

THE FREEMAN

IDEAS ON LIBERTY

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JANUARY
1989
VOL. 39
NO. 1

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Published by

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

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The Freeman is the monthly publication of The Foundation for Economic Education, Inc., Irvington-on-Hudson, NY 10533 (914) 591-7230. FEE, founded in 1946 by Leonard E. Read, is a nonpolitical educational champion of private property, the free market, and limited government. FEE is classified as a 26 USC 501 (c) (3) tax-exempt organization. Other officers of FEE's Board of Trustees are: Thomas C. Stevens, chairman; Ridgway K. Foley, Jr., vice-chairman; Paul L. Poirot, secretary; H.F. Langenberg, treasurer.

The costs of Foundation projects and services are met through donations. Donations are invited in any amount. Subscriptions to *The Freeman* are available to any interested person in the United States for the asking. Additional single copies \$1.00; 10 or more, 50 cents each. For foreign delivery, a donation of \$15.00 a year is required to cover direct mailing costs.

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Bound volumes of *The Freeman* are available from The Foundation for calendar years 1969 to date. Earlier volumes as well as current issues are available on microfilm from University Microfilms, 300 North Zeeb Road, Ann Arbor, MI 48106.

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.

PERSPECTIVE

The Socialist Elite

A number of years ago, when I was president of the Bozeman Symphony Society, a local citizen, who was a musician and music teacher in the local school system, came to interview me at my office, apparently believing that I was a person of some influence in the community. He wanted my help in obtaining a government grant to construct a performing arts center in Bozeman with a seating capacity of two to three thousand people. We already had a 400-seat auditorium in the Music Department of Montana State University, and our symphony concerts rarely attracted more than 600 people, as is still the case, and they were given in a local movie theater. This gentleman insisted that we needed a large center, so that we could stage operas, popular plays, and other extravaganzas which would be sure to attract many more people.

I asked him if he thought he had the right to extract, by force, tax money from other people in order to build a pet project, which would benefit a few music and theater lovers in the area. He replied, "How else can it be done?" I said that he should seek enough donations from interested citizens to finance such a project, just as had been done with our football field at Montana State University, paid for entirely by donations. "Oh," he said, "There just aren't enough music lovers around to pay for such a project, not nearly so many as there are sports lovers." I replied that if there were not enough music lovers to pay for a performing arts center, then the community certainly didn't deserve one, especially one paid for by the government through taxes. The gentleman left my office in a very disgruntled mood. I never saw him again.

This little story embodies what worries and frightens me the most about socialism. The dedicated socialist honestly believes that he and others of his persuasion are the elite who are intellectually superior to all the rest of us and who can spend our money more wisely than we can. Not only that, but they have been successful for many years in persuading a majority of

the electorate that they are right. Most people just don't realize that socialism is the same old tyranny mankind has experienced for thousands of years, with a few modern trappings to lure the unwary.

—ALAN IDDLES, M.D.
Bozeman, Montana

Pure Socialism

Pure socialism, as detailed by Marx, entails separate answers to the questions of production and consumption. The link between production and consumption in bourgeois society, namely that successful production gives one the means for successful consumption, is to be abolished under the pure socialist regime. Instead of trading one's productive output for one's consumption, production is forced and consumption is free. No trade is necessary, for production is guaranteed by the coercive powers of the state (and later is voluntarily performed by selfless men in a utopia) and consumption becomes a basic human right.

Of course, pure socialism is so far from consonance with human nature that it has never been tried. There never has been a regime that has totally abolished exchange and money, as prescribed by Marx. Free consumption simply creates shortages of scarce goods; forced production creates resentment, but not goods and services of quality. The variants of socialism that do exist—while impure—partake of the ideas of forced production and free consumption, which is why they invariably fail. Today, socialist regimes everywhere are coming to realize this, and they are injecting incentives—links between successful production and successful consumption—into their otherwise rigid economies. This is a move in the right direction.

—JOSEPH S. FULDA

Black and White

During a discussion session at a recent FEE seminar, a participant remarked: "You see things only in black and white and the world sometimes operates in shades of gray. For example, it was with a government grant that I was able to earn the doctorate which ultimately benefited my family, my students, and me. So, there are instances where the transfer society can be justified."

My response: "Right and wrong can be viewed only in terms of black and white; there are never any grays. If you had held a gun to my head in order to coerce me into paying for your education, you surely would have recognized the immoral nature of your conduct. If you had combined with others to accomplish the same end, you still could not have legitimated your act. Your use of the political process to achieve your purpose did not convert your wrongful act into a rightful one. You simply used a more effective means to plunder what belonged to me. But whether stealing is committed individually, collectively, or through the political process, and despite any resulting benefits, it remains morally repugnant.

