most of his professional career. Many of his essays and articles have been published in The Foundation's monthly journal, **The Freeman**.

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The Trade Deficit

by Ken S. Ewert

Unsound economic ideas, like cats, seem to have several lives. Errors which have been laid to rest in past decades and even centuries are often resurrected, and once dusted off and dressed in new apparel, they haunt humanity yet again.

One such spurious idea is the national "balance of trade" notion which was articulated by the mercantilist writers of the sixteenth, seventeenth, and eighteenth centuries. Although soundly refuted by Adam Smith and following classical economists, the concept has re-emerged and is today the focus of national attention.

The U.S. trade deficit, which has increased dramatically since 1983 and was a record \$170 billion in 1986, is a leading concern of our nation's politicians, labor leaders, businessmen, and media. We are solemnly warned that jobs are being lost as we are invaded with "cheap" foreign goods, American industry is losing a "trade war" and is threatened with extinction, and America is becoming a debtor nation. To sit by and do nothing about the trade deficit, according to a growing opinion, is tantamount to national suicide.

It is most often suggested that the solution to this "trade gap" is a policy of increased protectionism. To those who value liberty this is a serious threat on at least two accounts. First, import restrictions directly lessen the individual's freedom to exchange, and correspondingly increase the government's power over the

affairs of its citizens. Second, and perhaps more importantly, individual freedom may be further attenuated because the impoverishment accompanying trade restrictions will likely cause people to invest more power in the civil authority. Such was the experience of America during the 1930s when the economic havoc created by the Smoot-Hawley tariff was instrumental in an unprecedented expansion of government power.

The balance of trade notion owes its modern existence to mercantilist writers. Prominent in the thinking of these early economists was the desirability of the natural acquisition of gold and the concomitant (or so they thought) increase in national power. A nation could best accrue specie, they reasoned, by exporting more goods than it imported. This was called "a favorable balance of trade." The payment for the excess of exports over imports would take the form of a gold flow into the nation and this new money (which mercantilists confused with wealth) would stimulate the nation's production and add to its power.

Two erroneous ideas pervaded mercantilist thought. First, trade was mistakenly seen as a contest in which one party inevitably bested the other. In each exchange there was a winner and a loser, and a nation "won" at trade if it exported more goods than it imported.

A second fundamental flaw in mercantilist thinking was its holistic approach to economic analysis. The nation was considered to be an entity in and of itself, separate from and more important than its individual citizens. Thus international trade was not analyzed from the

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perspective of the individual participants, but rather from the perspective of the nation, or more accurately, the state.

Mercantilism Refuted

Beginning with the publication of David Hume's essay "Of the Balance of Trade" in 1752, the mercantilist arguments for the pursuit of a favorable balance of trade were soundly refuted. Hume pointed out that no nation could have a continuously "favorable" balance of trade because gold inflows would serve to increase domestic prices and consequently discourage exports while at the same time encouraging imports. The result would be an outflow of gold, and a nation's balance of trade would tend toward equilibrium in the long run.

Adam Smith and following classical economists, notably David Ricardo, refined the case for free trade and exploded other mercantilistic myths. The holistic approach to economic analysis was soundly rejected since, as Smith wrote, "What is prudence in the conduct of every private family, can scarce be folly in that of a great kingdom."¹ The nation was seen as the sum of its citizens and thus "national gain" was simply the total of all individual gains. Furthermore each trade did not have a winner and a loser, but rather was a mutually advantageous exchange, undertaken only because each individual believed himself to be gaining. And if each individual gained in each trade, how could the nation suffer from a trade deficit?

The holistic thinking of the mercantilists has been readopted and modified by much of modern economic thought, and today's emphasis on "national trade" has confused many people. To understand what a trade deficit is, we must start with the individual. After all, it is individuals and not nations who actually trade goods and services.

When an individual agrees to exchange one commodity for another, he does so only because he believes it to be to his advantage. This is true for both parties in any trade; it matters not whether the exchange takes place across the street, or across national boundaries.

Consider an American trading with a Japanese citizen (we could just as well take a New Yorker trading with a Californian). Suppose

that the American values a Japanese television set more than a particular piece of machinery which he has produced, and at the same time, the Japanese values the piece of machinery more than the television. If such is the case, they will exchange. This, of course, is simple barter—goods are exchanged directly for goods—and there is no monetary intermediary. But notice that no one has a "deficit" in this transaction—both parties are satisfied that they have gained more than they have given up.

Of course, very few barter exchanges actually take place. It would be difficult for the person desiring the TV set to find a person in need of the particular machine tool which he had to offer in exchange. Rather, the exchange is facilitated by the use of money, which allows the machine tool manufacturer to sell his product to anyone who wants it and then use the money to purchase the specific good (in this case a TV) from the Japanese producer. The Japanese producer can convert these dollars into the American product (in this case a machine tool) which he desires.

Although these individuals do not exchange directly, but through several intermediary buyers and sellers, the exchange is in principle the same as if they did. Ultimately the good produced by the American "pays" for the good received from the Japanese, and the Japanese good "pays" for the good received from the American. In other words, exports pay for imports.

But how then is a trade deficit possible? If in each exchange both parties are paying via goods and services, how can there ever be a national imbalance of trade? Why would foreigners agree to give up their products to us if they are not receiving American goods and services in exchange?

The answer is that they do not. Since each party trades only to gain, the difference between the value of the tangible or real goods which are given up by the "surplus" country and the value of the real goods which are received must be made up of other types of valuable goods. Each trade must balance; the deficit of real goods must be countervailed by a surplus of another type of exports.

And it is. The difference is made up of a net transfer of dollar claims from American indi-

viduals to foreign individuals. The trade deficit, which is more accurately called the merchandise trade deficit because it includes only the real goods traded, is possible only because on a net basis foreigners are willing to accept dollars in exchange for their goods and services, and temporarily hold these dollars. In other words, the U.S. currently is running a "surplus" of dollar exports with the rest of the world.

Why Value the Dollar?

Why are foreign individuals willing to accept paper assets in exchange for their real goods? The obvious answer is that they value the American dollar highly. This is true for a number of reasons.

First, the dollar has become, since the demise of the Bretton Woods agreement, the reserve currency of the world. It serves the function previously served by gold, allowing foreign central banks liquidity and the ability to inflate their currency.

Second, until recently, the real return on U.S. securities has been very attractive to foreign investors. Relatively high interest rates combined with the relatively low inflation of the dollar during the first several years of this decade (in comparison to other major currencies) has made dollar investments popular with foreigners. Foreign holdings in the U.S. are now over one trillion dollars and are growing at an annual rate of \$100 billion.²

Third, the U.S. and thus the dollar, has become an international haven for "capital flight" from the less stable and less free countries of the world. Morgan Guaranty estimates that during the past ten years \$188 billion has come into the U.S. from eighteen developing countries.³

Fourth, because of massive foreign loans during the 1970s, there is a substantial demand for dollars to service these debts. Countries such as Brazil and Mexico can only repay their dollar-denominated loans by running trade "surpluses" with the U.S. They obtain the necessary dollars the only way they can—by trading real goods for dollars on a net basis.

And fifth, because of widespread currency debauchment among foreign countries, the

American dollar serves as a parallel money throughout Latin America, Southeast Asia and even parts of southern Europe.

These factors explain why on a net basis, foreigners are willing to "buy" our dollars with their goods. But the high demand for the dollar does not by itself explain the continuing U.S. trade deficits.

The other major factor enabling America's consumption to exceed its production is the Federal Reserve's policy of monetary inflation. In any inflation, the individuals who initially possess the newly created money gain the maximum benefit. This has been the case in the international arena where, because of dollar inflation, individual Americans have found themselves the initial recipients of new money.

Having increased nominal incomes, but not wishing to increase their individual "cash balances," Americans have spent this new money for real goods, either domestic or foreign. New dollars spent on domestic goods tend to bid up domestic prices, and foreign goods (which have not yet been bid up) become more attractive to American consumers. Eventually dollars pour abroad in exchange for foreign goods. Inflation of this "world currency" has allowed Americans to bid goods and services away from other international buyers.

On net, Americans have been trading dollars for real goods because, for a number of reasons, they value the foreign goods more highly than their dollars. At the same time, on a net basis, foreigners are valuing the dollars they receive more highly than the real goods they are giving up. Can we say which party is getting the better deal? To do so would suggest that one is either irrational in its dealings or does not know its own best interests.

The questionable validity of seeing a trade deficit as "bad" and a trade surplus as "good" becomes apparent. If we can say that the U.S. is experiencing a trade deficit because it is losing dollars, we can just as accurately say that the Japanese are experiencing a trade deficit, as they are losing automobiles and television sets. Which are more valuable, dollars or real goods? This is purely subjective decision. While one person values dollars or dollar-denominated investments more highly, another person places a higher value on real goods.⁴

If an individual is not harmed by running a "trade deficit," can a nation be? The answer is no. The economic gain or loss of a nation, as the classical economists recognized, is the gain or loss of its individual citizens. But what about charges that the trade deficit has led to unemployment and declining wage rates, the uncompetitiveness of American industry, and the debtor nation status of America?

The Effect on Labor

It is popular to speak of the trade deficit as "exporting" American jobs. It is thought that when American consumers buy foreign goods produced with "cheap" labor they are disemploying or at least reducing the wages of American workers. The assumptions underlying this argument are specious.

The first erroneous assumption is that there is a fixed number of jobs in the world, and that the employment of a foreigner means the corresponding disemployment of an American. This is reminiscent of the mercantilist thought of past centuries which assumed a fixed amount of wealth in the world. The number of jobs, or more accurately the demand for labor, is not some quantity mysteriously mandated from above, but rather is completely dependent upon the price (wage rate and benefits) that workers demand for their labor. If the price of labor is held above the marginal productivity of labor, employers cannot profitably hire, and unemployment is the result. Unemployment has everything to do with the price of labor and nothing to do with the foreign goods we purchase.

Second, this argument overlooks the factors that determine wage rates. Wage rates in America are not comparatively high because we have more humane employers or a more benevolent government. They are higher because the marginal productivity of American workers is higher, and this is due primarily to capital investment. Nothing, aside from declining marginal productivity, threatens the level of wages. Therefore, the low level of foreign wages does not threaten the wage rates of Americans.

This does not deny that the wage rates in specific American industries may be affected

by imports. If American consumers begin to purchase less expensive foreign steel instead of domestic steel, the wage rates within the American steel industry will tend to fall as producers cut costs to compete. But at the same time, unseen benefits are also occurring. The real wage rates of all Americans will rise since the less expensive imports allow them to either buy more products containing steel, or buy the same amount of steel-related goods and more of other goods. Furthermore, since the division of labor is enhanced, both the productivity of labor and wage rates are generally improved.

The third faulty assumption in this argument is that when dollars are spent on foreign products (as opposed to domestic products) wealth and employment are lost forever to American industry. But the dollars received by foreigners do in fact return to demand American goods and services in one of two ways. They either will be invested in American capital and equities markets, or spent on American real goods and services. If the former, they serve to lower capital costs for American entrepreneurs and contribute to American employment by lifting the marginal productivity of some workers over institutional barriers. To the degree that dollars are redeemed for real American goods and services, they are "votes" for efficient American industries and contribute directly to employment. In either case, net jobs are not lost because of imports, but rather are diverted from less efficient industries to industries at which America has relatively lower production costs.

Does the trade deficit indicate that American industry is losing a "trade war" and is becoming uncompetitive? First of all, we must bear in mind that trade is never comparable to a war. In war the stronger triumphs at the weaker's expense, but in trade the weaker gains as does the stronger. In war armies cross borders to harm and destroy people; in trade goods cross borders to please and enrich people. While losing a war denotes national weakness, imports signify no such thing but instead are a sign of a country's relative inefficiency in the production of a particular good. It is certainly true that each time a consumer buys an imported good it reveals that a particular domestic industry is inefficient relative to a for-

eign producer. But this only means that America is the same as every other nation and has relative strengths and weaknesses of production.

Furthermore, imports only reveal the areas at which American industry is relatively inefficient; they are not the source of this inefficiency. The competitiveness of any industry depends on the costs it must pay for capital, labor, government, and resources. It is true that some traditionally competitive American industries may, for any number of reasons, become uncompetitive in relation to imports. But contrary to the beliefs of many politicians, trade restrictions do not improve an industry's competitiveness and only end up punishing all consumers by forcing them to pay higher prices. In the long run, trade barriers only lower the real wages and living standards of all people.

Why Is the U.S. a "Debtor Nation"?

Another evil attributed to the trade deficit is America's debtor status. It is true that the U.S. has been a "debtor nation" since 1985. This sounds ominous. But the word "debtor" is misleading in this case since there is no outstanding debt which must be paid by Americans to foreigners. The debtor status of the U.S. simply means that the dollar value of foreign investments in the U.S. surpasses the dollar value of assets owned by American individuals abroad.

This has come about because during the past several years Americans have freely chosen to relinquish ownership of dollars (and dollar assets) in return for real foreign goods.⁵ This influx of foreign capital poses no threat to the well-being of the nation, and is actually beneficial. In 1986, while American individuals and corporations saved some \$680 billion, the various levels of government borrowed \$143 billion to finance deficits.⁶ The foreign capital inflow of \$144 billion (made possible by the trade deficit) in effect cancelled the capital consumption of government. It has temporarily allowed private investment to proceed as if there were no budget deficit.

While the trade deficit probably has been beneficial to the American economy, a major

cause of the trade deficit, the inflation of the U.S. dollar, will have adverse effects. As the exchange markets respond to the increased quantity of dollars in circulation, the dollar depreciates in value. In the past, foreign dollar holders—both individuals and governments—have invested many of their dollar holdings in fixed-return securities. Their capital investments have kept U.S. interest rates below what they otherwise would have been.⁷

But the depreciation of the dollar has punished these holders of fixed-return securities. Becoming less willing to bear this loss, foreign investors are seeking other uses for their dollars. Such is happening today as foreign-held dollars are flowing into U.S. equity markets. Foreign holdings of U.S. equities increased by \$5 billion in 1985, \$23-\$25 billion in 1986, and will increase by an estimated \$35 billion in 1987.⁸ The recent stock market boom is partially fueled by this foreign buying.

When the speculative boom in the stock market comes to an end, foreign dollar holders will likely use their dollars to buy real American goods and services. This will cause domestic prices to be bid up. Because a shrinking amount of foreign-held dollars will be available to finance U.S. capital demand, domestic interest rates also will rise. Interest rates will increase further as savers become aware of rising prices and take into account the future depreciation of their dollars. As the dollar depreciation continues, American goods and services will become more attractive to foreign consumers. And at the same time, because of the depreciating dollar, imported goods will become more expensive for American consumers. The trade balance will once again tend toward equilibrium.

Thus, the end of the trade deficit will likely be accompanied by high interest rates and inflated prices, and followed by a recession. But these undesirable consequences are not the result of the trade deficit *per se*, but of monetary inflation—the consequences of which have been forestalled for a time because of the unique position of the American dollar. The fruits of past monetary sins are at last revealed as the economic distortion becomes apparent. As foreigners convert their dollars into real goods and the inflow of foreign capital sub-

sides, interest rates will rise and entrepreneurial "malinvestments" will be exposed.

If the trade deficit is a national problem, it is for two reasons. First, its eventual end will exact a price for the Federal Reserve's past excesses, and individual Americans no longer will be able to consume more than they produce. And second, because of special interest groups and the mercantilist perspective of many politicians, the trade deficit threatens to lead to protectionist legislation. This is despite the fact that the actual threat posed by a trade deficit is

minimal or non-existent. In the words of economist Herbert Stein, "There must be something more serious to worry about."⁹

While the trade deficit itself is not threatening, government interference with international trade is. Any political efforts to rectify what is seen as "the trade problem" are certain to harm the economic interests of the vast majority of Americans. As far as the trade deficit is concerned, there is little doubt that any government cure will be worse than the imagined disease. □

1. Robert L. Heilbroner, *The Essential Adam Smith* (New York: W. W. Norton & Company, 1986), p. 266.

2. Jaclyn Fierman, "The Selling Off of America," *Fortune*, December 22, 1986, pp. 44-56.

3. "Foreign Money Finds Haven in U.S.," *The Wall Street Journal*, May 27, 1986, p. 2.

4. In retrospect we see that foreign individuals who have chosen to accept and hold American dollars have been harmed by the subsequent inflation and depreciation of their dollar assets. But the fact that people sometimes misjudge the future and take actions contrary to their best interests does not suggest that the individual's freedom should be lessened for his own good. Who could be a better judge of someone's interests than the person himself?

5. Americans can buy foreign goods or invest in American business, but they can not do both at the same time. To the degree that Americans are exchanging dollars for foreign consumer goods (obviously not all imports are goods for consumption), the trade deficit is an indication of our "present orientation." It indicates a preference for consumption over investment, or in other words, present enjoyment over future enjoyment. The trade deficit, however, does

not cause this high time-preference, but is a symptom of it. Protectionist legislation would not change the time-preference of American consumers (i.e., stop people from consuming instead of investing), but only changes how time-preference is manifested (forcing consumer spending to shift from foreign to domestic goods). As Gary North writes: "Americans are increasingly willing to exchange their economic futures for present delights . . . What should the Federal government do about the short-sighted vision of American consumers? Is it the responsibility of the Federal government to pass legislation controlling people's time perspective? . . . Those who want to invest in American business should be allowed to invest." (Gary North, "Should American Business Give Up Smoking?" *Biblical Economics Today*, April/May 1987, p. 3)

6. Herbert Stein, "Leave the Trade Deficit Alone," *The Wall Street Journal*, March 11, 1987, p. 29.

7. Lewis E. Lehrman, "Trade War or Monetary Reform," *The Wall Street Journal*, January 28, 1987, p. 26.

8. Michael R. Sesit, "Overseas Holdings of U.S. Stocks Grow," *The Wall Street Journal*, February 27, 1987, p. 13.

9. Stein, p. 29.

In the December Freeman:

- "The Ancient Suicide of the West" by Nicholas Davidson
- "Scandals" by Joseph S. Fulda
- "The Polish Underground" by Lawrence W. Reed
- Index for 1987—author, article, and topic guide, from advertising to zoning.

A REVIEWER'S
NOTEBOOK

The Closing of the American Mind

by John Chamberlain

Astoundingly, a very learned and difficult book about the state of higher education in the United States has been holding Number One place on *The New York Times* nonfiction best-seller list. And just as astonishing, a book detailing what should be done to repair our deficiencies in general knowledge has been running Number Two or Number Three.

The first book is *The Closing of the American Mind: How Higher Education Has Failed Democracy and Impoverished the Souls of Today's Students* by Allan Bloom, with a foreword by Saul Bellow (New York: Simon and Schuster, 392 pp., \$18.95). The second book is *Cultural Literacy: What Every American Needs to Know* by E. D. Hirsch, Jr. (Boston: Houghton Mifflin Co., 251 pp., \$16.95).

If people are really digesting and approving what Allan Bloom, a University of Chicago professor, has to say, it signals a remarkable change in our mental climate. It also tells something about reader persistence. Bloom develops his subject in a most roundabout way, and it is not apparent until he reaches page 336 of his book that we really know what he is after. He begins with a charge that, in the mid-1960s, our universities were offering students every concession other than education. There was a "great spiritual bleeding." When Bloom talked to his students about books, he got an impression that there was no printed word to which they looked for counsel, inspira-

tion, or joy. There was always the girl who mentioned Ayn Rand's *The Fountainhead*, or the boy who had read *The Catcher in the Rye*. But the students had "nothing like the Dickens who gave so many of us the unforgettable Pecksniffs, Micawbers, Pips, with which we sharpened our vision." If the students lacked both books and heroes, however, they did have music.

At this point Bloom takes off on a most wrathful denunciation of rock music. "Rock," he says, "has one appeal only, a barbaric appeal, to sexual desire—not love, not *eros*, but sexual desire undeveloped and untutored." The real issue here with Bloom is that rock "ruins the imagination of young people and makes it difficult for them to have a passionate relationship to the art and thought that are the substance of liberal education."

Bloom's long chapter on "Relationships" laments a number of things that have a bearing on the failure of the universities to provide a unified education. Our discriminatory laws are now ancient history, and there are plenty of blacks now in college. But they don't share any positive intellectual or moral experience with white students. Generalizing from his days as a teacher at Cornell, Bloom notes that blacks insist in eating by themselves. "Integration," he says, "was just an ideology for whites and Uncle Toms." Black militants "had to threaten—and to do—bodily harm to black students with independent inclinations" to

found a separatist system. Affirmative action in the colleges, says Bloom, "is the source of . . . a long-term deterioration of the relations between the races in America."

In this chapter on "Relationships" Bloom talks about love. "When I see a young couple who have lived together throughout their college years leave each other with a handshake and move out into life," he says, "I am struck dumb." But Bloom is not too dumb to perceive that such a couple could have little comprehension of Shakespeare's *Othello*, who killed for love. And Tolstoy's *Anna Karenina* would have little meaning.

Before getting down to the subject of course content in education Bloom has first to settle a lot of things about "value relativism." He assumes that his readers must know all about Hegel, Rousseau, Nietzsche, Freud, and Max Weber as well as Thomas Hobbes, John Locke, and Adam Smith. He also assumes that his readers must have an appreciation of Woody Allen.

There are long sections on what Rousseau and Kant did to improve upon the theories of the Eighteenth-Century Enlightenment. Locke and the French *philosophes* had established the domain of natural science. But they left out of account such things as "community, virtue, compassion, feeling, enthusiasm, the beautiful and the sublime."

After some 300 pages of general philosophy, which is always interesting, Bloom returns to what he has touched upon at the beginning, which is failure of the universities in the Sixties to stand up against the "pick and choose" fragmentation of the curriculum. "About the Sixties," he says, "it is now fashionable to say that although there were indeed excesses, many good things resulted. But, so far as universities are concerned, I know of nothing positive coming from that period; it was an unmitigated disaster for them. . . . The old core curriculum—according to which every student in the college had to take a smattering of courses in the major divisions of knowledge—was abandoned."

Bloom is not very hopeful that the old-time curriculum can be restored. The trouble is not with the natural scientists or with the champions of the humanities at the two extremes.

"The moral education that is today supposed to be the great responsibility of the family cannot exist if it cannot present to the imagination of the young a vision of a moral cosmos and of the rewards and punishments for good and evil, sublime speeches that accompany and interpret deeds, protagonists and antagonists in the drama of moral choice, a sense of the stakes involved in such choice, and the despair that results when the world is 'disenchanted.'"

—Allan Bloom

They could agree on the issue of sharing core time. It is the social scientists in the middle that make a good compromise impossible. Social science, says Bloom, "is a series of discrete disciplines. . . . There is no social science as an architectonic science. It is parts without a whole."

That is where Bloom more or less leaves us. E. D. Hirsch, in his *Cultural Literacy*, is just as critical of "cafeteria-style education" as Bloom, but he is rather more hopeful that strong disciplines in math, science, the humanities, history, and literature can be re-established. There can be a return to core teaching without sacrificing flexibility. "A common extensive curriculum," says Hirsch, "would ensure that students have some information about *Romeo and Juliet*, but in their intensive curriculum they might study *The Tempest* or *Twelfth Night* in detail."

Hirsch concludes his book with a 63-page list of dates, names, phrases, titles, and snatches of song and poetry that literate Americans know or should know. Rousseau is there along with Rube Goldberg, and Immanuel Kant is not too far away from King Kong. Woody Allen, however, seems to be missing, which could make Alan Bloom feel that he is one up on Hirsch.

The two books admirably complement each other, and it is a tribute to American readers that they have recognized this in putting them high for many weeks on the best-seller lists. □

CRISIS AND LEVIATHAN: CRITICAL EPISODES IN THE GROWTH OF AMERICAN GOVERNMENT

by Robert Higgs

Oxford University Press, 200 Madison Avenue, New York, NY 10016 • 1987 • 416 pages • \$24.95 cloth

Reviewed by John K. Williams

This is a first-class volume, which in substance exceeds its title. It will prove invaluable not only to people with expertise, or wishing to acquire expertise, in American history, but to men and women anxious to understand the reversion in our age to the large, intrusive governments against which classical liberals of the 18th and 19th centuries fought with considerable success.

This is not to say that the volume is misperceived if its subtitle—*Critical Episodes in the Growth of American Government*—is taken at face value. In such chapters as *The Progressive Era: A Bridge to Modern Times*, *The Political Economy of War: 1916-1918*, and *The Great Depression: "An Emergency More Serious Than War,"* the author provides a detailed historical analysis of significant turning points in the history of the United States.

Yet, in a very real sense, these chapters serve as case studies of a more general thesis—that government typically grows during a "crisis," real or imagined. In time of crisis, those who normally would oppose an extension of governmental power can be panicked into approving or even demanding such an extension. Rather than endure actual or anticipated social dislocations, or wait for the crisis to be dealt with by market processes, men and women facing a crisis insist that government "do something."

Professor Higgs rightly points out that "no single standard explanation can account for the timing of the extension of governmental authority over economic decision-making" and that attempts to provide what one might call a "monistic" explanation achieve simplicity at the expense of accuracy. Yet one constant can be observed—that crises provide the opportunity to extend government powers, and that rarely is the opportunity passed by.

Higgs concludes his study in a minor key. He holds that crises occasioned by many causes—"foreign wars, economic collapse, or rampant terrorism"—inevitably will characterize the future. "When they . . . [occur] governments almost certainly will gain new powers over economic and social affairs. . . . For those who cherish individual liberty and a free society, the prospect is deeply disheartening."

Yet that statement comes from the volume's penultimate paragraph. And although the minor key continues in the final paragraph, what is said there offers ground for hope. The author asserts that, while he hopes he is wrong, he is of the opinion that the process leading to an ever more intrusive government cannot be halted. He notes, however, that "Americans have been brought to their present inauspicious circumstances by, above all else, changes in the prevailing ideology. If ideologies are not mere superstructure, if ideas can gain sway through rational consideration in the light of historical evidence and moral persuasion, then there remains a hope, however slight, that the American people may rediscover the worth of individual rights, limited government, and a free society under a true rule of law."

This reviewer believes that ideas *can* most certainly "gain sway" through the educational work of organizations committed to liberty. Robert Higgs' qualified pessimism certainly has grounds. But so did the even greater pessimism voiced by Adam Smith. Yet the ideas Adam Smith and other classical liberals formulated and defended managed to inspire sufficient men and women to overthrow the nightmare that was mercantilism. Hence, while reading this thoughtful volume is not unlike witnessing a Greek tragedy, wincing as one observes a heroic character slowly but inexorably moving his or her way toward inevitable destruction, one can close the book not with a sigh of despair but with an intensified desire to do all one can to further the ideas and the ideals upon which liberty ultimately depends. □

(The Reverend Dr. John K. Williams of North Melbourne, Australia, has been FEE's summer scholar in residence for the past three summers.)

**THE RULE OF EXPERTS:
OCCUPATIONAL LICENSING
IN AMERICA**

by S. David Young

Cato Institute, 224 Second Street, S.E., Washington, D.C. 20003
1987 • 99 pages \$7.95 paperback

Reviewed by Tommy W. Rogers

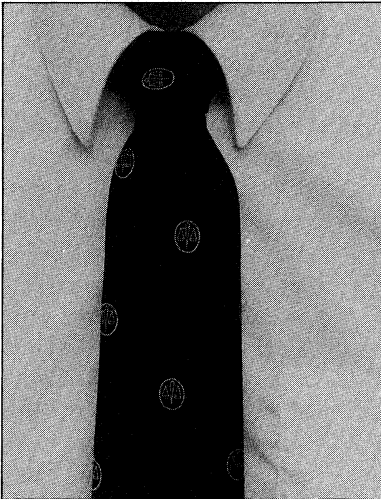
Occupational licensure is a political process whereby various trades and professions are enabled to erect barriers against competition through the enforcement power of the state. Some 640 occupations in the United States require registration, and some 490 are currently licensed. This procedure limits consumer choice, raises consumer costs, increases practitioner income, and restricts

entry opportunity without a demonstrated improvement in quality or safety beyond that provided by private certification.

Licensing confers monopoly advantages which enable practitioners of hundreds of services to charge above-market prices. The wealthy can afford to pay but the poor are often forced to do without. It's as if those who cannot afford a Cadillac are forbidden to buy a Honda.

But do we not need licensing to insure quality service and weed out quacks? No, says the author. Private certification which limits the use of certain titles—Realtor, for example,—and other nonintrusive mechanisms would afford substantially the same protection, without violating any basic freedoms. □

(Tommy W. Rogers is an attorney in Jackson, Mississippi.)



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CONTENTS
DECEMBER
1987
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444 Scandals

Joseph S. Fulda

When peaceful acts are made illegal, "crimes" proliferate.

447 Should Cigarette Advertising Be Banned?

Douglas J. Den Uyl and Tibor R. Machan

An examination of some moral and Constitutional considerations.

452 The Ancient Suicide of the West

Nicholas Davidson

Seeking answers to the riddle of the fall of Rome.

463 The Reincarnation of Jim Crow

Clint Bolick

By advocating government intervention instead of the market, today's civil rights establishment has sorely hurt the economic future of many black Americans.

468 Jamaica: No Free Market, No Miracle

James Bovard

Autarky as an economic policy has kept this country an island paradise lost.

473 Native Americans: Victims of Bureaucracy

Michael Adamson

American Indian policy has promoted government-guaranteed security over freedom.

477 The Polish Underground

Lawrence W. Reed

A firsthand account of the nature and effectiveness of those who oppose the Communist government in Poland.

481 A Reviewer's Notebook

John Chamberlain

A review of "The Politics of Unemployment" by Hans F. Sennholz.

483 Index for 1987

Compiled by Bettina Bien Greaves

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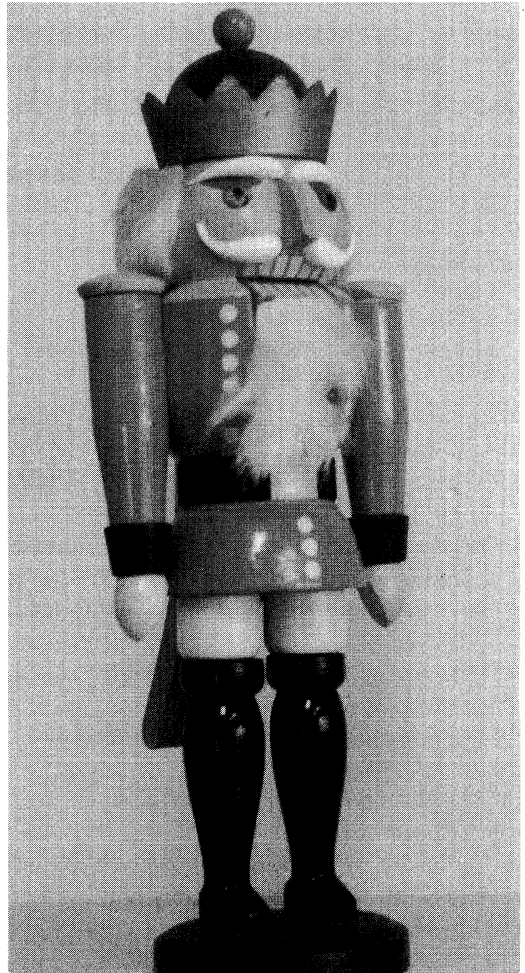
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PERSPECTIVE



The Nutcracker

Tchaikovsky's "Nutcracker Suite" has brought joy to Christmas audiences for almost a century.

The story of the ballet is simple. A little girl receives as a Christmas gift a comical nutcracker. In her dreams he becomes a handsome prince who carries her off to the land of the Sugar Plum Fairy. There graceful dancers perform to Tchaikovsky's delightful music. When the little girl awakes, her Prince Charming has reverted once more to a comical nutcracker. But memories of the delightful dream linger on.

During the Middle Ages, several centuries before Tchaikovsky wrote his music, most of

the people in Europe were ruled by petty princes and lived under the yoke of tyrannical governments. They were not free to move about, to work, to worship, to speak as they chose. Some unknown woodcarvers relieved their resentment of political authority by carving the faces of their rulers in caricature on comical wooden dolls or nutcrackers.

So the idea for the lovely "Nutcracker Ballet" stemmed from political satire in a free society. Out of adversity came joy.

—BBG

On Tolerance

One of the joys of *The New York Times* is the daily crossword puzzle. A recent clue, however, made me pause and think.

Clue: "Allow grudgingly." T O — — R — T —. The answer was obvious: "Tolerate."

The verb "to tolerate" and the noun "tolerance" typically loom large in the lexicons of men and women committed to liberty. Yet is tolerance, understood as "allowing grudgingly," really an adequate term to capture the attitude to other people and their dreams the free society must enshrine? Does not the free society rest upon a positive attitude of respect, even reverence, for the autonomy of individual men and women that goes far beyond a willingness "grudgingly to allow" people to dream their own dreams and peacefully to act in ways they believe and hope will lead to those dreams coming true?

Hence question one: Is "mere tolerance"—a patronizing, grudging allowance of visions of the "good life"—one does not share or particularly admire—the attitude to other people and their values defenders of the freedom philosophy espouse? Or is something much more positive involved?

A second and more difficult question: How does one distinguish between "tolerance" and "indifference"?

Maybe one widespread use of the word "tolerance" might highlight this problem. Over time, drug users develop a *tolerance* for their poison of preference. It takes ever-increasing doses of heroin or cocaine or alcohol to get

them "high." After years of abuse, they become suicidally "tolerant" of that which is destroying them.

Is it conceivable that a person committed to liberty can learn to "tolerate" viewpoints and practices which are utterly destructive of liberty—viewpoints and practices one might be tempted to describe as "intolerable"? To put it bluntly, when does "tolerance" of political theorists and activists antagonistic to liberty become *de facto* indifference to that antagonism and acquiescence in the erosion of liberty?

At its best, "tolerance" hints of an attitude akin to that described by the ancient Greek historian Thucydides who, in his immortal history of the Peloponnesian War, asserts that citizens of Athens "do not get into a state with [their] next-door neighbor if he enjoys himself in his own way, nor do [they] give him the kind of black looks which, though they do no real harm, still do hurt people's feelings." That attitude, however, surely rests upon a positive respect for the autonomy of human beings, and a passionate commitment to defend the political and economic structures that make the exercise of such autonomy possible. "Grudgingly to allow" people to exercise freedom, or mindlessly to acquiesce in actions which erode a people's freedom, misses the heart of the matter!

— John K. Williams

Upcoming FEE Regional Seminars

January 28	Boca Raton
January 29	Orlando
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March 19	Milwaukee
April 22–24	Seattle
April 25	Portland

Scandals

by Joseph S. Fulda

It is impossible to read a newspaper or listen to a newscast nowadays and fail to be impressed by the degree to which our society is beset by scandals, large and small. This was not always so. There was a time when scandals were infrequent, if not rare, deviations from the norm. In short, they were scandalous. Today, they *are* the norm—commonplace and expected, almost natural.

An exploration of the varied causes of this recent and unsettling phenomenon, which we shall undertake here, is necessary if one rejects the conventional wisdom that today's scandals have arisen from the character defects of our current leaders, politicians, and businessmen—who, it is believed, are morally inferior to and more venal than those of yesteryear. In studying news reports over the last few months, several sociopolitical trends largely responsible for the huge increase in indictments precipitated by scandals clearly emerge.

First, there are more requirements and prohibitions set by the law, the courts that interpret them, and the administrative agencies that apply them than ever before. And even where the requirements or prohibitions are longstanding, the focus, energy, and skill brought to their enforcement is a recent development. Naturally the more laws and regulations there are to be broken, the more violations will occur. And the more effort applied to discovering such violations, the more will be discovered.

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It is not that this generation has discovered more *mala in se*, the political theorist's term for acts wrong by their very nature and apprehensible as such to any civilized man. Rather it is the extreme proliferation of the *mala prohibita*, the designation classically given to acts simply declared crimes by the state. Into this category fall many of the ancient victimless crimes, but also, and even here in capitalist America, many economic "crimes."

For example, it is a *felony* to purchase five per cent of a company's stock without notifying the government. This not only is an abridgment of the freedoms of speech and enterprise, it is hardly apprehensible as wrong by its very nature. Even worse, it is also a felony to aid someone's nondisclosure of five per cent ownership, by holding the stock for him. What we have here, then, is a situation where a mere bailment is treated as a serious crime, its triviality masked by such terms as "parking securities" and "stock fraud," which to the general public sound so ominous.

Then there are also the numerous restrictions on mere possession, which have included illegal substances, controlled substances, contraband, fireworks, gold, firearms, burglars' tools, and whatnot. Also burdensome are the many restrictions on the peaceful exchange of goods and services between consenting adults. For example, it is felonious for a stockbroker to lend a client more than a specified percentage of the means needed for a securities purchase. What once would have been seen as an act of brotherhood or at least a common business

practice has become a "margin violation," punishable by a prison term. Furthermore, when services are exchanged, even between friends, both parties are required to report the service received as barter income or face federal charges. One can't even exchange small favors without the intrusion of the taxman.

Proscribed and Prescribed Actions

On and on the list goes—and we haven't even begun to enumerate the restraints and mandates placed on business enterprises. But the idea is already clear: The index of proscribed and prescribed actions far outstrips the security needed by civilized men for social intercourse. And the longer this irrational and capricious list grows, the longer will be the list of offenders. It is well to recall Jefferson's comment on this trend already evident in 1816. "Our legislators," he wrote, "are not sufficiently apprised of the rightful limits of their power: that their true office is to declare and enforce only our natural rights and duties. . . . The trial of every law by one of these texts would lessen much the labors of our legislators and lighten equally our municipal codes."¹

Second, there has been an almost unimaginal expansion of government-sponsored programs, government-funded programs (grants and subsidies), and government regulation of privately sponsored and funded activities. As I discussed in an earlier article,² such programs provide almost limitless opportunities for abuse, both for the legislators, bureaucrats, and regulators dispensing the funds, permits, or contracts and for the corporations and individuals seeking to receive them. And both sides, givers and takers, have used these opportunities.

An excellent and timely description of this process comes from William Stern, formerly CEO of New York State's Urban Development Corporation—a huge government agency "that does everything from building convention centers to financing economically depressed mushroom farms." Mr. Stern candidly admits that "[t]he fact that government is involved in so much in New York . . . creates the motivation to influence government. And the process of influencing government is always

sleazy. . . . It's a side of liberalism that was not predicted, and I think not completely understood. . . . [T]he government becomes very much organized to push through the interests of whoever makes their influence felt."³

In other words, the use of what Albert Jay Nock called "the political means" of acquiring wealth—taking it—rather than "the economic means"—earning it—is seductive. By its expansion into all areas of everyday living, government is creating temptations on a massive scale. It is easy to fault individuals who succumb to temptation, but one should do so only with the realization that government-wrought temptations are today ubiquitous and overpowering. Thus, it is not that people on both sides of the government dispensary are morally weaker than those of earlier times: The problem is the incredible size and scope of the government dispensary, and the very notion that government may take from A to give to B or regulate the peaceful activities of A to benefit B. In pursuit of privileges, favors, and contracts, people often ignore the rule of law and thereby risk ending both their own careers and the careers of those in government who assist them in return for some form of payoff. Thus, as the daily news reports show us, the existence of the government dispensary with its enormous temptations and corrupting influence is not only theoretically indefensible, it is a very real human tragedy which brings people down at the peak of their powers who otherwise would have lived decent lives and had productive careers.

Third, with the advent of special prosecutors, full-disclosure requirements, and many other similar developments, the intense scrutiny placed on public officials and public figures is greater than that of any previous age. Facilitated by modern transportation, communication, and information processing systems, such scrutiny is urged on us by its advocates because of the pervasive corruption discovered in and following the Watergate era. And the more corruption discovered, the more intense is the push for yet more scrutiny.

On the surface, it appears that this trend is not directly caused by the growth of government. After all, scrutiny from the press, encouraged by the very weakened state in which

the courts have left libel law in the United States, can be as unrelenting as that of a U.S. Attorney, a state prosecutor, or a legislative panel.

However, closer examination reveals that what really has occurred is the blurring of the all-important distinction between private and public. With almost everything heretofore considered private now considered public, such scrutiny is to be expected. And the continuing attenuation of the distinction between the public and the private is a direct consequence of the growth of government.

Nor is scrutiny itself goal-free. Most of it is directed to discovering whether the person has violated some insignificant *malum prohibitum* or whether he has been involved in the abuse of the government dispensary. Only rarely does the scrutiny placed on persons in public life result from suspicion that a *malum in se*, unre-

lated to the government dispensary, has been committed.

In sum, were government's powers to grant subsidies, privileges, contracts, tax exceptions, licenses, and permits sharply curtailed and were government to refrain from declaring peaceful acts illegal, even today's heightened scrutiny would yield little of substance. The public would soon lose interest in reading about probes, inquiries, hearings, and investigations—and scandals once again would be scandalous. □

1. E. Dumbauld, ed., *The Political Writings of Thomas Jefferson*, p. 55.

2. J. Fulda, "The New Bondage," *The Freeman*, April 1982, pp. 243-248.

3. P. Weber, "City of Scams: The Streets Were Paved with Gold Diggers," *National Review*, June 5, 1987, p. 27. The article discusses the corruption scandals in both New York State and New York City, which magnify yet still typify the situation with government in general.

IDEAS
ON
LIBERTY



Culture vs. Barbarism

Culture strives to establish a boundary between itself and barbarism. The manifestations of barbarism are called "crimes." But existing criminology is insufficient to isolate barbarism. It is insufficient because the idea of "crime" in existing criminology is artificial, for what is called crime is really an infringement of "existing laws," whereas "laws" are very often a manifestation of barbarism and violence. Such are the prohibiting laws of different kinds which abound in modern life.

The number of these laws is constantly growing in all countries and, owing to this, what is called crime is very often not a crime at all, for it contains no element of violence or harm. On the other hand, unquestionable crimes escape the field of vision of criminology, either because they have not the recognized form of crime or because they surpass a certain scale. In existing criminology there are concepts: a criminal man, a criminal profession, a criminal society, a criminal sect, a criminal caste and a criminal tribe, but there is no concept of a criminal state, or a criminal government, or criminal legislation. Consequently the biggest crimes actually escape being called crimes.

—P. D. OUSPENSKY
A New Model of the Universe

Should Cigarette Advertising Be Banned?

by Douglas J. Den Uyl and Tibor R. Machan

The American Medical Association has recently called for a ban on the advertising and promotion of all tobacco products. A new wave of debate on Constitutional questions and on the nature of advertising is sure to follow and, indeed, has already begun. We intend to sidestep the “public policy” approach and focus instead on what is less discussed: basic moral and political values.

We consider the main values embodied by our Constitution to be basic moral values as well. Central among these values are liberty, limited government, and natural or human rights. We also take it that these values are not subject to majority rule. This point was clearly expressed by the U.S. Supreme Court when it stated in *West Virginia State Board of Education v. Barnette* (1943) that

The very purpose of the Bill of Rights was to withdraw certain subjects from the vicissitudes of political controversy, to place them beyond the reach of majorities and officials, and to establish them as legal principles to be applied by the Courts. One’s right to life, liberty and property, to free speech, a free press, freedom of worship and assembly and other fundamental rights may not be submitted to a vote; they depend on the outcome of no elections.

Our particular issue is commercial speech

and its deserved protection under the First Amendment. Tobacco advertising is a clear though controversial example of the principles we wish to address.

Virtually all attacks on liberty, including the liberty to express various viewpoints, ideas, theories, beliefs, appeals, requests, and so forth rest upon a basic moral error. This is the error of confusing basic rights with what is morally or ethically right.

The recent attempt to ban commercial speech about tobacco products is one of the purer examples of this error. If we assume, for the sake of argument only, that it would be right for people to stop smoking, we have, as yet, said absolutely nothing about the rights of the case. It may turn out that forcing people to quit smoking, restricting their access to tobacco products or information about such products, violates their rights. The paradox here is that in the pursuit of what is right, one may do what is morally wrong!

The reason for the paradox is that the particular way in which the “good” (or right thing) in question is pursued may conflict with another good that takes priority. All social moral principles are not created equal. Some are more fundamental than others. What is characteristic of rights is that, almost by definition, they are foundational or basic. Other social values must give way to them in cases of conflict. We can see this in everyday speech. It makes perfect sense to say, “It may not be right for someone to do (or believe) this, but he or she has every right to do so.”

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When this ad appeared, the loudest protest came from grammarians, not regulators.

But what rights do we have? Some rights seem to be dictated by common sense. The “right” not to be harmed seems to be one of these rights. If this is a right, shouldn’t tobacco products or information about such products be restricted or banned?

Unfortunately, common sense is not always accurate. There is in fact no basic “right not to be harmed.” The reason for this is twofold: People can voluntarily undertake risks, and people can have their rights violated without being harmed. In the first case, people voluntarily pursue dangerous activities all the time. They take on dangerous jobs, pursue dangerous sports, drive cars, and so on. What we expect in such situations is that the people involved have some conception of the risks they are undertaking—not that they be free from harm. In

the second case, if the government restricts my freedom to speak on behalf of a cause I do not believe in, I have not been harmed, but my rights have been violated. In the end, then, rights and harms are not necessarily connected.

In a similar vein, rights and government have no necessary connection with each other. Some people mistakenly believe that rights are what the government allows us to do. But if this were true, it would make no sense to say that governments can violate people’s rights, something they in fact do quite often. Since, as the Declaration of Independence so clearly notes, we are “endowed . . . with certain unalienable rights,” we can possess rights that were not given to us by government and which government cannot legitimately take away. The first ten Amendments were designed to protect us from government infringement of rights we were said to possess “by nature.”

Basic Rights

The Amendment that concerns us here is the First; but the principle behind all of them is the same: People have basic rights independent of governments. This principle further enforces our claim that a fundamental error occurs when one confuses rights with what is right. For what one discovers about basic rights is that they represent liberties, and liberty implies the possibility of *choosing* a “wrong” course of action as much as a “right” one. This point is clearly evident in freedom of speech cases where many wrongheaded causes and ideas are allowed to have their say with the same degree of legitimacy as those that are closer to the truth. Our basic rights, therefore, must be understood as essentially liberties; and these liberties are given political expression through Constitutional guarantees against government interference.

The main remaining issue here is whether people can have their liberties restricted in the name of “paternalism”—using the power of government to protect us from ourselves. But in a free society, if paternalism has a place at all, it would arise only in cases where information about alternatives was lacking. But clearly such is not the case with tobacco products and their use.

Of course, we are not arguing or conceding that smoking is the "wrong" that must be protected by our distinction. Whether someone's smoking qualifies as wrong conduct is certainly not a simple matter to decide. Even if in some cases it is clearly wrong to smoke, there can be many others when it is not. Yet some certainly regard smoking in this way; and it is useful to recognize that even if one concedes the point about the "wrongfulness" of smoking, no foundation has yet been laid for waiving basic rights or Constitutional protections.

In a recent case, the Federal Trade Commission (FTC) charged the R. J. Reynolds Tobacco Company with running a false and misleading advertisement ("Of Cigarettes and Science") on the health effects of cigarette smoking. The FTC believed the advertisement to be deceptive because R. J. Reynolds had interpreted a government study on the causes of heart disease in a way that was not detrimental to smoking. The FTC lost the case because the judge ruled that the advertisement qualified as noncommercial speech, since no prices, brands, or products were mentioned. Had prices, brands, or products been mentioned, the FTC would have had the power to regulate the advertisement under the limited First Amendment protections granted to commercial speech.

The question arises, however, as to why R. J. Reynolds would not enjoy full First Amendment protection even if it had mentioned its own products?

In the last few years, the courts have given commercial speech secondary status with respect to First Amendment protection. Although the courts clearly protect the right to advertise, they nevertheless subject advertisers and producers to the myriad of government regulations.

The secondary status of commercial speech is the inevitable result of trying to reconcile free speech with a regulated economy. But this reconciliation is conceptually unstable. It assumes, on the one hand, that economic activities can be divorced from communication and information about such activities. Since these two cannot be separated, the right to free speech is compromised in an attempt to retain the government's power to regulate voluntary

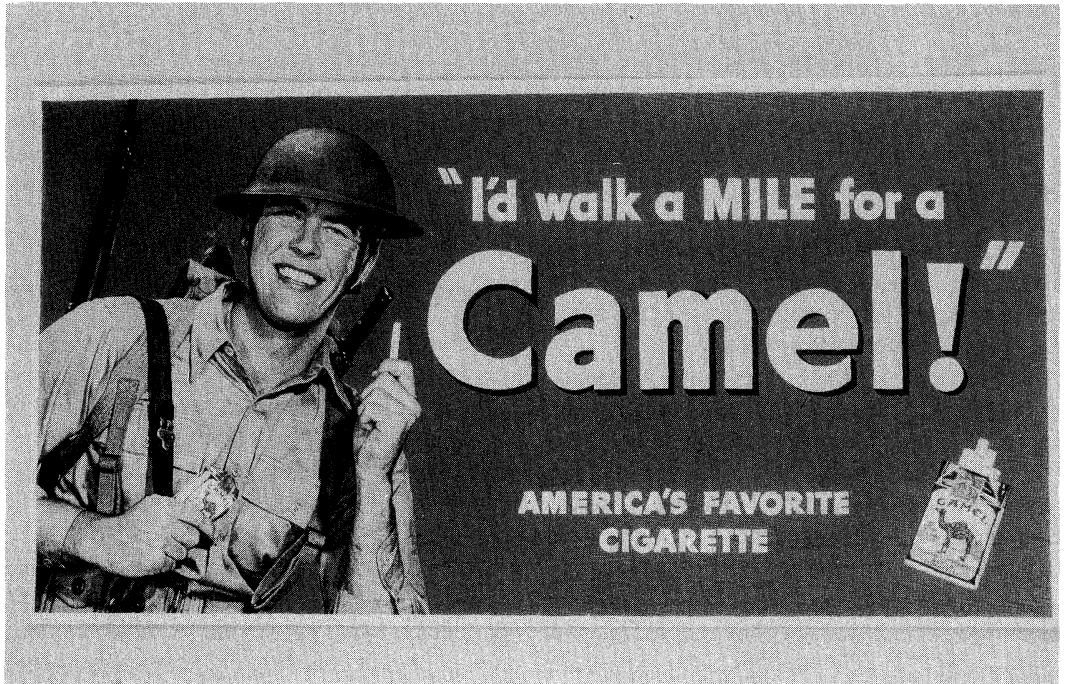
economic transactions. On the other hand, the reconciliation assumes that the right of free speech applies to some categories of speech and not others. Commercial speech needs to be wrenched from other forms of speech to make this argument fly, yet no logical and legal ground can be found for this in the U.S. Constitution.

"Private" vs. "Public" Speech

The main way of trying to separate commercial from noncommercial speech is to argue that the latter is "public" speech while the former is "private" because it serves some private interest. This distinction is used to argue that the court has gone too far in allowing First Amendment protection of commercial speech. The First Amendment, these critics claim, was meant to cover cases of public speech, not private. They would agree with us that it is incoherent to grant commercial speech only partial protection; but their solution is to afford commercial speech no First Amendment protection at all!

The distinction between public and private speech is simply not viable. In the first place, it is typical for those who object to First Amendment protection of commercial speech also to fail to object to government regulation of the economy. But if economic matters were purely private, the government could have no "public" interest in regulation, and it is the supposed public interest of government in economic regulation that refutes the claim that commercial speech is a purely private affair.

In addition, those who speak are seldom, if ever, as disinterested as the concept of "public" speech would lead us to believe. Groups which have causes to advance in the name of the "public interest" have at stake precisely the same things as corporations do in their advertisements: organizational growth, jobs, visibility, competitive advantage (relative to other groups with a cause), and the like. Individuals, too, seldom make disinterested public pronouncements, especially on controversial issues of public policy (e.g., taxes and zoning changes). If the First Amendment is not designed to protect self-interested speech, there is precious little that it does protect.



"The secondary status of commercial speech is the inevitable result of trying to reconcile free speech with a regulated economy."

Finally, speech, by its very nature, is public, since it is communication. And advertising is most certainly public, because it is addressed not to particular individuals, but to unknown members of the public. We should abandon the distinction between private and public speech and accord commercial speech the same full First Amendment protection given to all speech.

Does it now follow that advertisers can make any false or fraudulent claim they wish about their products? The answer here is no, because there is a significant moral difference between making a promise and expressing a belief. The informational components of advertisements can plausibly be construed as an initial statement of terms between seller and buyer. This is why it is legitimate to hold advertisers accountable to some degree for the truth of their ads. Expressions of belief, on the other hand, do not function like promises, because no one is called upon to deliver a good according to stated terms. No one has the right to defraud another. But to say that hardly justifies intrusive governmental regulation of commercial speech.

If the R. J. Reynolds advertisement had in-

cluded accurate product information, the ad could not be held morally and legally culpable. The court should have ruled in Reynolds' favor, even if they had included product information as part of the advertisement. The court's attempt to dodge the issue by calling the Reynolds advertisement "noncommercial" may have been convenient, but it leaves commercial speech vulnerable to attack by foes of liberty.

In this respect, the court has strayed even wider of the mark in its recent ruling in *Po-sadas*, a case that arose in Puerto Rico in which once again the court distinguished between commercial and other types of speech, a distinction that is inexcusable despite the specious claim that the "original intent" of the First Amendment was to cover only political speech. In fact, however, the precise *meaning* of the First Amendment concerns any kind of speech whatever, and a law must be interpreted to mean what it says—legislative intentions are too diffuse and varied for us to be guided by them.

It is true that the First Amendment does not unequivocally grant protection to commercial

speech, but that is irrelevant—it certainly does not bar such protection either, just as it does not bar protection for religious, philosophical, ideological, poetical, or any other special kind of speech.

If this is not sufficient, as it should be, we should also recall here the Ninth Amendment which says that “The enumeration in the Constitution, of certain rights, shall not be construed to deny or disparage others retained by the people.” This Constitutional provision can only be understood as wisely extending protection to many matters not explicitly mentioned or foreseen by the Founders. So when the First Amendment is coupled with the Ninth, one must assume that commercial speech is still speech and hence Constitutionally protected. When we also add to all this that the Fourteenth Amendment requires that “No State shall . . . deny to any person within its jurisdiction the equal protection of the laws,” it becomes clear that a ban on any kind of honest advertising would constitute a form of discrimination against people in business vis-à-vis other professions, activities, and forms of speech. In short, the principles embedded in the Constitution clearly favor the argument for full Constitutional protection of commercial speech.

Nevertheless, the argument persists and is a simple one: Cigarettes are “lethal” products while the images conveyed by cigarette ads in no way convey this danger—indeed the opposite message is conveyed. The consumer is therefore deceived into believing that cigarette smoking is acceptable, attractive, or without risks and hazards. This argument, however, is nothing but a version of the old shibboleth that advertising itself is inherently deceptive.

Advertisements are said to be inherently deceptive because they “selectively emphasize” certain features of a product to make the product appear more attractive. Since this technique ignores or de-emphasizes other features, the consumer is deceived. The moral conclusion many draw is that since advertising is deceptive, and deception is morally wrong, advertising is morally wrong.

But the case for “generic deception” depends upon there being something wrong with presenting something in a positive light and upon the likelihood that people are unaware of

the type of message being delivered. Neither condition can be satisfied.

There is nothing wrong with presenting something in its most attractive light. We do this all the time. On our resumé's we do not list the jobs we lost or the failures we had. In our personal grooming we take care to look attractive and hide our “flaws.” As to the nature of the message, what is generic to advertising is precisely the effort to present something in its most attractive light. Since attractive presentation of information is virtually what we mean by an advertisement, it is nonsensical to claim generic deception when one confronts an advertisement. Selective emphasis does not violate the canon of truthfulness *per se*, because the basic truth conveyed by advertising is that when you see it you expect to see the item portrayed in its best light. And surely there are (some) attractive people who use tobacco products.

After examining basic moral and Constitutional values, one is forced to conclude that the tobacco industry is on the side of principle in its opposition to the AMA. It is obvious that banning or restricting commercial speech about tobacco products ignores basic rights and liberties and opens the door to further coercive control of speech.

What is perhaps less obvious is the damage already done. That Congress and the media could take a proposal like the AMA's seriously, and indeed that well-educated medical professionals could be so completely ignorant of the meaning of liberty, signifies a national crisis of understanding of our own heritage of political liberty. Furthermore, the *ad hoc* attitudes of the present Court concerning commercial speech offer little hope that this crisis will be remedied from this quarter.

Yet in the end, what disturbs us most is how insulting all this is. Despite continual subjection to claims about the evils of tobacco, we are being told that we are too incompetent to make up our own minds about these products. The damage that has already been done is reflected in the fact that we take such insults on a daily basis. Let us reverse the trend and identify the insult as just that. It is a first, but necessary, step in preventing the world from filling up with fools. □

The Ancient Suicide of the West

by Nicholas Davidson

I. Interpreting the Decline of Rome

The fall of the Roman Empire remains one of the great unsolved riddles of history.¹ Rome rose from obscurity to dominate the ancient world until it became practically synonymous with civilization itself. Yet a few centuries later its terrified survivors, decimated by disease, famine, and infertility, eagerly laid their necks beneath the swords of barbarian conquerors. Why?

Edward Gibbon, who set out to solve this riddle at the time of the American Revolution, had yet to find any but the vaguest of answers by the end of the six volumes of his great work, *The History of the Decline and Fall of the Roman Empire*. By answering the riddle of the fall of Rome, Gibbon hoped to discover whether modern European civilization might be threatened by a similar fate. Precisely because the riddle remains unsolved, Gibbon's *History* remains the standard work in its area—a unique situation in the field of history, where obsolescence overtakes most works within a few years of publication.

Despite his high reputation, Gibbon was something of a plodder, and his work is full of repetition and the sacrifice of concept to narration: a touchstone of English usage in its few inspired moments, a valuable source even

today, but scarcely a model of analytical clarity. At the end of his study of the fall of Rome, Gibbon concluded that modern civilization, unlike Rome, was too complex to fall, without adequately specifying what the conditions for that complexity might be.

Gibbon's vagueness has inspired a seemingly endless stream of alternate explanations. After reviewing the same general evidence, scholars have come to the most diffuse and frequently the most farfetched conclusions.

A classic example is F. W. Walbank's account of the decline of Rome, *The Awful Revolution*. While his narrative is elegantly constructed and factually reliable, his conclusions are less convincing. Walbank argues that the lessons of the decline can guide us in the present. "Having learnt the lessons of that 'awful revolution', we can more advantageously devote our passions and our energies to the amelioration of what is wrong in our own society." What are these "lessons," according to Walbank? He describes in detail the coercive economic actions of the Roman state and then concludes that "private enterprise, left to itself, was proving unequal to the task of feeding the civilian population." The fall of Rome is attributed to insufficient government planning. We must, he writes, "attempt to plan the resources of modern society for the whole of its peoples." Every misguided state action that hastened the fall of Rome—family policy, industrial policy, wage and price controls—is trotted out by such supremely accomplished scholars as Walbank as a remedy for modern ills.²

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One is forced to the realization that no matter how erudite a historian may be, his conclusions about past socioeconomic events are only as reliable as his grasp of economic theory. Since the 1920s, the pick of classical scholars have lived amidst a miasma of fanciful notions on the relation of government policy and social progress. It is precisely in the most sophisticated milieus that the naïvetés of leftism have bitten deepest, as in Britain, where many of the leading historians of the past fifty years have been large-C Communists, and in America, where socialist, Marxist, and New Deal mentalities have great prestige in the academy and it is normative to ridicule the free market.

A better explanation for the decline of Rome must address the universality of the problems that confronted the Romans. The evils that Rome faced were not worse than those faced by other societies before or since. Political turmoil, civil war, invasion, plague, famine, and all the other scourges of the ancient world can be found abundantly in the histories of all societies, including modern and early modern Europe. Why in the seventeenth century did England not succumb to plague and civil strife, nor Holland to devastating, repeated invasion? Rome itself had survived all these scourges, including invasion, occupation, civil war, and ceaseless barbarian pressure during the republic and the early empire. What none of the factors, commonly advanced to explain the fall of Rome, can do adequately, is to show why, at the very pinnacle of its grandeur in the first century A.D., at a time when it utterly dominated the ancient world, Rome's culture and economy should have entered a precipitous and ultimately fatal decline.

II. The Free Market of the Ancient Mediterranean

Classical civilization was a middle class civilization. It stood at the pinnacle of a long process of democratization that had begun hundreds of years earlier. Broadly speaking, the aristocrats first overthrew the kings. The oligopolies they established were in turn overthrown by the upper middle class.

A vast development of trade between the ninth and the fifth centuries B.C. underlay this development. The central importance of commerce was self-evident to the ancient Greeks. As Plato has Socrates say in the *Republic*, "To find a place where nothing need be imported is well-nigh impossible," to which Socrates' interlocutor rejoins, "Impossible."³

The expansion of trade gave rise to a large and affluent middle class. Two of the criteria of aristocratic worth—wealth and military value—simultaneously passed to the middle class. Building on these assets, the middle class sought and in many cases achieved cultural and political influence commensurate with its economic power. By the peak moment of Greek civilization in fifth century Athens, the upper middle class occupied a position roughly analogous to that of the upper middle class in Britain after 1688 or France after 1789, as the cultural center of society.

If the Greeks, along with the Phoenicians and their Carthaginian descendants, were a thorough success as merchants, they were less successful in their political efforts. They experimented with every form of government without ever transcending the specter of political instability. But the political turbulence of the Greek world may have held unsuspected economic benefits.

The disunited world of the ancient Mediterranean constituted a *de facto* free market. States, each one seeking its own interest, competed against each other, with none able to gain a lasting advantage. In this setting, commerce flourished. The population and prosperity of the Mediterranean basin increased dramatically.⁴

Little by little Rome swallowed up the states of the ancient Mediterranean, such as Marseille, Syracuse, Carthage, Athens, and Egypt. At first the benefit seemed enormous. The chronic war and piracy which had plagued the Greek world were suppressed. Briefly the world knew peace and order and was able to expand its infrastructure. The ancient world reached yet a new peak of population and prosperity.⁵ But the state which made this possible carried within itself the principle of its own destruction.

III. Collectivism Under the Roman Republic

Throughout its history, Rome defined civic rights and duties as the properties of collective bodies. Under the republic (c. 500 B.C.-27 B.C.), these bodies achieved a certain balance, so that, no one body being able to completely dominate any other, the power of the state over the individual, while in principle absolute, was in practice limited. A senatorial governing class, an aristocracy of "equites" or knights, and a distinct citizen body of plebeians shared hegemony over the various aspects of public life. Further segmented into influential extended families, the Roman republic embodied powerful principles of both balance and unity.

In the later years of the republic, the power of these intermediary bodies eroded even as the aggregate power of the state, augmented through conquests, reached unprecedented heights. After a series of civil wars between rival generals, one of them, Julius Caesar, emerged as supreme ruler. His successor Augustus (ruled 27 B.C. to 14 A.D.), founded the Roman Empire. Over the next four hundred years, that empire was progressively to snuff out the power of all the intermediary institutions. Ironically, the principle of collective rights which had sustained Roman liberty under the republic would be used to undermine ancient civilization itself under the empire.

Already in the late republic, the practices had begun which were to prove fatal under the empire. The functions of society gradually became the properties of exclusive classes. The upper classes were as restricted as the lower. By a law of 218 B.C., senators were forbidden to own cargo ships. This law forced the Roman upper class to invest in land rather than commerce. Since induction into the senatorial order was becoming a prerogative of success, the result was to forbid successful men to engage in trade.

It is characteristic of the low esteem in which the Romans held trade that Cicero described it as a vile occupation, unworthy of a man of honor. "We condemn the odious occupation of the collector of customs and the usurer, and the base and menial work of unskilled la-

borers. . . . Equally contemptible is the business of the retail dealer; for he cannot succeed unless he is dishonest. . . . The work of the mechanic is also degrading; there is nothing noble about a workshop. . . ."

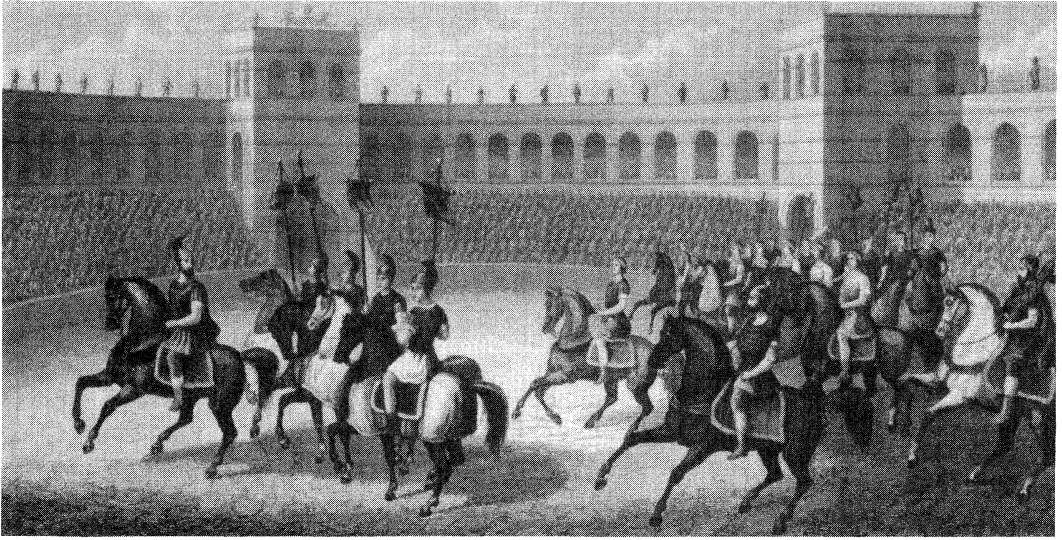
Only retirement from commerce could legitimate a businessman. Cicero goes on to say that "[I]f the merchant, satiated, or rather, satisfied, with the fortune he has made, retires from the harbor and steps into an estate, as once he returned to harbor from the sea, he deserves, I think, the highest respect."⁶

Barred from commerce by law and custom, the upper class sought to maintain its prerogatives by limiting the commercial opportunities open to others. The Macedonian mines were closed, and those of Italy virtually so, with this intention.⁷ The lower classes of citizens were themselves not immune to such temptations.

The forced purchase of grain from farmers at a price set by the state was common by the late republic.⁸ Wreaking further havoc with the market, much of this grain was resold by the state at a yet further subsidized price. Some of it was distributed outright to the lower classes of Rome. Seeking popular support, demagogues increased the numbers of those eligible for these distributions. Hundreds of thousands of Romans acquired the right to free grain.

Meanwhile finance, even more despised than trade, remained underdeveloped. Throughout Roman times, successive attempts were made to legislate the rate of interest: sometimes 4 per cent, sometimes 8 per cent. At one point interest was forbidden outright, leading to surprise when the supply of loan funds suddenly dried up. Denied the means to meet changing economic conditions, the banking system of the Hellenistic world was disrupted; it eventually disappeared altogether. Such policies depressed the supply of loan capital, causing the same excessive interest rates they were meant to discourage. Combined with onerous taxation, the net result of state agricultural and financial policy was to drive farmers off the land.

The parts of the empire first conquered were the first impoverished. Even before the establishment of the empire, Roman policy had ruined fertile Sicily, previously the breadbasket of Italy, and virtually ended the cultivation of grain in the Italian peninsula itself. The



The Circensian Games. Among the most famous Roman circuses were the Circus Maximus, the Circus Flaminius, and the Circus Neronis.

thriving old Greek states of Asia Minor underwent a comparable decline.⁹ The problem of *agri deserta*—fertile but deserted farmland—was to haunt Rome until its fall. The resulting combination of urban unemployment with rural depopulation presented Rome with a quandary it was never to resolve.

The amount of grain consumed by the city of Rome alone was considerable. Under the empire, the annual consumption of subsidized grain in Rome probably exceeded 17,000,000 bushels.¹⁰ The state expenditures necessary to maintain a supply of free grain imposed a permanent need for revenue, which was not a problem so long as Rome was a conquering power gathering to itself the accumulated capital of the ancient world,¹¹ but became increasingly critical as the age of conquest came to an end and taxation replaced plunder as a source of state income. Most of the taxes were paid by the very farmers whose livelihood they were used to undermine. Too, state appropriation of the grain supply must inevitably have discouraged the development of efficient private markets.

All these tendencies were to accelerate under the empire, under an increasingly absolute Emperor and a bureaucracy which relentlessly expanded until it became virtually coterminous with society itself.

The Beginning of the Decline in the Early Empire

The late republic was a period of chronic political instability characterized by mob violence, political assassination, and intermittent civil war. The price of involvement in politics was often violent death. The assassination of Julius Caesar is only the best-known of the political murders of this period. Yet despite this turmoil, Rome's aggregate wealth and power continued to increase up to the founding of the empire in 27 B.C.

At the very moment Rome triumphed over the rest of the ancient world, the forces of statism were reaching a point of critical mass, at which their full effects came into play. In consequence, the unparalleled economic growth and cultural impetus of the classical world were stalled and then reversed.

Gibbon began his *History* with the second century of empire, the age of the Antonines. But towards the end of his life he regretted he had not begun much earlier. In fact, the decline began as soon as the empire. The flowering of the Augustan Age was remarkably brief—a matter of a single generation. After this one great initial burst of energy, Rome lapsed into sterility and decadence. Under the pressure of government interference, trade, agriculture,

letters, art, and personal freedom entered a decline which is visible almost from the beginning, and was a frequent source of concern for ancient writers.

The Roman economy reached its peak toward the middle of the first century A.D. and thereafter began to decline. One symptom of this condition was that long-distance trade in manufactured goods fell off noticeably in the course of the first century.¹² Never halted, the economic decline would steadily accelerate until the whole of classical civilization was sent into a tailspin.

A Rapid Enfeeblement

Depopulation followed. In the countryside, the peasants continued to desert their lands, even as the competing slave population shrank with the receding of the time of conquests.¹³ In letters, the writers of the last generation of the republic and the first generation of the empire set a dazzling standard that was never matched. Cicero and Virgil would have many admirers, but no equals, as education became a matter of imitative declamation. The Emperors, as their power became increasingly absolute, accelerated this trend by persecuting or simply killing adverse literati. In portraiture, there is a falling off that is noticeable immediately. High art, which had been the prerogative of many, increasingly became a prerogative of the Imperial court. The scientific impetus of the Greeks virtually disappeared, with a few isolated exceptions like the physician Galen—and even he may have been more of a compiler than an originator. The story of the first century A.D., the apex of Roman glory, is thus that of a rapid and progressive enfeeblement of those very elements which had made classical civilization a great age of achievement.

“The Golden Age of the Antonines”

By the end of the first century A.D., the peak had passed and the decline began in earnest.

The stagnation in all aspects of society was associated with a continuous extension of governmental functions. Social engineering was

tried on the grand scale. The state relentlessly expanded into commerce, industry, and private life.

Government acquired near-monopolies of previously private or mixed sectors, such as mines and quarries.¹⁴ Many of the humble inhabitants of the empire became direct employees of the state. At the same time, the bureaucracy grew, demanding an ever-larger share of state expenditures.

Depopulation became general. The problem was not limited to impoverished peasants. The urban upper middle class on which so much of classical civilization depended seems to have developed a catastrophically low birth rate. As usual, the response of Roman government was to enact coercive legislation. Under Augustus, elaborate laws had been promulgated to penalize the unmarried and the childless. These laws were to be frequently reaffirmed over the following centuries.

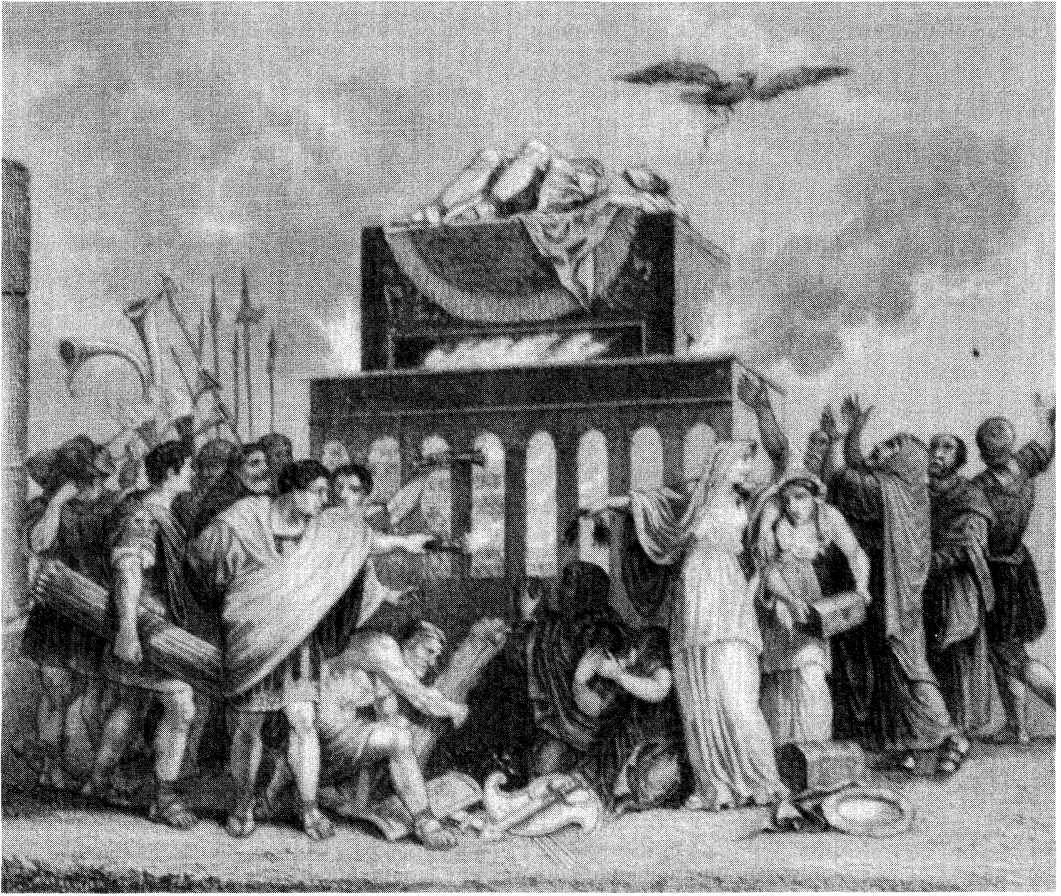
Mass population transfers were tried, whether to people recently conquered lands, to replenish newly depopulated ones, or as political policy. The Diaspora began as a characteristic act of Roman administration.

To meet its growing expenditures from a shrinking tax base, the government began to resort to deliberate inflation, devaluing the currency time and again. A succession of attempts was made to restrict wages and prices.¹⁵

In the meantime, plague struck the empire. The specter of famine had never been completely banished by Rome even in the time of its prosperity.¹⁶ It is not too much to speculate that a population weakened by poverty and hunger proved newly susceptible to the ravages of disease. The plagues, which devastated the Roman world, seem to have had little lasting effect on the hordes of barbarians on the fringes of the empire.

By the time the so-called “Golden Age of the Antonines” ended in 235 A.D., the Roman world was weaker, poorer, less populous, and in important ways less civilized than it had been in the mid-first century. Yet no external force had intervened powerful enough to halt and then reverse the progress of classical civilization, which for the previous six hundred years had only gone from strength to strength.

Neither political chaos nor irresponsible rule



The death of an emperor.

can be blamed for this state of affairs. The decline became most tangible between 96 A.D. and 180 A.D. under the successive reigns of the “five good emperors,” who were widely admired in their time and recommended for centuries thereafter as models of enlightenment to European monarchs and statesmen. Indeed the best of them, such as Marcus Aurelius, came as close as humanly possible to fulfilling the Platonic ideal of the “philosopher-king.” Though uniformly conscientious, concerned, and hard-working, the Antonines seem only to have exacerbated the problems of their society.

It was during this period that Rome ceased its outward expansion and, turning inward, began to suffer from the incursions of the barbarians into whose lands it had previously expanded with impunity.

The Time of the Fifty Emperors

The problems that had slowly sapped the forces of the Roman Empire worsened during the period of acute political instability from 235 to 284. During this half-century, nearly every emperor died a violent death, often after reigns of less than a year. As the civilian fabric of the empire disintegrated, the military came to the fore, making and breaking emperors as it pleased. As in the late republic, the Roman world was once again ravaged by civil war—but this time there would be no recovery.

The anarchy ended only with the accession of Diocletian in 284. Diocletian was another “philosopher-king” in the Platonic mold, both a forceful and a scrupulous monarch, so immune to the opium of power that, still in his

vigor, he chose to spend his later years in voluntary retirement. Diocletian's policy, designed to give the empire a new lease on life, in fact practically ensured its downfall.

The Roman World after the "Reforms" of Diocletian

Imagine a world in which peasants are bound to the soil; in which the military dominates society; in which soldiers form a hereditary caste; in which sons are required to follow their fathers' trade; in which commerce is under the exclusive control of privileged guilds; a world where material and moral progress are slow or absent, but where poverty, hunger, and disease are ubiquitous, and the magnificence of the few serves only to highlight the misery and degradation of the many. Such an image evokes for many the world of the Middle Ages; but it applies equally well, indeed far better, to the society established by Diocletian and reinforced by Constantine and his other successors. In fact the high Middle Ages were a mecca of freedom and rapid advance in comparison to the society of the late empire.

By the late empire, the prevalence of slavery in the ancient world had diminished. But slavery was merely replaced by other forms of unfreedom. The technically free peasant of the late empire, the *colonus*, is not distinguishable from the serf of later centuries. Like the medieval serf, the Roman *colonus* owed a fixed proportion of his produce to the landowner, was obliged to give him a certain number of days of free service, and was obliged to dwell within the landowner's domain. *Coloni* were legally bound to the soil. In addition, they were likely to be crushed by taxes and on top of all this virtually enslaved by debt. A *colonus* who fled and was recaptured could be returned in chains like a slave.

Marxist rhetoric has sunk so deep into modern consciousness that we are apt to overlook the fact that oppression fell not just on the peasants but also on the landlords. Agricultural taxes were assessed according to acreage, not production; thus in bad years they were as high as in good years. Furthermore, landowners in the late empire became liable for increasingly onerous payments in kind to support the

growing demands of the administration and the military. Their role was made as economically impossible as that of their tenants.

Diocletian radically expanded the civil service. The number of administrative districts was more than doubled, requiring a vast expansion of the Imperial bureaucracy. One can argue endlessly over whether the Roman people were better or worse governed before Diocletian. What is certain is that they were *more* governed after him.

A significant part of this new state activity was explicitly devoted to repression. Already under the "good emperor" Hadrian (117-138), the commissariat officials or *frumentarii* had given rise to a secret state police force.¹⁷ Assisted by a network of informers, the secret police came to play a central role in the administration of the later empire.

Along with the expansion of the civil service went an expansion of the military. A dual governmental structure was created, in which the military administration of each province paralleled the civilian one. The number of troops was vastly increased, from around 300,000 to over 500,000, though the quality of many units seems to have been poor. The trend was to rely on barbarian auxiliaries.¹⁸ The Roman citizen, whose quintessentially hard-bitten character in the republic had made it possible to win the empire, had become a soft and unreliable soldier.

Trade was subjected to ever-more-detailed state restrictions. This is by far the simplest and most plausible explanation for the decline in commerce that began in the first century A.D. and accelerated steadily throughout the remaining lifetime of the empire. Long-distance commerce, the lifeblood of ancient Mediterranean civilization, was replaced by a return to local production.¹⁹

The situation was no better with regard to trade with lands outside the Empire. At various times the government prohibited "the export of . . . wine, oil, grain, salt, arms, ivory, and gold."²⁰ Foreign trade, already in decline since the first century, shriveled to almost nothing.

To meet its rising expenditures from a shrinking economic base, the state resorted to a growing welter of financial manipulations. Deliberate inflation destroyed the currency. Even-

tually the coinage became so worthless that the monetary economy which had sustained commerce for the previous thousand years disintegrated altogether. The ancient world went back to barter. Even taxes, which remained payable in specie after it had largely disappeared from commercial transactions, often become payable in kind, presumably because there was no other way to collect them. The legionaries, who originally had been paid so they could purchase food and equipment, were now issued food and equipment in lieu of pay, necessitating a vastly enlarged state supply system.

The state had long owned a system of manufactories to supply the court and army. This system was greatly expanded under Diocletian and his successors. The government directly operated an extensive network of wool and linen mills, dyeworks, embroidery ateliers, and possibly boot factories. People who sheltered runaway textile workers were liable to severe penalties, which are frequently articulated in the celebrated law codes of late antiquity.²¹

A system of munitions manufactories was set up on military lines. Each factory was organized as a regiment. The workers were ranked like soldiers, and like the soldiers they inherited their profession. To prevent them from escaping, they were branded. The workers in the government mints were subject to a similar system, and were branded on the arm.²²

It is not to be supposed that the weight of oppression fell only on farmers and artisans. Middle-class life too became an intolerable burden.

In all periods, the organization of classical civilization rested on the city-state and its dominant middle class. The Roman municipal officers or *curiales* comprised in effect the upper middle class of the Roman towns or *municipia*. Under the empire, the *curiales* became personally responsible for the administration of their municipalities, and financially responsible for the collection of taxes required by the central government. Local office, once vied for as a mark of prestige and a fount of influence, came to be shunned. Economic success was directly penalized, for even a fairly modest fortune subjected its possessor to induction into the *curiales*,²³ a status which became virtually hereditary under the late empire.



Roman citizen and his wife.

Like the *coloni* and the workers in the state factories, the *curiales* were denied freedom of movement. If they migrated to a new town, they were liable for a double obligation, in both their new and former locations. The *curiales* were forbidden to join the civil service, the army, the Church, after it was established, and even the state factories. The fact that a member of the ostensibly governing class had to be *forbidden* to accept this latter employment, tantamount to slavery, suggests how low this class had sunk, and with it the towns it theoretically ruled. In the final act of this absurd drama, elevation to curial status came to be inflicted as a criminal punishment.

Commercial organizations fared no better than the municipalities. Like the guild which succeeded it, the Roman *collegium* was a cross between a trade association and a trade union. Merchants and artisans had organized themselves into *collegia* since the republic, but under the empire these organizations acquired a growing importance.

The shipping associations provide a striking case of this trend. At first the government offered concessions to shippers; little by little these merged into demands. For example, tax concessions granted to the shippers under Claudius (41-54) later provided a lever to bring them to heel under Hadrian (117-138).²⁴ The general trend was for the *collegia* to become instruments of state control.

The system of *collegia* was not restricted to a few occupations or regions but became general throughout the empire. All trades were inducted into the system. Members were forbidden to change occupations. Their heirs inherited the same obligations.

In many trades, members were obliged to marry inside the guild. Such prohibitions were not absolute, however: for instance, a non-baker was permitted to marry the daughter of a baker—provided he then became a baker himself.

It is easy to see that the ban on changing occupations made it impossible for the Roman economy to adapt flexibly to changing circumstances.

In return for accepting state control of their lives, people received sustenance—those who survived the famines, plagues, civil strife, and barbarian attacks. The inhabitants of Rome itself were the special beneficiaries of this state largesse. In addition to the free and the subsidized grain distributed since the republic, other food items became the objects of government concern. From the time of Septimius Severus (193-211), olive oil was distributed by the government free of charge. In the course of the next century, a pork ration became standard. Wine was also distributed free or at very low cost. The shippers, bakers, and hog merchants acquired official duties, becoming in effect direct servants of the state. They were obliged to buy, transport, and sell goods in quantities and at prices fixed by the state.

The result could be ruinous to the traders involved. For instance, shippers were obliged in the early fifth century to transport state cargoes in exchange for one per cent of their value—a remuneration that plainly could not have covered the costs incurred.²⁵ Under these circumstances, it is not surprising to discover that harsh laws sprang up against speculation, illicit

trading, delay, and sabotage. Eventually membership in the *collegia*, like that in the *municipia*, was meted out as a criminal punishment—a bitter finish for organizations that in the end were able to serve neither the public nor the private good.

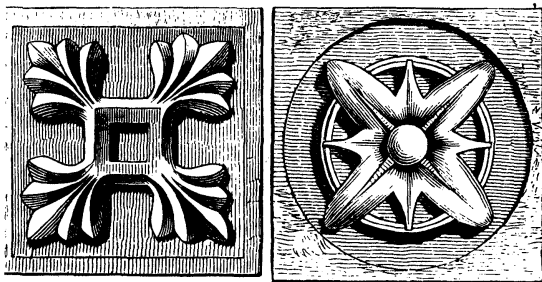
In some ways this mixed economy was crueller than a pure socialist system. The possession of property merely obligated an individual to work for the state. Individuals retained their property in theory, only to be held responsible for the crushing liabilities it incurred. Property, whether a baker's shop or a landed estate, could not be alienated by its owner. Often the compensation allotted by the state was grossly inadequate, the burdens onerous, death the punishment for avoiding them.

Thus long before the deposition of the last western emperor in 476, the *de facto* free market of the ancient Mediterranean had been replaced by a frozen society. With its secret police, branded workers, and coercive family legislation, Rome was the first totalitarian state.

Once the reforms of Diocletian were in place, the classical world had for all intents and purposes ceased to exist and a new world, that of the Middle Ages, had begun. The Dark Ages of Western civilization did not begin with the sack of Rome by the Visigoths in 410, but generations before with the self-strangulation of the Roman polity. The barbarians, who had been there all along, stepped into a vacuum created by the Roman state itself, not in spite but because of its might.

IV. The End of the Ancient World

Over the past generation it has become fashionable to downplay the catastrophic effects of the fall of Rome and to stress instead the continuity between classical and early medieval civilization. Rome, it is argued, did not fall catastrophically; elements of classical civilization persisted into later centuries. This schema is only partly correct. Rome was a very different place in 400 from what it had been in the time of Augustus. *Something* had happened in between.



There *is* a major discontinuity between classical and Dark Age culture. But the source of discontinuity lies, not in the fifth century with the sack of Rome and the deposition of the last Western emperor, but in the first two centuries of empire, as the civilization of the ancient Mediterranean slowly disintegrated under the growing absolutism of the Roman state. By the end of Diocletian's reign in 305 A.D., the process had almost certainly passed the point of no return. It is not so much that the Dark Ages were more "classical," as that the Roman empire was more "medieval" than we have yet imagined.²⁶

Only the most heedless moral relativism can blind us to the magnitude of the catastrophe this development represented. The destruction of ancient civilization was a veritable holocaust for the people of the ancient world, who died like flies amid the poverty and degradation of the period. It is fearsome to contemplate the broken dreams and shattered lives that lie behind the ancient reports of deserted farmland and the cold archeological maps of shrinking city perimeters. The survivors were glad to trade their freedom for work and bread, even if it meant living as branded laborers in regimented state factories.

As the curtain of the Dark Ages fell across the society of antiquity, it covered a civilization paralyzed in the East, shattered in the West; the currency worthless, trade at a standstill; learning forgotten, agriculture devastated; the countryside deserted, the cities empty, and military capacity so diminished that the once-warlike Romans would do little but cringe before successive waves of Germanic, Arab, and Scandinavian invaders. Sunk in poverty, tyranny, and ignorance, the West was not to rise again for centuries.

Only the re-emergence of the urban middle class in the decentralized trading states that sparked the Renaissance of the West would end the Dark Age culture of poverty and permit intellectual, economic, and cultural progress to begin again. Before that could happen, the remnants of the Roman Empire would undergo yet further fragmentation under the cruelly repeated hammer blows of the barbarian invasions, the Arab and Viking conquests, the Crusades, and the devastations of the Turks and the Mongols.

V.

Why Rome Fell

Rome was never a democratic or individualist society. But power under the republic was highly diffused. Consuls, senate, tribunes, and tribal assemblies shared influence in the early Roman state. The destruction of the independent power centers and the resultant concentration of power in the hands of a single ruler and his direct subordinates was an ongoing process, which began in the late republic and culminated in the late empire. With the destruction of the centers of corporate power, the individual was left naked before the state.

The inability of the Romans to keep their government within functional bounds was a cumulative process. At each stage it became harder to retreat. Each new problem was met by an expansion of the functions of the state. Each such expansion created unexpected new problems, requiring a yet further extension of the scope of government.

In addition to increasing the power of the state, each new intervention created a constituency whose immediate self-interest turned it against constructive change. These privileged constituencies cut across social classes, from the senatorial aristocracy which forced the closing of mines to weaken the commercial middle class, to the shippers and tradesmen with their guild monopolies, to the Roman mob with its entitlement of free bread, wine, and pork.

By the time the process had reached its logical conclusion under the late empire, a republic had been reduced to a despotism, a dy-

namic and growing polity to a static and shrinking one, and while millions had grown up amidst prosperity, millions more would perish through famine, plague, and outright massacre.

Conclusions

Three conclusions follow from this discussion.

First, the principles of the market are universal to complex economies that depend on trade and manufacturing. They did not arise from the genesis of a mystical entity called "capitalism." Though masters of war and engineering, the Romans lacked a science of economics.

Second, societal suicide is not the only possible outcome of unfreedom. The Greek East, with its long-established commercial traditions, proved more resistant to state absolutism than the Latin West. The crippling of enterprise which opened the western empire to destruction opened instead the eastern empire to a long stagnation. Surrounded by tributary lands, the Byzantine empire lasted for a thousand years. The Byzantines mastered the art of police, en-

abling a subject population to be held in check regardless of changes at the top. Defended by impregnable walls and the secret formula for "Greek fire," a primitive napalm, Byzantium fell only with the development of a new technology, the cannon with which the Turks shattered its walls in 1453. But the eastern empire did not altogether perish. Its principles of government and diplomacy moved north to the kingdom established by the lords of the Rus Vikings. After the sack of Byzantium, their successor, Ivan III, married the niece of the last eastern emperor and proclaimed a "New Rome" in Moscow.

Finally, the quandary posed by Edward Gibbon can at last be answered. Any society subject to the same restrictions as the Roman Empire would speedily fall into economic stagnation and cultural decadence. Ancient civilization was destroyed by unrestrained statism, which flourished in the absence of a principle of individualism. Modern civilization will not fall, because it has discovered the intimately related principles of commercial vitality and individual freedom. Will not fall, that is, unless those who ignore the lesson of the ancient suicide of the West triumph, opening the way to the new barbarians. □

1. Pre-twentieth century liberal interpretations of the decline of Rome emphasize political at the expense of economic factors. Recent liberal interpretations are rare, and most fail to bring out the connectedness of the various economic, political, and social aspects of the decline. The major exception is that of the Austrian economist Ludwig von Mises, who sketches the same interpretation as mine in *Human Action* (Third Revised Edition; Henry Regnery Co., 1966), pp. 767-769. A generally similar thesis is presented by Lawrence W. Reed in "The Fall of Rome and Modern Parallels," *The Freeman*, November 1979, pp. 647-652. For a compendium of interpretations, see Alexander Demandt, *Der Fall Roms* (Munich: C. M. Beck, 1984).

Modern works cited include W. L. Westermann, "The Economic Basis of the Decline of Ancient Culture," *American Historical Review*, v. XX, 1914-15, pp. 723-743; Louis C. West, "The Economic Collapse of the Roman Empire," in *Classical Journal* 28 (1932), pp. 98-106; André Aymard and Jeannine Auboyer, *Rome et son empire* (Paris: Presses Universitaires de France, 1954); A. H. M. Jones, *The Later Roman Empire* (Norman: University of Oklahoma Press, 1964); F. W. Walbank, *The Awful Revolution* (Toronto: University of Toronto Press, 1969); and Arthur Ferrill, *The Fall of the Roman Empire: The Military Explanation* (London: Thames and Hudson, 1986).

2. Walbank, pp. 71, 77.

3. *Republic*, II.

4. Cf. Westermann, p. 734: "[W]e have in the Greek world, from about 700 B.C., the development of cities with a wide expansion of industry and transmarine trade between the farspread Hellenic city-states such as, quantitatively, the world had never before seen."

5. See West, p. 98, for a summary of the beneficial effects of Imperial pacification on commerce.

6. Cicero, *De officiis*, I, 150-51; after Walbank, p. 43.

7. Walbank, p. 44.

8. See Aymard and Auboyer, p. 152.

9. A parallel trend for industry may be suggested by the gradual shift of the center of blown glass production—a major industry—from Sidon and Alexandria to Campania, thence to Gaul, and subsequently to Cologne on the Rhine frontier—in other words, from the least to the most barbaric parts of the empire. In Italy itself, both agricultural and industrial activity declined very early. For these points, see West, p. 100.

10. Walbank, p. 30.

11. Aymard and Auboyer emphasize the unprecedented centralization of capital in the city of Rome.

12. Walbank, pp. 48, 70.

13. On the decline of the slave population, see for instance Westermann, p. 740.

14. Cf. West, p. 101.

15. See Robert L. Schuettinger and Eamonn F. Butler, *Forty Centuries of Wage and Price Controls* (Washington, D.C.: Heritage Foundation, 1979), pp. 9-27, for a comparative discussion of Roman wage and price controls.

16. Cf. Aymard and Auboyer, p. 313.

17. Walbank, p. 63.

18. Eventually the army became numerically more barbarian than Roman. See Ferrill, p. 84.

19. See for instance West, p. 98.

20. West, p. 102.

21. Walbank, p. 79.

22. Jones, p. 835.

23. This appears to be the upshot of the discussion in Jones, pp. 738-739.

24. The remarks on the *collegia* are indebted to Walbank, pp. 70-73.

25. Walbank, p. 72.

26. For this reason, once we stop trying to see late antique culture with "classical" eyes and start looking at it with "medieval" ones, its atmosphere and aesthetic begin to fall into place.

The Reincarnation of Jim Crow

by Clint Bolick

In its preoccupation with quotas, set-asides, forced busing, and other forms of social engineering, the contemporary civil rights establishment has ignored one of the most pervasive and debilitating deprivations of civil rights today—state-imposed barriers to entrepreneurial opportunities.

Such barriers take the forms of state-imposed business monopolies and occupational licensing laws. In many cases, such laws are an enduring relic of the Jim Crow era. Though they are no longer overtly racist, their effects are largely the same: they exclude from competition those outside the economic mainstream, primarily blacks and other minorities.

The quest to eradicate artificial barriers to economic opportunities occupied a central focus of the civil rights movement between 1866 and 1964, and was a principal motivation for civil rights legislation both at the beginning and end of that period. The movement's leaders—from William Lloyd Garrison and Frederick Douglass to Booker T. Washington and Martin Luther King—recognized that such barriers were inconsistent with the natural law foundations of America's doctrinal commitment to civil rights.

But during the past 25 years, the civil rights movement has shifted its focus from equality of opportunity to forced equality in result. In the process, it has transformed the concept of civil rights from those fundamental natural rights we

all share equally as Americans into special burdens for some and benefits for others.

What these revisionists have forgotten is that the civil rights movement has always been about securing for individuals the right to control their own destinies. By advocating government-coerced proportional representation instead of the market, the civil rights establishment denigrates the very mechanism by which countless generations have earned a share of the American Dream. In effect, this establishment is consigning a vast portion of its purported constituency to a perpetual state of dependency and despair.

A reinvigorated civil rights movement, drawing upon the lessons of history and the natural law principles of fundamental individual rights and equality under the law, ought to dedicate itself to eradicating those barriers that artificially separate individuals from opportunities. In so doing, such a movement will eliminate the final impediments to a real, lasting emancipation.

These issues are not new. Following the Civil War and the abolition of slavery, plantation owners were faced with a desperate labor shortage. The intense competition for labor resulted in a 600 per cent increase in crop shares for black tenant workers between 1865 and 1875.

Southern leaders tried persuasion and peer pressure to limit black wages and opportunities, but such efforts were insufficient to counteract market forces. Whereupon, the former slaveholders turned to the coercive apparatus of the state to accomplish what they could not in a free market. "We must have a black code,"

The author is an attorney with the U.S. Department of Justice, Civil Rights Division. The article is adapted from his forthcoming book, Changing Course: Civil Rights at the Crossroads (New Brunswick, N.J.: Transaction Books, 1988). The views expressed are those of the author and are not intended to reflect the views of the Justice Department.

Southern theorist George Fitzhugh urged in 1868, to restore the natural order of “masters and slaves.” He explained, “We do not mean by slavery such as that which has been recently abolished, but some sort of subordination of the inferior race that will compel them to labor, whilst it protects their rights and provides for their wants.”¹ Couched in these benevolent terms, Fitzhugh’s prescription was surely the earliest form of what has come to be known in recent years as “benign discrimination,” the implicit premises of which reveal it, like all forms of racism, to be anything but benign.

Black Codes

Proceeding from these mutually reinforcing premises of inferiority and paternalism, Southern legislatures moved swiftly to restore as closely as practicable the feudal society that existed before the war. Eight states passed Black Codes between 1865 and 1867, extinguishing labor opportunities through a variety of legal restrictions.

Typical of the Codes was South Carolina’s requirement that any “person of color” must obtain a license to engage in the “business of an artisan, mechanic, or shop-keeper, or any other trade, employment or business.” The licenses cost \$100, certainly a staggering sum for an ex-slave in 1865. Moreover, the licenses were valid only for one year; they required a showing of skill, fitness, good moral character, and an existing practice or apprenticeship; and they could be revoked upon any complaint of abuse. Thus was a servile labor supply ensured, quarantined from competitive market influences by state action.

Recognizing that these state laws were nullifying the gains of abolition, the radical Republicans in Congress acted to protect the economic rights of the freed slaves. They passed the Civil Rights Act of 1866, which established that all citizens “have the same right [to] make and enforce contracts, . . . to inherit, purchase, lease, sell, hold, and convey real and personal property, and to full and equal benefit of all laws [for] the security of persons and property, . . . any law . . . to the contrary notwithstanding.”

This economic bill of rights was vetoed by President Andrew Johnson, but Congress overrode his veto. Johnson warned that the Act was unconstitutional since it purported to regulate state affairs, leading Congress to constitutionalize the Act through the 14th Amendment. In addition to guaranteeing “due process” and “equal protection” under law, the Amendment provided that “[n]o State shall make or enforce any law which shall abridge the privileges or immunities of citizens of the United States”—such as those protected by the Civil Rights Act.

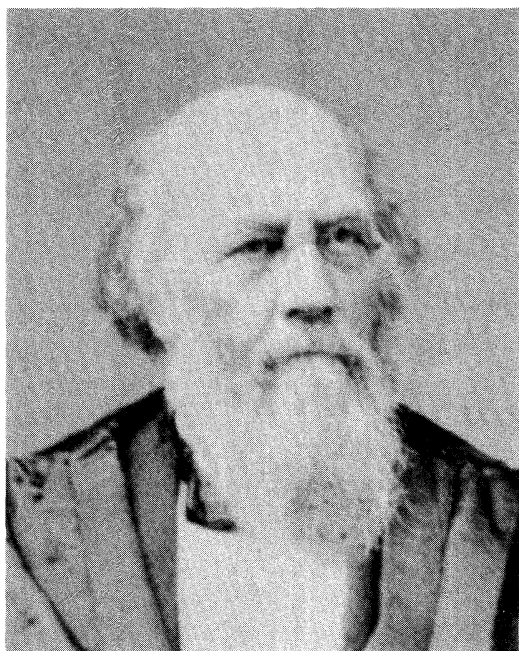
This great promise of the 14th Amendment was never fully realized, however. The massive corruption of the Grant Administration, the disputed election of 1876 which led to the removal of Federal troops from the South, and the death of the great abolitionist leaders all contributed to the shift in national focus away from the plight of blacks in the South.

The Slaughter-House Cases

But the death knell for economic liberty as a component of civil rights was sounded by the Supreme Court in the *Slaughter-House Cases* in 1872, which read the “privileges or immunities” clause out of the 14th Amendment in much the same way as the equal protection clause was nullified by the Court in *Plessy v. Ferguson* twenty-four years later. *Plessy* was eventually overturned in *Brown v. Board of Education*, while *Slaughter-House* remains on the books today—yet its renunciation of economic liberty is no less profound a violation of fundamental civil rights than was the pernicious “separate but equal” doctrine.

Slaughter-House involved a challenge to a Louisiana law that established a slaughterhouse monopoly and prohibited competition in that trade. The law was challenged by a group of butchers who asserted their liberty under the 14th Amendment to engage in a profession free from arbitrary or unequal state laws. But the Court upheld the law by a 5-4 decision that rendered the “privileges or immunities” clause a dead letter.

Justice Stephen J. Field denounced the decision, “for by it the right of free labor, one of the most imprescriptible rights of man, is violated.” Another dissenter, Justice Noah H.



*Justice Stephen J. Field
(1816-1899)*

Swayne, expressed the “hope that the consequences to follow may prove less serious and far-reaching than the minority fear they will be.” His fears proved prescient, however, as the Court’s abdication of its constitutional duty opened the floodgates for state regulation of economic activity so stifling and pervasive as to make the Black Codes seem mild by comparison.

Jim Crow Laws

Unencumbered by constitutional restraints, the Southern legislatures passed the Jim Crow laws, an elaborate and interwoven tapestry of social and economic restrictions that destroyed the ability of blacks to improve their condition.

In particular, four principal varieties of laws were adopted to restrict mobility and frustrate competition. The so-called “contract enforcement” laws strictly limited the times during which laborers could seek new employment. Vagrancy laws discouraged mobility by making it unlawful to be unemployed. “Emigrant-agent” laws restricted the activities of labor recruiters. And “convict leasing” laws created a system of “debt peonage,” by which blacks

who were imprisoned for debts were furnished to employers who would assume their obligations until the debts were repaid.

The Jim Crow laws thus represented a transparent device to assure a servile and inexpensive supply of labor, relegating blacks to a separate, subordinate caste. The lesson of Jim Crow, as Professor Jennifer Roback concluded in her study of market interferences during that period, is that “government, not private individuals . . . must be restrained in order to allow disfavored minorities to make substantial economic progress.”²

It took the better part of a century for the civil rights movement—holding tenaciously to the natural rights underpinnings of the traditional American civil rights vision—to convince the nation to make good on its basic commitment to equality under law.

A major thrust of the civil rights movement’s traditional program, from Booker T. Washington’s emphasis on economic self-sufficiency to the demands for equal opportunity following World War II, was to gain for blacks the right to compete freely for their share of the American Dream. Morris Abram, former vice-chairman of the U.S. Commission on Civil Rights, explains that the movement’s leaders understood that “removing all barriers to the exercise of an individual’s ability to participate in a free market system is the best possible way to promote justice.”³ Such efforts reached their pinnacle in the golden decade for civil rights, spanning from the *Brown* decision in 1954 to the adoption of the Civil Rights Act of 1964.

But in some respects the movement did not go far enough. Laws that were racist either overtly or in their intent were struck down, but barriers to entrepreneurial opportunities that had the same effect remained in place—indeed, they proliferated dramatically. Traditionally, newcomers to America had been free to apply their skills and ingenuity to virtually any profession or business—a hallmark of America’s free market system. But for today’s “economic newcomers”—blacks, Hispanics, and immigrants—these traditional mechanisms for entry into the mainstream are often foreclosed by the state.

George Mason University economics professor Walter Williams explains that

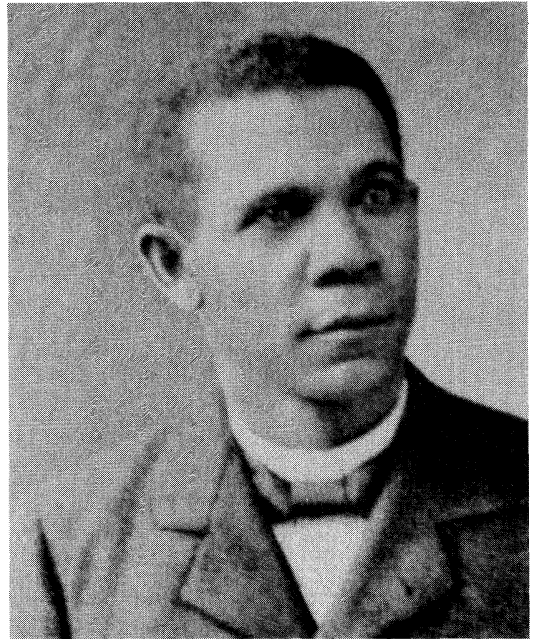
black handicaps resulting from centuries of slavery, followed by years of gross denials of constitutional rights, have been reinforced by government laws . . . that govern economic activity. The laws are not discriminatory in the sense that they are aimed specifically at blacks. But they are discriminatory in the sense that they deny full opportunity for the most disadvantaged Americans, among whom blacks are disproportionately represented.⁴

Such economic regulations implicate civil rights in two ways. Where they arbitrarily restrict an individual's ability to engage in a business or vocation, they constitute an infringement of the fundamental individual liberty that is the essence of civil rights. And where they limit competition in the market to a certain number or group, they violate the principle of equality under the law.

More than ever before, government at every level is violating civil rights by erecting barriers to free participation in the market, denying to many outside the economic mainstream the ability to compete that is every American's birthright. The two principal types of barriers are occupational licensing laws, the modern equivalent of those enacted in the Black Codes; and government-imposed business monopolies, successors to the type of monopoly upheld in the *Slaughter-House Cases*.

Occupational licensing laws regulate entry into a large number of occupations, covering fully 10 per cent of the labor force. California alone licenses 178 different occupations. Licensing laws are typically sought by members of the affected profession, ostensibly to protect public welfare and safety, but in reality to limit competition. Such laws often limit entry into occupations with only the most peripheral impact on public health or safety, such as auctioneers, photographers, pool cleaners, and taxidermists.

And even where a legitimate justification may exist for some regulation, licensing laws are commonly crafted so broadly or arbitrarily as to go well beyond such objectives, thereby restricting supply rather than ensuring competency. Moreover, the laws are often enforced by the affected industry itself, with the coercive



Booker T. Washington (1856-1915) encouraged economic self-sufficiency.

apparatus of the state at its disposal: using "grandfather clauses"—another favorite device of the Jim Crow era—to protect incumbents against the arbitrary new legal requirements.

These laws are devastating to blacks and other minorities. A case in point is licensing requirements for beauticians and cosmetologists in Missouri, recounted by Dr. Williams in *The State Against Blacks*. As a threshold requirement, the state requires 1,220 hours of formal training or 2,440 hours of apprenticeship under an approved cosmetologist. Thereafter, prospective beauticians and cosmetologists must pass both a practical and written examination. The latter tests not only knowledge related to the profession, but such esoteric concerns as the chemical composition of bones.

In a recent examination, Dr. Williams reports, black candidates passed the performance portion, demonstrating their competency to practice their profession, at the same rate as whites. As for the written component, however, blacks comprised only 3 per cent of those who passed but 21 per cent of those who failed. Thus, a vastly disproportionate number of black beauticians and cosmetologists were dis-

qualified for no apparent reason from pursuing occupations for which they were demonstrably qualified. Similar deprivations of individual liberty are visited wherever an arbitrary licensing law stands in the path of business opportunities.

Likewise, state-imposed monopolies needlessly frustrate the ambitions of would-be entrepreneurs in businesses running the gamut from hot-dog pushcarts to cable television companies. Perhaps the most flagrant species of such protectionist legislation is taxicab franchising, which in cities across the nation stifles opportunities to begin climbing the rungs of the economic ladder through a low-capital business.

A few examples illustrate this phenomenon. In Washington, D.C., the taxicab market has virtually open entry, with only safety and insurance requirements and a \$25 annual fee required to start business. Accordingly, the market provides substantial entry-level business opportunities for blacks and immigrants, with the result that 70 per cent of all Washington cabs are owned by blacks.

But this is the exception to the rule. In New York City, for instance, a "medallion" is required to own a cab, and none have been issued since World War II. As a result, the "market" value of medallions has risen to \$100,000—totally precluding taxicab ownership as a viable entry-level entrepreneurial opportunity. In Philadelphia, meanwhile, taxicab licenses are issued by the Public Utilities Commission for only \$20—but only upon a showing of "public convenience and necessity," which is routinely contested by industry lawyers retained solely for that purpose. Thus, the real cost of a transferable license on the market turns out to be approximately \$20,000.

The impact of taxicab franchising on opportunities is staggering. While nearly two thousand blacks own cabs in Washington, for instance, only 14 blacks own cabs in Philadelphia. Instead, blacks in New York, Philadelphia, and most other cities work as employees for other people, thus diminishing prospects for economic advancement. Moreover, the artificial limits on market entry translate into higher prices and fewer cabs, the burdens of which are most heavily borne by ghetto consumers.

All of the interests asserted in defense of occupational licensing and state-imposed business monopolies can be served in ways far less devastating to individual opportunities. Consistent with a proper understanding of civil rights, governmental entities should be compelled to pursue less-harmful alternatives.

The failure of the civil rights establishment to confront these concerns presents a golden opportunity for advocates of individual liberty to recapture moral leadership in the realm of civil rights.

Methods of challenging barriers to economic liberty are limited only by the imaginations of their architects. One possibility is to press for a federal Economic Liberty Civil Rights Act that would forbid state and local governments from arbitrarily restricting entrepreneurial opportunities. Another is to challenge such barriers in the courts as violations of civil rights, with the ultimate goal of erasing the *Slaughter-House Cases* from American jurisprudence and restoring judicial protection for economic liberty.

Other modern deprivations of civil rights also demand attention. The monopoly public educational system, for example, disparages educational liberty in a manner particularly devastating to minorities and the poor, who have no other alternatives. The vicious cycle of poverty and despair, fueled by our welfare system, is yet another example of government depriving individuals of the right to control their own destinies.

Advocates of individual liberty can refashion the terms of the civil rights debate by exposing these types of governmental programs and policies as deprivations of civil rights. Such an effort will restore vigor to the traditional meaning of civil rights—and the natural law principles undergirding those rights—upon which America's moral claim is staked. □

1. James M. McPherson, *The Struggle for Equality* (Princeton, NJ: Princeton University Press, 1964), p. 302.

2. Jennifer Roback, "Southern Labor Law in the Jim Crow Era: Exploitative or Competitive?" *University of Chicago Law Review*, vol. 51 (1984), p. 1192.

3. Morris Abram, "Affirmative Action: Fair Shakers and Social Engineers," *Harvard Law Review*, vol. 99 (1986), p. 1326.

4. Walter E. Williams, *The State Against Blacks* (New York: New Press, 1982), p. 125.

Jamaica: No Free Market, No Miracle

by James Bovard

In 1980, advocates of the free market, limited government approach to development and growth predicted that Jamaica would soon become the “miracle of the marketplace” and the “Singapore of the Caribbean.” Prime Minister Edward Seaga, who was elected by a landslide only five days before President Reagan’s election, promised to roll back government control and allow new freedom for entrepreneurs.

Since 1980, this small island with a population of barely two million has received over \$2 billion in foreign aid as Washington, the World Bank, and the International Monetary Fund (IMF) tried to insure Seaga’s success.

But, Seaga’s efforts at promoting an economic revival have been a dismal failure. Jamaican living standards are no higher now than they were in 1980 when socialist Michael Manley was voted out of office. The country’s foreign debt has tripled, unemployment is still over 25 per cent of the labor force, the inflation rate has been in double digits since 1980, and the Jamaican dollar has lost two-thirds of its value against the U.S. dollar.

Critics of market-based development are beginning to cite Jamaica as the case which proves that “Gang of Four” (Hong Kong, Taiwan, South Korea, and Singapore) Asian-

style capitalism cannot be exported and that the free market works only in certain limited places and under special conditions.

But this only confuses rhetoric and reality. While Seaga preached free enterprise, his government practiced the opposite. In fact, state control of the Jamaican economy has increased since 1980. For instance, the Jamaican government has bought an oil refinery, hotels, and an aluminum smelting plant; it has created numerous new state farms, increased interference in various sectors of the economy, raised taxes to their highest levels ever—and it has done little to rescind paralyzing bureaucratic control over foreign investment. Rather than a failure of the free market, Jamaica in the 1980s is another failure of state-directed economic development.

In 1980, when Seaga took office, the Jamaican economy was in a shambles. During the late 1970s, gross domestic product fell 20 per cent, a third of Jamaica’s professional and managerial class emigrated, and Kingston, the capital city, was starting to resemble Berlin in the 1920s—with daily gun battles in the streets between different political gangs. Over 800 people were killed in election-related violence in 1980—a higher proportion of the population than America’s battle deaths in the entire Vietnam war. All foreign observers agreed that Jamaica’s exchange rate was overvalued and that the public sector was replete with inefficient, overstaffed, state-owned enterprises that

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were dragging down the island's economy.

According to Mark Ricketts, a managing director of Security Brokers in Kingston, the influx of easily available foreign aid "though well-intentioned, was essentially flawed, for it provided a fiction, a false hope that Jamaica could spend money and enjoy the original promises of Seaga. As a result, the process of adjustment was not undertaken." (quoted in "Jamaica: Limits of a Showcase Policy," *SALS Review*, Summer/Fall 1985)

More Intervention

The Jamaican government increased intervention almost from the day Seaga was elected. In 1981, the government established the Jamaican Commodity Trading Corporation with sole import rights over cars, drugs, food, and other items. The Agricultural Credit Bank was created to provide aid to farmers who were approved by government planners, and a National Credit Bank was established to allow government to distribute investment capital to approved business ventures.

In the first few years of the new administration, Jamaica maintained its overvalued exchange rate. In early 1983, the official exchange rate for basic imports of food, drugs, and educational supplies, and for servicing the foreign debt was 1.78 Jamaican dollars per U.S. dollar. At the same time, the parallel market rate for other imports was around three Jamaican dollars per U.S. dollar. The overvalued exchange rate reduced the international competitiveness of Jamaican exports while reducing the price of imports. This had a severe negative impact on Jamaican manufacturers and farmers. At the same time that the government was increasing aid to Jamaican farmers, it was effectively subsidizing the import of foreign food—thus destroying Jamaican farmers' markets.

The primary result of the flood of aid was not a revival of manufacturing, but a foreign debt that, on a per capita basis, now exceeds that of Mexico and Brazil.

Jamaica is blessed with an abundance of fertile agricultural land. But inept government marketing organizations and inefficient state-owned enterprises have crippled the island's

farm industry. For example, despite its superb climate for sugar production, the island actually had to import sugar from the U.S. in 1981. (*Quarterly Economic Review*, No. 1, 1982, p. 15) Sugar production has fallen from 500,000 tons a year in the late 1960s to the present rate of around 200,000 tons a year. Most of the sugar is grown on government-owned plantations which are renowned for being among the least efficient sugar operations in the world. Under intense pressure from the IMF, Seaga finally agreed to contract with a foreign firm to manage the government's sugar estates. This has brought a slight increase in output, but the industry is still heavily politicized and the sugar workers' union remains an obstacle to efficient production.

Bananas, another traditional Jamaican crop, have fared no better. Banana production fell to a 20-year low in 1984. That year, the government planned to export 150,000 tons of bananas to the United Kingdom, but barely 30,000 tons were shipped. The source of the industry's problems is the Banana Marketing Organization, a government-run bureaucracy. A 1985 World Bank report concluded: "While production is expected to rise, government remains in firm control of the sector." (*Jamaica: Economic Situation and Public Investment*, Washington, D.C.: International Bank for Reconstruction and Development, April 1985)

Despite the failure of the government's involvement in agriculture, Jamaica responded to falling agricultural production by launching a massive new government program—AGRO 21—to control, finance, and direct new agricultural development. Through AGRO 21, the government is now involved in the production of macadamia nuts, hearts of palm, aloe vera, beef, coffee, and other commodities. According to recent reports in Kingston newspapers, AGRO 21 has produced one spectacular failure after another.

When the Seaga government took office, government-controlled food prices were kept artificially low in order to curry favor with urban voters. Although this practice was discontinued, the artificially low exchange rate effectively continued the cheap food policy. Until 1984, Jamaica did little to boost prices paid by government to domestic producers. But, with

foreign aid, Seaga set up a food stamp program that now is feeding almost half the island's population. Carl Stone, a professor at the University of Jamaica, observed, "The existing food stamp program is a mockery to any real commitment to local agriculture. Our poor people are being subsidized to buy imported food when our farmers can't sell their produce because of low levels of consumer buying power." (quoted in "Jamaica: Limits of a Showcase Policy," *SAIS Review*, Summer/Fall 1985)

Free or cheap food has poured in from abroad in recent years, and this has had the usual disincentive effect on local agricultural production. As Scott D. Tollefson reported in the Summer/Fall 1985 *SAIS Review*:

An example of the disincentive created by P.L. 480 [a U.S. law under which agricultural surpluses are shipped to developing nations] to Jamaican food production occurred in late July 1984 when Jamaica experienced a shortage of rice, the major staple, which led to a near-crisis situation politically. The market mechanism worked with clock-like precision as small farmers, attracted by increased prices for rice substitutes, rushed their goods to the market. Days later, 4,780 metric tons of rice were imported under P.L. 480, the first parcel of an allotted 16,000 tons costing U.S. \$5 million. The imported rice sent the prices of substitutes tumbling, thereby hurting the local producers.

Recently, the People's National Party accused Seaga's Jamaica Labor Party of "blatant political misuse" of foreign food donations. According to the People's National Party, the Labor Party used the food to buy political support. Labor Party members of Parliament were given caches of food to distribute—and thus make voters ever grateful (*Daily Gleaner*, March 13, 1987).

In response to IMF pressure, the government has nominally deregulated the retail prices of several major food items. But a recent controversy over milk prices shows how the Jamaican government still exerts economic controls. (The following facts and quotes are from the *Daily Gleaner*, October 10 and 12, 1985.)

With inflation running at high levels, milk

processors boosted their retail prices by 30 percent in October, 1985. This provoked a denunciation by Karl Samuda, the Minister of State in the Ministry of Industry and Commerce. The government retaliated against the milk processors by reducing "by 80 percent the sale of milk powder to distributors who the Government believes were selling to wholesalers who then made the powder available to processors."

This is a perfect example of how, in a mixed economy with rampant government protectionism and subsidies, government can put the squeeze on a group it does not like. When milk prices were deregulated in 1984, "an arrangement had been reached . . . for processors, farmers, the Consumer Affairs Division of the Ministry of Industry and Commerce, and retailers to sit together and decide on any price increase and how it was to be shared among all the sectors involved." The controversy arose when the milk processors raised prices without first asking permission.

Credit Controls

The Jamaican government has also intervened in the credit market. In 1985, to reduce consumer spending and placate the IMF, the government imposed strict credit controls, thereby following the usual central planning strategy of sacrificing consumers to producers. Seaga even bragged in his 1985 budget speech that the new controls had made it very difficult to purchase major consumer items. Jamaica exemplifies the classic case of a government trying to correct the effects of intervention—a perpetually overvalued exchange rate that effectively subsidizes consumer purchases—with another intervention.

But, it is a hopeless cause. The new credit controls are hurting Jamaican manufacturers and undercutting their exports. A recent Agency for International Development (AID) report notes that Jamaican manufacturing exports were being constrained by "the relatively stringent credit restrictions being employed to restrain demand." (AID, Program Assistance Approval Document for \$34.5 million additional Economic Support Fund loan, June 1985, p. 4)

However, no such austerity is being applied

to government. Jamaica has used some of the foreign aid windfall to add to its long list of properties. The Jamaican government has bought several hotels. A scandal erupted in 1982 when the government bought the Terra Nova Hotel, a leading Kingston hotel and restaurant, for an amount far exceeding the highest private valuation of the property.

In 1983, the Jamaican government bought an oil refinery. Exxon had complained that it could no longer operate its refinery in Jamaica without higher profits. The government, instead of relaxing its price controls on petrol prices, took over Exxon's operation and has since been losing money at a rapid rate. But, despite the government's efforts, gas and petrol prices have skyrocketed, largely as a result of the collapse of the Jamaican dollar.

The Jamaican economy also has been hurt by the decline of the bauxite and aluminum industries. In 1974, the government imposed a 600 per cent levy on pre-profit bauxite exports. In the early 1980s, due to the combined impact of continued heavy taxation and a depressed world bauxite market, three foreign bauxite producers in Jamaica either closed down or greatly reduced their operations.

In 1985, the Jamaican government tried to solve the problem by setting up its own company, Clarendon Aluminum Production Ltd., "to produce aluminum with the existing facilities under a lease contract with ALCOA." (Quarterly Report of the Planning Institute of Jamaica, September 1985, p. ix) Despite the surplus of aluminum in the world market, the Jamaican government in 1984 entered into a joint agreement with the government of Colombia to construct a huge aluminum smelter in that country. The project will cost around \$500 million, and will not be fully operational until 1990. As The Economist Intelligence Unit observed, "The likelihood of failure must be rated high in view of the current surplus aluminum smelter capacity stretching well into the 1980s."

Privatization has long been a rallying cry among advocates of market-based development. Though Jamaica has sold off a few small companies, most large companies remain under political control. The government has refused to consider divesting Air Jamaica, the National

Commercial Bank, the Jamaica Telephone Company, or any of its many hotels and extensive land holdings.

Instead of divesting, Air Jamaica just bought a Concorde jet. An Air Jamaica official recently admitted, "We didn't really expect to make any money on Concorde." The supersonic is supposed to give the government status—while it loses money. In the past 18 years, Air Jamaica has lost \$215,719,000 (Jamaican dollars).

Housing Controls

Housing finance is another area that remains effectively nationalized. The National Housing Trust, the main source of mortgage funds, is financed by a five per cent payroll tax. At the same time, as a recent World Bank report notes, "A ceiling on private mortgage lending rates has been maintained below market interest rates." ("Jamaica: Economic Situation and Public Investment," April 1985) AID funds have poured into the government's housing programs, thus stifling the development of private financing. The government also recently reimposed rent controls—one more blow to private housing.

AID recently gave the Jamaican government an additional \$15 million to rebuild housing in Kingston. Sara Frankel, AID's Chief of Regional Housing and Urban Development for the Caribbean, contended that the private sector was not aggressive enough to take "a piece of the action." (*Daily Gleaner*, February 2, 1987) First our foreign aid agency helps disrupt the local housing market—then it scorns the private sector for not jumping into the resulting mess.

The Jamaican government also has instituted several job-training and job-creation programs. It imposed a new three per cent payroll tax to finance a program aimed at preparing people for jobs in the public and private sectors. In 1985, the government used \$15 million from AID to set up a second program to provide self-employment and training for approximately 10,000 young people annually.

In this second program, the government is giving away sewing machines, urban vending carts, and other equipment to individuals of

whom the government approves. As the *Daily Gleaner* (November 28, 1985) reported, Seaga "said that in view of the unattractiveness of various containers being used by street vendors, the government wished that [the new program] would lead the way in creating a new look for vendor packaging and upgrading the state of that trade." Through this program, government-favored small businesses will be able to drive their unsubsidized competitors out of business.

Jamaicans have been further hurt by new taxes. The *Daily Gleaner*, which is generally perceived as a conservative newspaper and which supported Seaga in 1980, recently editorialized: "The government has imposed additional taxes which drive real incomes of the average worker to sheer subsistence levels." (January 31, 1986) Among the new taxes is a \$25,000 (Jamaican dollars) fee for the issuance of a shop operator's license and a shop operator agency permit. This has a devastating effect on the creation of small businesses which, as most studies indicate, create far more new jobs than their larger competitors. The new shop operator's tax, equal to more than double the national per capita income, closes the doors of opportunity for all but the rich and upper-middle classes.

Shortly after Seaga took office, a committee of businessmen was established to promote foreign investment in Jamaica. At the time there was wide agreement by both U.S. and Jamaican government officials that foreign investment was the key to Jamaica's prosperity. But since then, very little investment has occurred. As AID recently noted:

The perception persists that the Jamaican government is a serious obstacle to investors. . . . The present regulations governing investment and the associated bureaucratic structure appear to be vestiges of a centrally-planned economy. This is reflected in the requirement for government review and approval of plans with respect to the technology to be employed, the pace of expansion of production capacity, product mix, source of raw materials, and location of operations. In a market-directed economy, these decisions would be governed by relative prices, rates of return and cost. Thus the

application process itself suggests a government bias against private decision-making in the economic realm. (AID, Economic Support Fund loan, June 1985, p. 27)

Investors are obliged to seek approvals, licenses, and documents from various ministries. According to AID, "These requirements reportedly are not uniform and the basis for decisions as to which requirements apply to particular investors and for granting or withholding approval, are often discretionary. . . . Predictably, major last minute surprises often emerge under this system."

Investment is also discouraged by frequent labor disputes and high minimum wages. In 1984, despite a 25 per cent unemployment rate, the government doubled the minimum wage. Yet, the higher minimum wage almost guarantees that unemployment will stay high or go higher.

Conclusion

As the *Daily Gleaner* editorialized at the end of 1985, "It is true that in 1985 the government failed to take the promise of deregulation far enough. The free rein promised to private entrepreneurship is still not evident as the government retains control of much of the economy. Indeed, the painful adjustment felt during the year has been aggravated by the public sector's continued hold on sectors of the economy, limiting the scale of private sector investment and expansion."

The Seaga government, like every Jamaican government since independence in 1962, is trying to run this little island of 2 million people as a separate continent, encouraging domestic production, import substitution, and local manufacturers—a nationalistic approach to economic affairs. Autarky is still the dominant economic policy in Jamaica.

Jamaicans are known as excellent entrepreneurs everywhere in the world except in Jamaica. Unfortunately, the Jamaican government perpetuates the paralyzing restraints on its citizens' business ability. And as long as the government continues to destroy private initiative, Jamaica will continue to be a poor and frustrated country. □

Native Americans: Victims of Bureaucracy

by Michael Adamson

Despite the individual rights to life, liberty, and property upon which the United States was founded, significant violations of these rights have not been uncommon throughout our history. The U.S. Constitution originally condoned slavery and counted the black slave as a mere three-fifths of a person for purposes of determining representation. Japanese-Americans were interned by the thousands in concentration camps during World War II because many citizens and politicians of European descent considered them something less than American and therefore potential subversives. For decades, state laws limited the property rights and freedom to contract of women in marriage as well as their right to vote. Until the Civil Rights movement, areas in the South practiced a limited form of apartheid, segregating whites and blacks in schools and other public places.

Yet no group of people has suffered, and continues to suffer, from an illiberal and discriminatory government policy as have the 1.4 million people collectively referred to as Native Americans. As the nation commemorates the 200th anniversary of the United States Constitution, it behooves us to examine the Indian policy of our government.

The Bureau of Indian Affairs is the principal agent in carrying out the government-to-government relationship between the United States and Federally-recognized Indian tribes, and is therefore the focus of this paper. This agency is

unique in that it is the only Federal agency whose expressed function is to manage the affairs of a particular ethnic group.

From Conquest to Control

By any criterion, the economic and social standards of living are lower among Native Americans than among the balance of the U.S. population. Unemployment on or adjacent to reservations fluctuates around 40 per cent. Of some 750,000 Native Americans on reservations, 75 per cent earn less than the national average.¹ Leading causes of death among Native Americans are accidents, heart disease, malignant neoplasms, and cirrhosis of the liver, all far above national averages and a significant proportion of these related to alcohol abuse. Drug abuse, mental illness, and obesity are major health problems. Tuberculosis cases are 4.5 times the national average and deaths from the illness are 9.5 times as frequent. Suicide is more than twice as likely among Native Americans. Their life expectancy is about five years below the average American's and infant mortality rates are 25 per cent higher.²

While such facts may illustrate the plight of the Native American, they do not explain why such conditions exist. I will argue here that they exist primarily because bureaucratic management is no more appropriate (and yields equally disturbing results) for a group of people defined by race than for a group of people defined by occupation, sex, region, or any other demographic characteristic. U.S. Indian policy is all the more offensive as it is perpetrated by

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one race of people upon another. Indeed, a Native American is defined by blood percentages, leading Russell Means, head of the American Indian Movement, to comment that only Nazi Germany "defined purity of blood as a measure of who you are as an individual."³

Bureaucratic Management

The Bureau of Indian Affairs is a bureaucracy. As a public sector organization, it is disciplined by laws, regulations, and government budgets. This form of management is in contrast with profit management, which is disciplined by the rules of the marketplace and the buying decisions of sovereign consumers.⁴

Because bureaucracies are not disciplined by profits and losses, the only way to restrict bureaucratic spending is with detailed rules and regulations. In a bureaucracy, the premium is not on flexibility, but control of appropriated public funds.⁵ Thus, the bureaucratic features of government are inherent in bureaucracy itself—they cannot be "reformed" away. The only choice is between profit management and bureaucratic management.⁶

In the case of Native Americans, the government has chosen the latter path, and only rarely has this path been benign. The history of U.S. Indian policy is one of conquest of an indigenous people by foreigners who viewed themselves as superior. Until the 1960s, the official goal of this policy was assimilation, which ignored cultural reality and left a legacy of poverty, disease, and broken traditions.⁷

Article 1, Section 8 of the United States Constitution declares that "Congress shall have power . . . to regulate commerce with foreign nations, and among the several States, and with the Indian tribes." The latter were thought of as separate nations to be dealt with through treaties in accordance with international law. Their affairs were not to be intruded upon and relations were to be conducted by the central government.

In reality, Congress established criminal jurisdiction and economic surveillance over the Native Americans so that their freedom to make decisions was gradually reduced. As S. Lyman Tyler notes, as "Indian leaders were no

longer free, they could no longer be truly responsible."⁸ Policy ultimately was to have white settlers expand territorially and have the Native Americans withdraw; conquest would be restrained and governed, not prevented.

With the Indian Removal Act of 1830, a formal removal policy was enacted. The so-called Five Civilized Tribes of the Southeast were marched on the "Trail of Tears" to land which is now Oklahoma.

As a practical measure, removal and conquest gave way to a reservation policy. On the reservation, the Native American was to be taught "the arts and habits of civilization."⁹ The role of traditional leaders was bypassed and made ineffective. This policy of relocation and cultural restructuring destroyed initiative, self-reliance, integrity, and spirit. The need and responsibility for providing one's food and shelter was taken away. Native Americans were made wards of the government.

From 1887 to 1934, Native American land holdings shrank from 135 million acres to 40 million acres under an allotment policy which gave individuals 40- to 160-acre plots as their own property. Scandals resulting from the acquisition of oil leases and forest lands were rife. Rather than become farmers through land ownership, many individuals sold off their allotments and consumed their wealth.

The Indian Reorganization Act of 1934 initiated efforts to revive functional tribal governments. However, when tribes tried to exercise their rights of self-determination under this Act, bureaucrats obstructed them by restricting tribal use of resources.¹⁰

The passage of House Concurrent Resolution 108 established a policy of termination in 1953. Congress intended to make Native Americans subject to the same laws and privileges as other Americans (though the question of their dual citizenship under a 1924 act remained unresolved). Termination Acts passed from 1954 to 1962 affected 60 California and Oregon tribes and hundreds of smaller bands. This policy failed, as the Indians, who had been subjected to the almost wholesale destruction of their culture, were unable to function in the modern, Anglo-dominated environment.

By 1970, President Nixon announced a policy of self-determination, which recognized

the rights of Native Americans to be different and to determine their own future. President Reagan reaffirmed this policy in 1983, but criticized its implementation as having been no more than rhetoric. Excessive regulation and a self-perpetuating bureaucracy had stifled local decision-making and fostered tribal dependency.¹¹

The conclusion one may draw from this assessment is that the excessive regulation and the stifling bureaucracy should be eliminated. President Reagan stopped short of this, however, and today the Federal bureaucracy still dominates the conduct of Indian affairs through subsidy, if not outright control.

The Consequences of Management

The mission of the Bureau of Indian Affairs is to act as the principal agent in carrying out (1) the government-to-government relationship between the United States and Federally-recognized Indian tribes and (2) the responsibilities of the United States as trustee for the property it holds for tribal units.

The second point is curious, as it has more or less developed as a self-proclaimed and self-sustained doctrine shrouded in the legal and moral obligations the U.S. government established for itself toward the Native American. The legality of this is based on the 1831 Supreme Court decision in *Cherokee Nation v. Georgia*, where the Court held that Indian tribes have all the rights of sovereignty except those taken away or limited by Congress. This decision was "a direct outgrowth of English law and practice which held that title to newly-discovered lands was in the Crown . . . but subject to a compensable right of occupancy by an aboriginal people."¹²

It is true that Native Americans have done nominally better under self-determination. From 1972 to 1977, Indian-owned businesses increased 300 per cent, principally in oil and gas, forestry, and bingo. Control over local community issues is more in the hands of tribal governments. Yet, the Bureau of Indian Affairs holds its position that it should be a provider of resources and protector of tribal interests. And

as any self-respecting bureaucratic agency would be expected to do, the Bureau seeks to expand the dollar volumes of the programs for which tribes contract for services, including education and health.

While official policy states that the Native American ought to be free to determine his or her future, to what extent can the various tribes be independent of Federal aid and the controls which accompany such aid (for that matter, how independent can any group of people be in such a relationship)? Federal commitments to provide tribes with health, education, and welfare benefits, in exchange for reservation lands, are remnants of a trust responsibility founded in mercantilist colonialism.

Historically, government has been assumed to be the best protector of property, both on and off the reservation. The state maintains the right to protect resources, rather than protect the individual's right to their use. This is evident in the trust agreement which has evolved out of the restrictions on Native Americans to develop the resources at their disposal.

Under this system, disputes over the use of property are political in nature, and the public manager chooses among special interests. Where Native American tribes dispute over land, for example, as have the Navajos and Hopis in northern Arizona, political solutions of the Bureau of Indian Affairs are unable to resolve the conflict, which is a fundamental question about property rights. Where the mechanisms of the market and freedom are bypassed, social and economic chaos is the result, affecting millions of lives.

The quality of property management is determined by the structure of the property rights in force. Public managers produce outcomes which please no one "because they are faced with ill-defined multiple use mandates and have no personal stake in decisions."¹³ The trust agreement which is so hallowed by the Bureau of Indian Affairs leads to the attrition of reservation lands and the abridgment of rights to remaining properties.

American Indian policy has promoted government-guaranteed security over freedom. Laws have governed the rights to spend money and own land. The reservation system was enforced through dependency: The Native Amer-

ican knew that he could drink and gamble his money away and be sure to keep his home and land.¹⁴

Government subsidies and controls mask the consequences of irresponsibility. If conditions are not established which permit failure, failure is collectivized and compounded throughout the culture.¹⁵ As governmental efforts to provide "security" are increased, and the market is further hindered, the more elusive this security becomes.¹⁶

It is remarkable how similar this policy is to the institution of slavery in the pre-Civil War South. Both policies were established and justified on racial grounds, where the master cares for an individual after denying him fundamental rights as a human being. Like many slaves, a distressingly large number of Native Americans have lost the ability to provide for themselves. The main difference between our Indian policy and outright slavery is that in the case of Indians, the conqueror stopped one step short of total subjugation and could not fathom what to do next.

Instead of trying to administer socialism in a more efficient manner (through staffing the Bureau of Indian Affairs with Native Americans and giving them more say in how they want to be administered, for example), the U.S. must examine whether a policy for a particular racial group is warranted at all. Then, perhaps, the policy-makers might discover the inherent racism of such a policy.

Government management of Indian Affairs is incompatible with a free society. The Bureau of Indian Affairs administers a racist policy—not unlike the apartheid system of South Africa

—which has decimated the initiative of a once-proud people. Yet the pre-reservation Native American was capable of administering his own affairs. He will be able to once again pursue his cultural, social, and economic potential only when the Bureau of Indian Affairs has been abolished. The property this agency commands should revert to the Native Americans, who must be free to exercise their property rights over it as they choose. As with any social group, only freedom can produce desirable social and economic results. The Native Americans must be given the opportunity to reaffirm this. □

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Wards of the Government

Most of the advocates of government paternalism really believe that they are able to know and to do what is "best" for all of the people. Most of them may honestly desire to help people. But their efforts *always* result in some form of bondage.

—DEAN RUSSELL

IDEAS
ON
LIBERTY



The Polish Underground

by Lawrence W. Reed

Six years after the Polish government crushed the independent trade union Solidarity, many Americans think of Poland as a pacified and docile society, a country of perhaps reluctant but generally obedient subjects. So much for false impressions. Poland is nothing of the kind.

Beset by political oppression, food shortages, and a socialist system that produces more headaches than goods, Poles are dodging and weaving around the Communist regime of General Wojciech Jaruzelski in ways that defy a foreigner's imagination. What is percolating in Poland constitutes such a profound challenge to Marxist dogma that it seems sure to put the government on a collision course again with its own people.

I went to Poland for seven days in November 1986 to glimpse something of the nature and effectiveness of those who oppose the government there. Escorted by activists in Poland's newest and fastest-growing opposition group, known as the "Freedom and Peace Movement," I conducted many hours of interviews in Warsaw and Krakow. What I discovered goes far beyond anything I had expected.

Much to Oppose

To begin with, there is much for the opposition in Poland to oppose. Communism's promise of a better life has given way to appalling dirt and safety conditions in work places, sooty air which poses a major health

threat, frequent shortages of everything from gasoline to toilet paper, luxury living for party officials while the masses live at two-thirds the 1980 standard, and a housing crisis that would spark a revolution in most other countries.

The long lines that are so much a part of life in socialist nations are prevalent in Poland, too, though they seem to be shorter. Double-digit inflation in the past three years simply put many goods out of reach altogether for many people.

In Krakow, where two pounds of butter cost 100 *zlotys* five years ago, the same amount is priced at 500 today. Lemons were 30 *zlotys* for a small quantity then, 600 now. Bread was 12 *zlotys* five years ago, now it's 50. Meat and gasoline are among the items rationed.

(At the time of my visit the official exchange rate was 200 *zlotys* to the dollar; the black-market rate was 800 to the dollar.)

Shortages of materials and spare parts are so common that factories are idle for 12 hours of the average 42-hour workweek.

A 27-year-old student at Jagiellonian University in Krakow told me that 10 years ago, a salary of 5,000 *zlotys* a month was enough to get by comfortably. "Now I get 20,000 *zlotys* and that's not enough," he said.

Fifteen-Year Housing Wait

He also complained that the quality of many goods has declined. Shoes that last more than six months of normal wear, for instance, are hard to find except at exorbitant prices.

The housing shortage is so bad that the average waiting time to get an apartment is be-

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tween 15 and 20 years. In parts of Warsaw, the wait is as long as 25 years—in other words, until someone dies.

But throughout my visit, I couldn't help noticing the contrasts between Poland and what I have observed on previous journeys into the Soviet Union. In that context, Poland comes out the winner: Poles are friendlier and smile more easily than Russians; Polish store fronts are much more colorful and attractive; the general appearance of Polish cities is a bit less drab and monotonous than Russian cities.

A fascination with Americans and American culture helps to distract many Poles from their economic woes. Polish children play "cowboys and Indians" and yearn for American chewing gum. Old Bill Haley and the Comets records command a premium on the legal market. A very popular radio show features country music from the United States and is called *All the Roads Lead to Nashville*. Hot dogs, the ubiquitous "OK!" and a quiet popularity of Ronald Reagan underscore a society that feels a stronger bond to America than to its neighbor immediately to the East, the Soviet Union.

Another distraction is the bane of alcoholism. I saw men in drunken stupors staggering down alleys or sprawled on doorsteps with appalling frequency.

Foreign Debt

In its trade relations with non-Communist nations, Poland as a whole is in a stupor. The government is not able even to make the interest payments on its nearly \$35 billion external debt. Both imports and exports are dismally low for a partially industrialized nation of 38 million people.

Clearly, the Polish economy is yet another socialist basket case and a source of much discontent. But Poles have seen even worse economic times before, such as in World War II.

What motivates today's anti-government activism are *political* realities, not economic problems. Change the political structure to diffuse power and break the monopoly of the Communist Party, say leading spokesmen for the Polish underground, and the economic problems will go away.

The New York-based Lawyers Committee for Human Rights recently issued a report that details systematic and brutal repression by the Warsaw government. It condemns the "100 per cent conviction rate" in the new system of 48-hour trials for political dissidents, the "persistent practice of violence by police under which defendants in custody have been beaten with regularity, and even murdered," and prosecutions of harmless political activity.

Not even the Roman Catholic Church, which commands the loyalties of 90 per cent of Poles, is immune. In a case that shocked the world, agents of the secret police in October 1984 abducted, tortured, and murdered "Solidarity's favorite priest," Father Jerzy Popieluszko. Three officers were convicted in that killing. Other priests who have spoken out against the regime have simply disappeared.

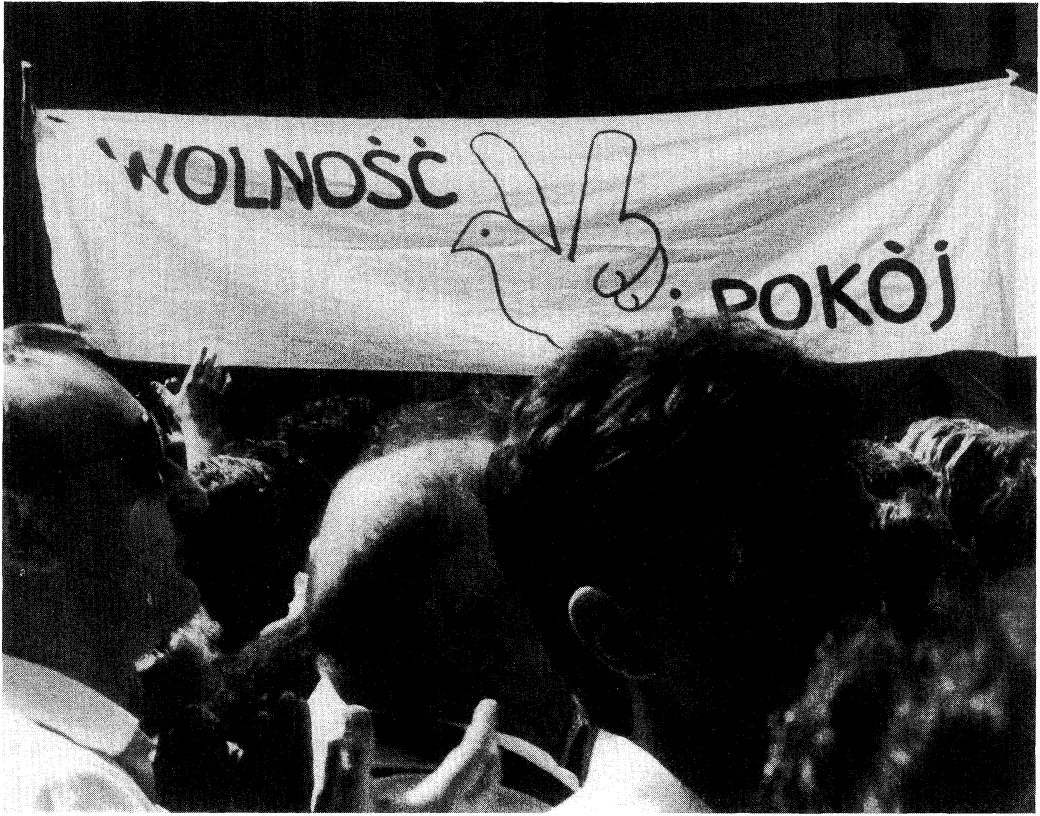
This is a country in which even the famous logo of Solidarity, written in its familiar jaunty style, cannot legally appear anywhere.

In this situation, the always resourceful Poles have actually formed a second, alternative society. This "parallel Poland" comes complete with private, illegal versions of virtually every aspect of official life—including the press, education, insurance, theater and the arts, radio, health care, and exchange rates.

The Underground

Solidarity's Wiktor Kulerski outlined the parallel society when he wrote this while in hiding: "This movement should create a situation in which authorities will control empty stores, but not the market; the employment of workers, but not their livelihood; the official media, but not the circulation of information; printing plants, but not the publishing movement; the mail and telephones, but not communications; and the school system, but not education."

At a dinner party one evening in Krakow, hosted secretly for me by several underground printers, I was dazzled with the scope of what my hosts called "independent publishing ventures." They had translated and printed works by Alexander Solzhenitsyn, Irving Kristol, Michael Novak, George Orwell, Milton Friedman, and Ayn Rand, among others. I was able to smuggle two works out of the country:



Banner proclaiming "Freedom and Peace."

Orwell's *Animal Farm* and Novak's *The Spirit of Democratic Capitalism*.

That particular dinner party featured some of the best food of the week, including a delicious Polish sauerkraut-like dish known as "Bigos." I asked permission to take a photograph of the table filled with a dozen colorful dishes and was politely refused.

"If the authorities ever get your film, they will use the picture as propaganda—to complain that the underground eats like rich capitalists," said one of my hosts. Almost everything I ate that evening had been secured at considerable sacrifice through illegal channels.

"Where do you get the paper for all this printing?" I inquired. The response made me roar with laughter: "We get it two ways. We smuggle some in from the West, and we steal the rest from Communists, which we regard as recovering property which was stolen in the first place."

Later in the week, I learned from a professor at the University of Warsaw that economics

students there are quietly required to read some of the greatest works of free-market scholars—many of which are banned in Poland.

Illicit Publishing

Seven illicit publishing houses in the country together produce 200 books a year in editions of up to 10,000, according to *The New York Times* (December 31, 1986). When the government recently mounted a campaign to confiscate the cars of their distributors, the publishers banded together and formed their own underground insurance company to cover the confiscation of cars, paper, and materials.

Meanwhile, entire "underground universities" flourish in the major cities, holding classes and conducting research in the most unlikely places: warehouses, basements, churches, and even the state's own university buildings after hours.

On the black market, Poles are producing and trading everything from vodka to automo-

biles. It seems there's no Pole who isn't trading *zlotys* for dollars at three and four times the legal rate. Rumor has it in Warsaw that even private banks paying interest on deposits have sprung up. The Polish economy, it seems, is being "privatized" whether the government likes it or not!

All this activity "under the table" supports and encourages an ever bolder political opposition. In recent months, the group which has concerned the government more than even the smoldering remnants of Solidarity is the one which arranged my schedule and provided my escorts—Freedom and Peace. A story in the November 4, 1986, *Washington Post* referred to this group as having "gained the support of thousands of young people and ushered in a new generation of opposition leadership eager to test communist authorities."

Restless for Change

In meetings with dozens of these Poles in their late teens, 20s, and early 30s, I was stunned by their depth of commitment and high degree of sophistication. They are the intelligentsia of Polish anti-Communists, extremely knowledgeable of world affairs and on the ideological offensive. They are restless for change and willing to endure imprisonment or worse to make change happen.

The issue that brought Freedom and Peace into existence in 1985 was the refusal of more and more young people to take the oath required upon induction into the military. They are not pacifists, but they do object to swearing allegiance to the Soviet Union and its Warsaw Pact alliance.

Through hunger strikes, sit-ins, petition drives, and acts of civil disobedience, Freedom and Peace activists and sympathizers have

sought with some success to pressure the government to release from prison those who refuse the oath.

In spite of all manner of harassment—beatings, torture, wire-tapping, imprisonment, and so on—Freedom and Peace has only broadened its appeal and its agenda.

It defies the government with a fund-raising campaign on behalf of Afghans wounded as a result of the Soviet invasion of Afghanistan. It condemns "socialist pollution" which has wreaked havoc on the air and water in Poland. It champions equal rights for women, and the democratic ideals of a free press and free elections. Its members read and distribute literature that criticizes the planned economy, pokes fun at Marxist dogma, and calls for a "free enterprise liberation" of the Polish economy.

Its leadership has even made several contacts with so-called "peace" groups in the West—in an attempt to convince them that, in the words of spokesman Jacek Czaputowicz, "without freedom there can be no peace." Speaking of Western naïveté about the Soviets and their intentions, Freedom and Peace co-founder Jan Rokita declares, "A government which makes war against its own people cannot be trusted to make peace with its neighbors."

This is strong stuff to be said and done in a captive nation, but Poles throughout their tortured history have always shown they are up to the task. Freedom and Peace is carrying on in a grand tradition of Polish patriots—and maybe even expanding the limits of creative, non-violent combat.

Visiting this troubled but intriguing place called Poland renewed my appreciation for those who struggle against oppression. What the people of Poland must endure is appalling, but how they cope with it is fascinating. □

The Politics of Unemployment

by John Chamberlain

We are living in an age of deregulation. It has paid off in oil prices, in trucking, in airplane tickets, and in telecommunications. But the politicians, mindful of the big unions, persist in a refusal to apply deregulation to wages.

Hans F. Sennholz, who is well known to readers of *The Freeman*, argues that the political fixation on a compulsory minimum wage is a primary cause of unemployment. He is inexorable about his contention in a no-holds-barred book called *The Politics of Unemployment* (Libertarian Press, Spring Mills, PA 16875, 356 pp., \$19.95 cloth). He also deals with a lot of other things that keep wages from falling to market-clearing levels that would permit full employment. There is the Davis-Bacon Act, which keeps construction costs high. There is the Wagner Act and the Norris-La Guardia Anti-Injunction Act and the Railway Labor Act of 1926. All of them bear out Ludwig von Mises' contention that interventionism imposes costs that hurt the ultimate consumer, to say nothing about investors who are being robbed of their capital. But the coercive minimum wage is Hans Sennholz's *bête noire*.

Walter Williams has thoroughly exposed the effects of the minimum wage on young people, particularly black teenagers. But this, according to Sennholz, is just the tip of the iceberg. Recent research, he says, confirms that "only about one-third of low-wage earners are teenagers; almost one-half are twenty-five to sixty-four years of age; two-thirds of the low-wage population are believed to be female; and some ten per cent are individuals sixty-five

years old or older." Taken together, low-wage earners comprise some ten per cent of the American labor force. Any further rise in the minimum wage would make it uneconomic for an employer to hire people who can't earn their keep.

Sennholz is concerned that the unemployment rate of black youth in recent years has ranged between forty and fifty per cent, which is double the rate for white teenagers. But he is equally concerned for unskilled women, and especially unskilled workers in hotels, restaurants, hospitals, laundries, and automotive service stations. These workers must live continuously with the danger of being fired when the minimum wage is raised.

Toward the end of his book Sennholz zeroes in on Puerto Rico. Puerto Ricans, being U.S. citizens, can quit their tropical island if better opportunities beckon on the mainland. Some 1.5 million have gone to the continental U.S., leaving 3.5 million at home, where they welcome remittances from their departed kin.

Sennholz says the fact that the unemployment rate in Puerto Rico often greatly exceeds the U.S. national average is puzzling. The federal government levies no taxes on Puerto Rico save for Social Security, workers' compensation, and other labor benefits. Puerto Rican residents pay no taxes on income earned from local sources. And the U.S. government employs thousands of Puerto Ricans at the Naval Station at Roosevelt Roads and other Federal facilities. But none of this keeps the island from being what Sennholz calls "an overcrowded poorhouse" where "many people

subsist on minimum incomes" supported by alms and transfer payments.

Having described the Puerto Rican situation as puzzling, Sennholz proceeds to take the puzzlement out of it. Puerto Rico, he says, "is probably the world's most vivid example of the asininity and absurdity of labor legislation. It demonstrates so cogently and convincingly that minimum wage laws, and other labor legislation that raise the cost of labor, do not improve economic conditions, but instead make them immeasurably worse."

Puerto Rico is poor in natural resources. But in a free economy, unconstrained by labor legislation, economic production that is labor-intensive would gravitate to the island. With his attention to detail Sennholz mentions table and household linens, embroidered and drawn-work by hand, clothing embellished with fancy stitching and hand-rolled edges, appliqué work on towels, bridge sets, scarves, doilies, and pillow cases. These could be produced on the island and sold on the mainland. "The American people, as consumers," says Sennholz, "would be greatly enriched by the productive efforts of some two million adult Puerto Ricans." As things stand now, however, American consumers of scarves, doilies, and what-not buy from Hong Kong and South Korea.

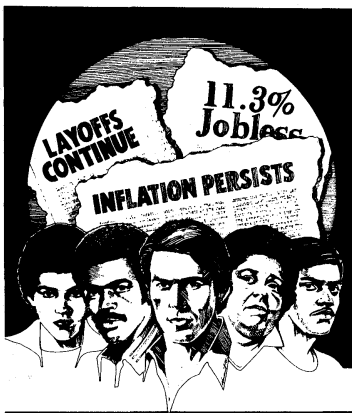
On the U.S. mainland the minimum wage may amount to one-half the average industrial wage rate and may affect some ten per cent of the working population. In Puerto Rico, the same minimum approaches the full industrial wage and hits a vast majority of the working people. "The aggregate effect of the U.S. minimum wage on Puerto Rico," says Sennholz,

"is one of incredible devastation and humiliation. Some 25 per cent of the working population are presently unemployed, 10 to 15 per cent are under-employed, some 10 per cent are subsisting in self-employment or primitive farming, 18 per cent no longer participate in the labor market, and 5 per cent subsist on public assistance."

Sennholz calls this "gruesome." On the mainland the figure for incomes lost through interventionism comes to \$196 billion as estimated by Morgan O. Reynolds in his *Making America Poorer: The Cost of Labor Law* (Cato Institute, 224 Second Street S.E., Washington, DC 20003, 218 pp., \$21.95 cloth, \$9.95 paper). This is gruesome, too. Luckily, however, human beings find ways of getting around the gruesome statistics.

Sennholz does not advocate breaking the laws. He would prefer to see Congress repeal them. But it is his duty as a commentator to take human nature as he finds it. Many Americans, he says, enter the labor market via the underground. They learn as kids that pocket money earned through odd jobs doesn't get into their parents' income tax reports. The underground economy tempts young people who are budding entrepreneurs to take off-the-book jobs which may be irregular but profitable. These young entrepreneurs, says Sennholz, "are everywhere, in towns and in the country, and are numbering hundreds of thousands."

So the situation, as described by Sennholz, is not as "gruesome" as one might suppose. Sooner or later our legislators will learn that stupid laws cannot be enforced. The tougher the labor legislation, the more the underground will tend to grow. □



The Politics of Unemployment

by Hans F. Sennholz

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INDEX
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*Prepared by
Bettina Bien Greaves*

In page references, the number preceding the colon designates the month, those following refer to pages. All articles have at least three entries—author, subject, and title—except in a few cases when title clearly indicates subject matter. The short "Perspective" items are indexed under that category only. Books reviewed are listed on the last page.

A

- ADAMSON, Michael
Native Americans: victims of bureaucracy. 12:473-476
- ADVERTISING
Should cigarette advertising be banned? (Den Uyl & Machan) 12:447-451
- AFRICA
Black Marx (Theberton) 5:188-191
Visit to South Africa (Hospers) 2:46-54
- AGRICULTURE
Farm problem and government farm programs (Pasour) 8:303-307
How the Fed fooled farmers (Habegger) 5:164-167
Power and peasantry: a report from the Soviet Union (Rydenfelt) 4:155-158
- ALTERNATIVES to public libraries (Phillips) 4:147-150
- AMADOR, Jorge E.
Take back the environment. 8:309-315
- AMELIORATION (Bowers) 7:248-250
- ANCIENT suicide of the West (Davidson) 12:452-462
- ANDERSON, Bill
Real purchasing power. 1:8-11
- ANTITRUST, rhetoric of (DiLorenzo) 3:110-114
- ASKING the right questions (Williams) 10:380-384
- AUSTRIAN economics, supply-side economics and (Bartlett) 4:151-154

B

- BAADE, Robert A. & Bast, Diane Carol
Socialized stadiums. 9:327-328
- BAETJER, Howard Jr.
Freedom in the dock. 2:70-71
See also Perspectives
- BALANCED budget amendment (Sennholz) 8:291-294
- BANKING. *See Money*
- BANKING before the Federal Reserve: the U.S. and Canada compared (Wells) 6:231-235
- BARGER, Melvin D.
Free-market mail is on the horizon. 8:286-290
Supermarket myths. 1:4-7
See also Perspectives.

- BARNISKIS, Andrew E.
Scenario for a new serfdom. 9:333-335
- BARTLETT, Bruce
Supply-side economics and Austrian economics. 4:151-154
- BAST, Diane Carol (co-author). *See Baade*
- BECKER, Michael
Goodbye, Mr. Chips: U.S. Creates a High-Tech OPEC. 2:44-45
- BIDINOTTO, Robert James
Morality laws = majority license. 4:140-142
The morality of good intentions. 3:105-109
See also Perspectives
- BIG business. *See Cartels; Corporations; Insurance; Stock Market*
- BLACK markets
Polish underground (Reed) 12:477-480
- BLACK Marx (Theberton) 5:188-191
- BLOCK, Walter
A free market in kidneys? 8:308
- BOLICK, Clint
The home schooling movement. 3:84-89
The reincarnation of Jim Crow. 12:463-467
- BOOKS of note (Williams) 8:319-320
- BOVARD, James
Federal job training: road to nowhere. 11:426-427
Jamaica: no free market, no miracle. 12:468-472
The Hungarian illusion. 9:340-347
- BOWERS, Philip J.
Amelioration. 7:248-250
- BRODIN, Eric
Sweden's empty smorgasbord. 3:96-98
- BUBB, Frank W.
Fighting communism with free trade and open immigration. 5:192-198
- BUCHANAN, James (1986 Nobel Prize winner) Public choice theory: not the whole story (Machan) 9:352-356
- BUREAUCRACY
Face of a bureaucrat (Hochderffer) 6:204-205
Native Americans: victims of bureaucracy (Adamson) 12:473-476
Public choice theory: not the whole story (Machan) 9:352-356

C

- CANADA
Banking before the Federal Reserve: the U.S. and Canada compared. (Wells) 6:231-235
Controls raise prices (Walker) 6:203
Social theorists see groups, not people (McDonald) 2:55-56
- CAPITALISM
Freedom in the dock (Baetjer) 2:70-71
Human nature and the free society (Opitz) 10:385-391
Private property system and the decent society (Machan) 5:179-181
- CAPITALISM at a crossroads: 1875-1900 (Phillips) 9:348-351
- CARTELS, voluntary and coercive: the case of oil (Osterfeld) 11:415-425
- CHAMBERLAIN, John. *See Book reviews*

- CHARITY, voluntary vs government aid
Irish potato famine (TRJohnson) 1:30-34
True charity (McDonald) 6:218-219
- CHINA'S "free enterprise" experiment (Senese) 7:265-269
- CIGARETTE advertising, should it be banned? (Den Uyl & Machan) 12:447-451
- CITY/local government
Face of a bureaucrat (Hochderffer) 6:204-205
Impracticality of zoning (Gillis) 10:372-376
Socialized stadiums (Baade & Bast) 9:327-328
- CIVIL rights
Reincarnation of Jim Crow (Bolick) 12:463-467
- COLLECTIVES, communities, and the individual (Williams) 3:91-95
- COLLECTIVISM
Ancient suicide of the west (Davidson) 12:452-462
More collectivist cliches (Smith) 10:370-371
- COMMON law
"Insider trading": the moral issue (Foley) 11:409-414
- COMMUNISM. *See Collectivism; Marxism; Socialism*
- COMPUTERS
Goodbye, Mr. Chips: U.S. creates a high-tech OPEC (Becker) 2:44-45
Lessons from computers and helium (Shaw) 9:357-358
- CONSTITUTIONAL restraints on power (Opitz) 9:336-339
- CORPORATIONS and mergers
Rhetoric of antitrust (DiLorenzo) 3:110-114
- CORRUPTION
Scandals (Fulda) 12:444-446
- COWEN, Tyler
Which liberalism? 8:298-300
- CROCKER, C. Brandon
Planning threatens freedom. 6:210-211

D

- DAVID: from beggar to entrepreneur (BAJohnson) 11:404-408
- DAVIDSON, Nicholas. The ancient suicide of the West. 12:452-462
- DEFENDING the rich (WHPeterson) 6:229-230
- DEFICIT financing. *See Government spending*
- DEMOCRACY and majoritarianism
Rousseau's "Social Contract": a critical response (Taylor) 1:28-29
- DEN UYL, Douglas J. & Machan, Tibor R.
Should cigarette advertising be banned? 12:447-451
- DENNIS, William C.
The pursuit of happiness. 7:252-258
Wilderness cathedrals and the public good. 5:168-174
- DETROIT News. The minimum wage. 9:323
- DIAGNOSIS related groups (DRGs) & medical care
One complaint per customer, please (Orient) 8:284-285

DiLORENZO, Thomas J.

The rhetoric of antitrust. 3:110-114

Why government jobs programs destroy jobs. 11:428-430

DO UNIONS have a death wish? (Rydenfelt) 10:377-379

E

EBELING, Richard. *See* Book reviews (Lachmann; O'Driscoll & Rizzo)

ECONOMIC depression

Unemployment act of 1946 (Semmens & Kresich) 10:394-398

ECONOMIC development/progress

Amelioration (Bowers) 7:248-250

Laissez faire as a development policy (Semmens) 5:182-187

Lessons in liberty: the Dutch republic, 1579-1750 (RAPeterson) 7:259-264

Productive advances: who benefits most? (Fulda) 7:251

ECONOMICS of errant entrepreneurs

(Kirzner) 8:301-302

EDUCATION, private

Home schooling movement (Bolick) 3:84-89

EGALITARIANISM, demand for

Ethics of entitlement (Sennholz) 4:134-139

ELLIG, Jerome

Superstars as slaves. 9:324-326

ENERGY policy

Voluntary and coercive cartels: the case of oil (Osterfeld) 11:415-425

See also Pollution

ENTREPRENEURS and their gifts (Shaw)

4:124-125

ENTREPRENEURS/entrepreneurship

David: from beggar to entrepreneur (BAJohnson) 11:404-408

Defending the rich (WHPeterson) 6:229-230

Economics of errant entrepreneurs

(Kirzner) 8:301-302

Women and the market (Staley) 4:143-146

ENVIRONMENT

Take back the environment (Amador) 8:309-315

Wilderness cathedrals and the public good (Dennis) 5:168-174

Worst polluters (Williams) 2:57-58

ETHICS of entitlement (Sennholz) 4:134-139

EWERT, Ken S.

The trade deficit. 11:431-436

F

FACE of a bureaucrat (Hochderffer)

6:204-205

FARM problem and government farm

programs (Pasour) 8:303-307

FEDERAL job training: road to nowhere

(Bovard) 11:426-427

FIGHTING communism with free trade and

open immigration (Bubb) 5:192-198

FIKE Elmer. Freedom is the antidote. 7:243

FOLEY, Ridgway K., Jr.

"Insider trading": the moral issue. 11:409-414

The liability crisis. 1:12-27

The unkept promise. 10:364-369

FOREIGN aid

Fighting communism with free trade and

open immigration (Bubb) 5:192-198

Third world development: foreign aid or

free trade? (Majewski) 7:275-278

FREE agency in sports

Superstars as slaves (Ellig) 9:324-326

FREE ENTERPRISE, a new space policy

(Phillips) 10:392-393

FREE market in kidneys? (Block) 8:308

FREE-MARKET mail is on the horizon

(Barger) 8:286-290

FREE trade. *See* Trade

FREEDOM

Amelioration (Bowers) 7:248-250

Liberty and individual responsibility (Lee)

4:126-133

Pursuit of happiness (Dennis) 7:252-258

Unkept promise (Foley) 10:364-369

FREEDOM in the dock (Baetjer) 2:70-71

FREEDOM of speech

Property rights and the first amendment

(Lamberton) 7:244-247

Should cigarette advertising be banned?

(Den Uyl & Machan) 12:447-451

FULDA, Joseph S.

Liberty and property. 5:175-178

The moral case for a balanced budget. 3:90

Pay television and property rights.

6:220-222

Productive advances: who benefits most?

7:251

Scandals. 12:444-446

G

GILLIS, John

The impracticality of zoning. 10:372-376

GOODBYE, Mr. Chips: U.S. creates a

high-tech OPEC (Becker) 2:44-45

GOVERNMENT controls/regulation/

intervention

Ancient suicide of the West (Davidson)

12:452-462

Jamaica: no free market, no miracle

(Bovard) 12:468-472

Latin American economic liberation

(Rivas-Micoud) 3:99-102

Lessons from computers and helium (Shaw)

9:357-358

Line-item veto (Sennholz) 9:329-332

Planning threatens freedom (Crocker)

6:210-211

Property rights and the first amendment

(Lamberton) 7:244-247

Scandals (Fulda) 12:444-446

Take back the environment (Amador)

8:309-315

Unemployment act of 1946 (Semmens &

Kresich) 10:394-398

Voluntary and coercive cartels: the case of

oil (Osterfeld) 11:415-425

GOVERNMENT licensing

Reincarnation of Jim Crow (Bolick)

12:463-467

GOVERNMENT, limited

Asking the right questions (Williams)

10:380-384

Constitutional restraints on power (Opitz)

9:336-339

Human nature and the free society (Opitz)

10:385-391

Lessons in liberty: the Dutch republic,

1579-1750 (RAPeterson) 7:259-264

Liberty and individual responsibility (Lee)

4:126-133

Political economy of the U.S. Constitution

(Lee) 2:59-69

GOVERNMENT spending

Balanced budget amendment (Sennholz)

8:291-294

Line-item veto (Sennholz) 9:329-332

Moral case for a balanced budget (Fulda)

3:90

Politics of deficit spending (Sennholz)

2:72-77

Privatizing federal programs (Sennholz)

6:223-228

Real purchasing power (Anderson) 1:8-11

Supply-side economics and Austrian

economics (Bartlett) 4:151-154

Unemployment act of 1946 (Semmens &

Kresich) 10:394-398

GREAVES, Bettina Bien

See Perspectives; Book reviews (Carson,

Kendall & Louw)

H

HABEGGER, Jay

How the Fed fooled farmers. 5:164-167

HELIUM, lessons from computers and (Shaw)

9:357-358

HELSTROM, Carl. *See* Perspectives

HOCHDERFFER, Joe

The face of a bureaucrat. 6:204-205

HOLLAND (the Netherlands)

Lessons in liberty: the Dutch republic:

1579-1750 (RAPeterson) 7:259-264

HOME schooling movement (Bolick) 3:84-89

HOSPERS John

A visit to South Africa. 2:46-54

HOUSTON, land use and housing

Houston's laissez-faire housing policy

(Phillips) 6:215-217

Impracticality of zoning (Gillis) 10:372-376

HOW the Fed fooled farmers (Habegger)

5:164-167

HOWARD, Irving E.

Poverty: material and spiritual. 8:295-297

HUMAN nature and the free society (Opitz)

10:385-391

HUNGARIAN illusion (Bovard) 9:340-347

I

IDEAS, ideologies

Capitalism at a crossroads: 1875-1900

(Phillips) 9:348-351

Scenario for a new serfdom (Barniskis)

9:333-335

IDEAS, innovations

Amelioration (Bowers) 7:248-250

Lessons from computers and helium (Shaw)

9:357-358

Productive advances: who benefits most?

(Fulda) 7:251

IMMIGRATION and free trade, fighting

communism with (Bubb) 5:192-198

IMPRACTICALITY of zoning (Gillis)

10:372-376

INDIANS, American

Native Americans: victims of bureaucracy

(Adamson) 12:473-476

INDIVIDUAL rights/responsibility

Morality laws = majority license

(Bidinotto) 4:140-142

Unkept promise (Foley) 10:364-369

INDIVIDUALISM

- Collectives, communities, and the individual (Williams) 3:91-95
- Pursuit of happiness (Dennis) 7:252-258
- Which liberalism? (Cowen) 8:298-300
- “INSIDER trading”: the moral issue (Foley) 11:409-414
- INSURANCE**
- Liability crisis (Foley) 1:12-27
- IRISH potato famine (TRJohnson) 1:30-34

J

- JAMAICA**: no free market, no miracle (Bovard) 12:468-472
- JAPAN’S** railroads, privatizing (Senese) 6:206-209
- JIM CROW**, reincarnation of (Bolick) 12:463-467
- JOB** training programs
- Federal job training: road to nowhere (Bovard) 11:426-427
- Why government jobs programs destroy jobs (DiLorenzo) 11:428-430
- JOHNSON**, Bruce Alan
- David: from beggar to entrepreneur—in a day. 11:404-408
- JOHNSON**, Teresa R.
- The Irish potato famine. 1:30-34
- JUSTICE**
- Asking the right questions (Williams) 10:380-384
- Human nature and the free society (Opitz) 10:385-391

K

- KEYNES**, John Maynard—ideas of
- Unemployment act of 1946 (Semmens & Kresich) 10:394-398
- KIDNEYS**, free market in? (Block) 8:308
- KIRZNER**, Israel M.
- The economics of errant entrepreneurs. 8:301-302
- KRESICH**, Dianne (co-author). *See* Semmens

L

- LABOR** unions, wages, employment
- Do unions have a death wish? (Rydenfelt) 10:377-379
- Federal job training: road to nowhere (Bovard) 11:426-427
- Trade deficit (Ewert) 11:431-436
- LAISSEZ faire** as a development policy (Semmens) 5:182-187
- LAMBERTON**, Lance
- Property rights and the first amendment. 7:244-247
- LAND** use
- Impracticality of zoning (Gillis) 10:372-376
- Sagebrush rebellion (Wentz) 1:35-36
- Wilderness cathedrals and the public good (Dennis) 5:168-174
- See also* Private property
- LATIN** American economic liberation (Rivas-Micoud) 3:99-102
- LEE**, Dwight R.
- Liberty and individual responsibility 4:126-133
- The political economy of the U.S. Constitution. 2:59-69
- LEJEUNE**, Anthony. Socialized medicine. 8:283

- LESSONS** from computers and helium (Shaw) 9:357-358
- LESSONS** in liberty: the Dutch republic, 1579-1750 (RAPeterson) 7:259-264
- LEVITE**, Allan
- Socialism succeeds by failing. 6:212-214
- LIABILITY** crisis (Foley) 1:12-27
- LIBERALISM**, British vs. French
- Which liberalism? (Cowen) 8:298-300
- LIBERTY** and individual responsibility (Lee) 4:126-133
- LIBERTY** and property (Fulda) 5:175-178
- LIBRARIES**
- Alternatives to public libraries (Phillips) 4:147-150
- LINE-ITEM VETO** (Sennholz) 9:329-332

M

- MACHAN**, Tibor R.
- The private property system and the decent society. 5:179-181
- Public choice theory: not the whole story. 9:352-356
- See also* Den Uyl (co-author)
- MADISON**, James—ideas of
- Political economy of the U.S. Constitution (Lee) 2:59-69
- MAJEWSKI**, John
- Third world development: foreign aid or free trade? 7:275-278
- MARXISM**
- Black Marx (Theberton) 5:188-191
- Collectives, communities, and the individual (Williams) 3:91-95
- Morality of good intentions (Bidinotto) 3:105-109
- See also* Socialism/communism
- McDONALD**, Kenneth
- Social theorists see groups, not people. 2:55-56
- The true charity. 6:218-219
- MEDICAL** care
- Free market in kidneys? (Block) 8:308
- One complaint per customer, please (Orient) 8:284-285
- MONEY**, banking, inflation, credit
- Banking before the Federal Reserve: the U.S. and Canada compared (Wells) 6:231-235
- How the Fed fooled farmers (Habegger) 5:164-167
- Real purchasing power (Anderson) 1:8-11
- Trade deficit (Ewert) 11:431-436
- MORAL** case for a balanced budget (Fulda) 3:90
- MORALITY** of good intentions (Bidinotto) 3:105-109
- MORALITY** laws = majority license (Bidinotto) 4:140-142
- MORALITY**/ethics, freedom and
- Asking the right questions (Williams) 10:380-384
- Human nature and the free society (Opitz) 10:385-391
- “Insider trading”: the moral issue (Foley) 11:409-414
- Poverty: material and spiritual (Howard) 8:295-297
- Private property system and the decent society (Machan) 5:179-181
- MORE** collectivist clichés (Smith) 10:370-371
- MOZAMBIQUE**
- Black Marx (Theberton) 5:188-191

N

- NATIVE** Americans: victims of bureaucracy (Adamson) 12:473-476
- NATURAL** resources
- Wilderness cathedrals and the public good (Dennis) 5:168-174
- World resources and economic exploitation (Sinnett) 7:270-274
- See also* Environment; Land use; Private property
- NEW** space policy: free enterprise (Phillips) 10:392-393

O

- OIL**, petroleum, OPEC
- Voluntary and coercive cartels: the case of oil (Osterfeld) 11:415-425
- ONE** complaint per customer, please (Orient) 8:284-285
- OPITZ**, Edmund A.
- Constitutional restraints on power. 9:336-339
- Human nature and the free society. 10:385-391
- ORGAN** transplants
- Free market in kidneys? (Block) 8:308
- ORIENT**, Jane M.
- One complaint per customer, please. 8:284-285
- OSTERFELD**, David
- Voluntary and coercive cartels: the case of oil. 11:415-425

P

- PASOUR**, E. C., Jr.
- The farm problem and government farm programs. 8:303-307
- PAUL**, Terrance D. Quest for freedom. 3:82
- PAY** television and property rights (Fulda) 6:220-222
- PERSPECTIVES**
- Cambodian communism (Song) 9:323
- Chinese revolution (*Wall Street Journal*) 7:243
- Controls raise prices (Walker) 6:203
- Developing nations (Greaves) 8:283
- Excusing irresponsibility (Bidinotto) 6:202-203
- February birthdays (Greaves) 2:42-43
- Foreign debtors (Summers) 1:3
- A Fourth of July pledge (Greaves) 7:242-243
- Freedom around the world (Greaves) 4:123
- Freedom is the antidote (Fike) 7:243
- Give thanks for freedom (Greaves) 11:402-403
- The heart of the issue (Baetjer) 3:83
- Hungarian candor (*Wall Street Journal*) 5:163
- Land of the free? (Summers) 10:363
- The least we can expect (Bidinotto) 3:82-83
- A man’s home (Greaves) 1:3
- The minimum wage (Detroit News) 9:323
- Mugged by reality (Feldt) 10:363
- Non-developing nations (Greaves) 8:282-283
- Nothing to do (Summers) 2:43
- The nutcracker (Greaves) 12:442
- On creativity (Williams) 10:362
- On tolerance (Williams) 12:443
- Power of an ideal (Summers) 1:2-3
- Quest for freedom (Paul) 3:82

- PERSPECTIVES, continued*
 Rare species protected by invisible hand (Baetjer) 2:43
 Rent control (Summers) 5:163
 The road to freedom (Summers) 9:322-323
 Socialized medicine (Lejeune) 8:283
 Soviet monopolies (Tass, Soviet newspaper) 5:163
 Speak for yourself (Bidinotto) 4:122-123
 Strategies for freedom (Summers) 6:203
 Time will tell (Helstrom) 10:363
 Unexpected consequences (Greaves) 5:162-163
- PERU**
 David: from beggar to entrepreneur (BAJohnson) 11:404-408
- PETERSON, Robert A.**
 Lessons in liberty: the Dutch republic, 1579-1750. 7:259-264
- PETERSON, William H.**
 Defending the rich. 6:229-230
See also Book reviews (Lee & McKenzie)
- PETRO, Sylvester.** *See* Book reviews (Armentano)
- PHILLIPS, J. Brian**
 Alternatives to public libraries. 4:147-150
 Capitalism at a crossroads: 1875-1900. 9:348-351
 Houston's laissez-faire housing policy. 6:215-217
 A new space policy: free enterprise. 10:392-393
- PLANNING, central/economic**
 Latin American economic liberation (Rivas-Micoud) 3:99-102
 Laissez faire as a development policy (Semmens) 5:182-187
 Unemployment act of 1946 (Semmens & Kreschik) 10:394-398
- PLANNING threatens freedom (Crocker)** 6:210-211
- POLISH underground (Reed)** 12:477-480
- POLITICAL economy of the U.S.**
 Constitution (Lee) 2:59-69
- POLITICS of deficit spending (Sennholz)** 2:72-77
- POLLUTION**
 Take back the environment (Amador) 8:309-315
 Worst polluters (Williams) 2:57-58
- POST OFFICE**
 Free-market mail is on the horizon (Barger) 8:286-290
- POTATO famine, Irish (TRJohnson)** 1:30-34
- POVERTY: material and spiritual (Howard)** 8:295-297
- POWER and peasantry: a report from the Soviet Union (Rydenfelt)** 4:155-158
- PRIVATE property system and the decent society (Machan)** 5:179-181
- PRIVATE property**
 Asking the right questions (Williams) 10:380-384
 Human nature and the free society (Opitz) 10:385-391
 Liberty and individual responsibility (Lee) 4:126-133
 Liberty and property (Fulda) 5:175-178
 More collectivist cliches (Smith) 10:370-371
 Pay television and property rights (Fulda) 6:220-222
 Political economy of the U.S. Constitution (Lee) 2:59-69
 Property rights and the first amendment (Lamberton) 7:244-247
- Sagebrush rebellion (Wentz) 1:35-36
 Voluntary and coercive cartels: the case of oil (Osterfeld) 11:415-425
 Wilderness cathedrals and the public good (Dennis) 5:168-174
 Worst polluters (Williams) 2:57-58
- PRIVATIZATION**
 Free-market mail is on the horizon (Barger) 8:286-290
 Privatizing federal programs (Sennholz) 6:223-228
 Privatizing Japan's railroads (Senese) 6:206-209
- PRODUCTIVE advances: who benefits most? (Fulda)** 7:251
- PROFIT and loss system**
 Economics of errant entrepreneurs (Kirzner) 8:301-302
 Entrepreneurs and their gifts (Shaw) 4:124-125
- PROPERTY rights and the first amendment (Lamberton)** 7:244-247
- PUBLIC choice theory: not the whole story (Machan)** 9:352-356
- PUBLIC lands. See Land use**
- PUBLIC libraries, alternatives to (Phillips)** 4:147-150
- PUBLIC schools (court decisions)**
 Home schooling movement (Bolick) 3:84-89
- PURSUIT of happiness (Dennis)** 7:252-258
- R**
- RACIAL minorities**
 Native Americans: victims of bureaucracy (Adamson) 12:473-476
 Reincarnation of Jim Crow (Bolick) 12:463-467
- RAILROADS, privatizing Japan's (Senese)** 6:206-209
- RATIONALISM, French**
 Which liberalism? (Cowen) 8:298-300
- REAL purchasing power (Anderson)** 1:8-11
- REED, Lawrence W.**
 The Polish underground. 12:477-480
- REINCARNATION of Jim Crow (Bolick)** 12:463-467
- RENT control**
 Houston's laissez-faire housing policy (Phillips) 6:215-217
- RESPONSIBILITY, individual**
 Liability crisis (Foley) 1:12-27
 Liberty and individual responsibility (Lee) 4:126-133
 Morality laws = majority license (Bidinotto) 4:140-142
 Morality of good intentions (Bidinotto) 3:105-109
 True charity (McDonald) 6:218-219
- RHETORIC of antitrust (DiLorenzo)** 3:110-114
- RIVAS-MICOUD, José**
 Latin American economic liberation. 3:99-102
- ROGERS, Tommy W. See** Book reviews (Young)
- ROME**
 Ancient suicide of the West (Davidson) 12:452-462
- ROUSSEAU'S "Social Contract": a critical response (Taylor)** 1:28-29
- RUSSELL, Osborne (western pioneer, trapper)**
 Pursuit of happiness (Dennis) 7:252-258
- RUSSIA**
 Power and peasantry: a report from the Soviet Union (Rydenfelt) 4:155-158
- RYDENFELT, Sven**
 Do unions have a death wish? 10:377-379
 Power and peasantry: a report from the Soviet Union. 4:155-158
- S**
- SAFEGWAY stores (Barger)** 1:4-7
- SAGEBRUSH rebellion (Wentz)** 1:35-36
- SCANDALS (Fulda)** 12:444-446
- SCENARIO for a new serfdom (Barniskis)** 9:333-335
- SEMMEIS, John**
 Laissez faire as a development policy. 5:182-187
 The unemployment act of 1946 (with Kreschik, Dianne, co-author) 10:394-398
- SENESE, Donald J.**
 China's "free enterprise" experiment. 7:265-269
 Privatizing Japan's railroads. 6:206-209
- SENNHOLZ, Hans F.**
 A balanced budget amendment. 8:291-294
 The ethics of entitlement. 4:134-139
 A line-item veto. 9:329-332
 The politics of deficit spending. 2:72-77
 Privatizing federal programs. 6:223-228
 Welfare states at war. 3:103-104
- SHAW, Jane S.**
 Entrepreneurs and their gifts. 4:124-125
 Lessons from computers and helium. 9:357-358
- SHOULD cigarette advertising be banned? (Den Uyl & Machan)** 12:447-451
- SINNETT, M. W.**
 World resources and economic exploitation. 7:270-274
- SMITH, Adam—ideas of**
 Laissez faire as a development policy. (Semmens) 5:182-187
- SMITH, Philip**
 More collectivist clichés. 10:370-371
- SOCIAL reform/Darwinism**
 Capitalism at a crossroads: 1875-1900 (Phillips) 9:348-351
- SOCIAL theorists see** groups, not people (McDonald) 2:55-56
- SOCIALISM/Communism**
 China's "free enterprise" experiment (Senese) 7:265-269
 Fighting communism with free trade and open immigration (Bubb) 5:192-198
 Hungarian illusion (Bovard) 9:340-347
 Polish underground (Reed) 12:477-480
 Power and peasantry: a report from the Soviet Union (Rydenfelt) 4:155-158
 Socialism succeeds by failing (Levite) 6:212-214
See also Collectivism; Marxism
- SOCIALIZED stadiums (Baade & Bast)** 9:327-328
- SONG, Sophal. Cambodian communism.** 9:323
- SOUTH Africa, visit to (Hospers)** 2:46-54
- SPACE policy, new: free enterprise (Phillips)** 10:392-393.
- SPORTS**
 Socialized stadiums (Baade & Bast) 9:327-328
 Superstars as slaves (Ellig) 9:324-326
- STALEY, Sam**
 Women and the market. 4:143-146

STANDARD Oil & John D. Rockefeller
 Voluntary and coercive cartels: the case of
 oil (Osterfeld) 11:415-425

STEWART, David M. *See* Book reviews
 (Sowell)

STOCK market
 "Insider trading": the moral issue (Foley)
 11:409-414

SUBSIDIES
 Federal job training: road to nowhere
 (Bovard) 11:426-427
 Politics of deficit spending (Sennholz)
 2:72-77
 Socialized stadiums (Baade & Bast)
 9:327-328
 Why government jobs programs destroy
 jobs (DiLorenzo) 11:428-430
See also Welfare state

SUMMERS, Brian. *See* Perspectives

SUPERFUND and pollution
 Take back the environment (Amador)
 8:309-315

SUPERMARKET myths (Barger) 1:4-7

SUPERSTARS as slaves (Ellig) 9:324-326

SUPPLY-SIDE economics and Austrian
 economics (Bartlett) 4:151-154

SWEDEN
 Do unions have a death wish? (Rydenfelt)
 10:377-379
 Sweden's empty smorgasbord (Brodin)
 3:96-98

T

TAKE back the environment (Amador)
 8:309-315

TASS (Soviet newspaper) Soviet monopolies.
 5:163

TAXATION
 Balanced budget amendment (Sennholz)
 8:291-294
 Supply-side economics and Austrian
 economics (Bartlett) 4:151-154

TAYLOR, Bobby
 Rousseau's "Social Contract": a critical
 response. 1:28-29

TELEVISION, pay, and property rights
 (Fulda) 6:220-222

THEBERTON, Edward
 Black Marx. 5:188-191

THIRD world. *See* Undeveloped countries

THIRD world development: foreign aid or free
 trade? (Majewski) 7:275-278

THORNTON, Robert M. *See* Book reviews
 (Collier & Collier)

TRADE, international
 Fighting communism with free trade and
 open immigration (Bubb) 5:192-198
 Goodbye, Mr. Chips: U.S. creates a
 high-tech OPEC (Becker) 2:44-45
 Lessons in liberty: the Dutch republic,
 1579-1750 (RAPeterson) 7:259-264
 Third world development: foreign aid or
 free trade? (Majewski) 7:275-278
 Trade deficit (Ewert) 11:431-436
 Welfare states at war (Sennholz) 3:103-104

TRADE deficit (Ewert) 11:431-436

TRANSFER payments/entitlements
 Ethics of entitlement (Sennholz) 4:134-139
 More collectivist cliches (Smith)
 10:370-371
 Politics of deficit spending (Sennholz)
 2:72-77
 Social theorists see groups, not people
 (McDonald) 2:55-56

TRANSPORTATION
 Privatizing Japan's railroads (Senese)
 6:206-209

TRUE charity (McDonald) 6:218-219

U

UNDERGROUND, Polish (Reed) 12:477-480

UNDEVELOPED countries
 Black Marx (Theberton) 5:188-191
 Fighting communism with free trade and
 open immigration (Bubb) 5:192-198
 Jamaica: no free market, no miracle
 (Bovard) 12:468-472
 Laissez faire as a development policy
 (Semmens) 5:182-187
 Third world development: foreign aid or
 free trade? (Majewski) 7:275-278
 World resources and economic exploitation
 (Sinnett) 7:270-274

UNEMPLOYMENT *See* Labor unions; Job
 training

UNEMPLOYMENT act of 1946 (Semmens
 & Kresich) 10:394-398

UNKEPT promise (Foley) 10:364-369

U.S. CONSTITUTION
 Balanced budget amendment (Sennholz)
 8:291-294
 Constitutional restraints on power (Opitz)
 9:336-339
 Political economy of the U.S. Constitution
 (Lee) 2:59-69

Property rights and the first amendment
 (Lamberton) 7:244-247
 Unkept promise (Foley) 10:364-369

U.S. HISTORY
 Capitalism at a crossroads: 1875-1900
 (Phillips) 9:348-351
 Pursuit of happiness (Dennis) 7:252-258

V

VISIT to South Africa (Hospers) 2:46-54

VOLUNTARY and coercive cartels: the case
 of oil (Osterfeld) 11:415-425

W

WALKER, Michael. Controls raise prices.
 6:203

WALL Street Journal. *See* Perspectives

WELFARE state
 Poverty: material and spiritual (Howard)
 8:295-297
 Sweden's empty smorgasbord (Brodin)
 3:96-98
 True charity (McDonald) 6:218-219

WELFARE states at war (Sennholz)
 3:103-104

WELLS, Donald R.
 Banking before the Federal Reserve: the
 U.S. and Canada compared. 6:231-235

WENTZ, Douglas E.
 The sagebrush rebellion. 1:35-36

WHICH liberalism? (Cowen) 8:298-300

WHITE, Richard A. *See* Book reviews (Nash)

WHY government jobs programs destroy jobs
 (DiLorenzo) 11:428-430

WILDERNESS cathedrals and the public good
 (Dennis) 5:168-174

WILLIAMS, John K.
 Asking the right questions. 10:380-384
 Books of note. 8:319-320
 Collectives, communities, and the
 individual. 3:91-95
 The worst polluters. 2:57-58
See also Perspectives; Book reviews (Higgs;
 Novak)

WOMEN and the market (Staley) 4:143-146

WORLD resources and economic exploitation
 (Sinnett) 7:270-274

WORST polluters (Williams) 2:57-58

XYZ

ZONING, impracticality of (Gillis)
 10:372-376

Book Reviews

(Reviewer's name in parentheses)

- ARMENTANO, D. T. *Antitrust policy: the case for repeal* (Petro) 3:117-118
- BERGER, Peter. *The capitalist revolution: fifty propositions about prosperity, equality and liberty* (Chamberlain) 2:78-79
- BLOOM, Allan. *The closing of the American Mind* (Chamberlain) 11:437-438
- BROWNSTONE, David M. (co-author). *See* Franck
- BUKOVSKY, Vladimir. *To choose freedom* (Chamberlain) 10:399-400
- CARSON, Clarence B. *A basic history of the United States*. 5 volumes (Greaves) 3:119-120
- CHAFUEN, Alejandro A. *Christians for freedom: late-Scholastic economics* (Williams) 8:319-320
- COLLIER, Christopher and Collier, James Lincoln. *Decision at Philadelphia: the Constitutional Convention of 1787* (Thornton) 1:38-39
- CONQUEST, Robert. *The harvest of sorrow: Soviet collectivization and the terror-famine* (Chamberlain) 4:159-160
- FEUER, Lewis. *Imperialism and the Anti-Imperialist Mind* (Chamberlain) 8:316-318
- FRANCK, Irene M. & Brownstone, David M. *The silk road: a history* (Chamberlain) 9:359-360
- FREEMAN, Roger. *Does America neglect its poor? Comments on the American Catholic Bishops' Pastoral Letter: economic justice for all* (Williams) 8:319
- HIGGS, Robert. *Crisis and Leviathan: critical episodes in the growth of American government* (Williams) 11:439
- HIRSCH, E. D. *Cultural literacy*. Mentioned in review of Bloom (Chamberlain) 11:437-438
- HOOKE, Sidney. *Out of step: an unquiet life in the twentieth century* (Chamberlain) 6:236-238
- JACOBS, Jane. *Cities and the wealth of nations* (Chamberlain) 5:199-200
- JOHNSON, Paul. *Modern times* (Williams) 8:320
- KENDALL, Frances & Louw, Leon. *After apartheid: the solution for South Africa* (Greaves) 6:239-240
- LACHMANN, Ludwig. M. *The market as an economic process* (Ebeling) 8:318-319
- LAMBRO, Donald. *Land of opportunity—the entrepreneurial spirit in America* (Chamberlain) 1:37-38
- LEE, Dwight R. & McKenzie, Richard B. *Regulating Government: the positive sum solution* (WH Peterson) 6:238-239
- LOUW, Leon (co-author). *See* Kendall
- MCKENZIE, Richard B., co-author. *See* Lee
- NASH, Ronald H. *Poverty and wealth: the Christian debate over capitalism* (White) 1:40
- NOVAK, Michael. *Will it liberate? Liberation theology and the liberal society* (Williams) 2:79-80
- O'DRISCOLL, Gerald P. and Rizzo, Mario J. *The economics of time and ignorance* (Ebeling) 1:39-40
- RIZZO, Mario J. (co-author) *See* O'Driscoll
- SENNHOLZ, Hans F. *The politics of unemployment* (Chamberlain) 12:481-482
- SOWELL, Thomas. *A conflict of visions: ideological origins of political struggle* (Stewart) 7:279-280
- WALWORTH, Arthur. *Wilson and his peacemakers: American diplomacy at the Paris Peace Conference, 1919* (Chamberlain) 3:116-117
- YOUNG, S. David. *The rule of experts: occupational licensing in America* (Rogers) 11:440