"Your doctorate may be considered valuable by your family, your students, and you. But had my money not been taken from me, I could have used it to earn my doctorate. Alternatively, I could have donated it to a worthy cause which might have used it to discover a cure for cancer. Some would argue that these results would have been more beneficial than your degree. Actually, it is impossible to measure the true cost of providing your education because no one will ever know what would have come into existence had I, and millions of other victims, been left free to dispose of our money in the manner that we, rather than you and the politicians, chose fit."

Moral principles can never be compromised; they can only be abandoned.

—JACOB G. HORNBERGER

The Tucker Car: Did the Big Guys Do It In?

by Melvin D. Barger

At first, I thought it was astonishing that Preston Tucker and his fabled car from the 1940s should suddenly reclaim the public's attention, as a result of the new movie by Francis Ford Coppola.¹

Thinking it over, I decided that the Tucker car's second coming—if only on the screen—isn't so astonishing after all. Ever since Tucker's short-lived carmaking venture collapsed in late 1948, myths about him have circulated in the country. The myths have become part of a legend that strikes close to the opinions held by a lot of people. These myths are worth reviewing because they also touch economic fallacies which are part of the general folklore.

It should be said at the outset that the Tucker car was a poorly conceived venture that was doomed to fail from the start. Though Preston Tucker was a charming, persuasive person with novel ideas, he lacked many of the qualities which were needed for a successful entrepreneurial venture. Even had he possessed these qualities, however, he was entering a business which had become fiercely competitive and cost-efficient at every level. The U.S. automotive industry was already dominated by the Big Three in the late 1940s and would soon shake out established companies like Studebaker, Packard, and Hudson.

There was some concern about this situation by people who argued that it takes many producers to bring real competition. The truth, however, is that the Big Three reached their

positions because they performed most efficiently among the carmakers who still survived as the industry grew and matured. The Big-Three efficiency was not only in designing and engineering cars, but also in mass-producing, marketing, and servicing them. Any would-be contender in this tough market would have had to offer not only a great car at a competitive price, but also superb manufacturing and a sound dealer network with servicing arrangements. The outlook for success was so forbidding that no really new car company had grown up since Walter Chrysler revamped the Maxwell concern in the 1920s and then went on to acquire the formidable Dodge interests. The one newcomer who did achieve some success in the postwar car building industry was Henry J. Kaiser, who produced about 750,000 cars in his nine-year attempt to crack the market. Amazingly, however, it's Tucker and his 51 cars that have stayed in the public memory. Kaiser, an astute businessman with many successes to his credit, is largely forgotten.

Preston Tucker burst upon the scene in 1946 with astonishing announcements which promised a revolutionary new car. First called the Tucker Torpedo, it purportedly had been under testing and development fifteen years and sported amazing safety and performance features. It's hard to believe the response to this incredible announcement. As a pair of magazine writers recalled in 1982, thousands considered Tucker a genius, "an automotive David who would slay the monopolistic Goliaths of Detroit."²

For two years, Tucker's "Tin Goose," as it

Mr. Barger was a business writer associated with Libbey-Owens-Ford Company and one of its subsidiary firms for nearly 33 years.



COURTESY HENRY FORD MUSEUM, GREENFIELD VILLAGE

The Tucker Torpedo, complete with Cyclops center headlight and pop-out windshield. Only 51 Tucker cars were actually produced.

became known, seemed to fly fairly high. For his company headquarters, Tucker managed to obtain from the War Assets Administration a huge Chicago plant which Dodge had operated during World War II. Early success in selling stock and dealerships eventually brought in about \$26 million. Though the responsive public became restive over Tucker's failure to produce a car, he finally displayed one in a highly dramatized showing on July 19, 1947. Now called the Tucker "48," the display model captivated crowds with its aerodynamic design, rear-mounted engine, and such supposedly advanced safety features as a Cyclops center headlight which turned with the wheels and a windshield to pop out in an accident.

Though the display model also drew record crowds when Tucker took it on tour, it turned out that the vehicle had been hastily put together and actually had no reverse gear at the original showing. The suspension system had failed and

had been frantically rebuilt just before the show. Some of the body had been fabricated around a 1942 Oldsmobile body. The more serious problem was that Tucker apparently had no sound plan or even blueprints for getting the car into real production. The 51 Tucker cars actually produced were hand-built models fabricated at enormous cost. One example of Tucker's profligate ways was revealed in his procurement of transmissions. Tucker obtained salvaged transmissions from the defunct Cord automobile, and then paid a shop owned by his family \$223,105 to rework 25 of them.³ With such weird practices, it's not surprising that by late 1948 the firm was all but bankrupt. By early 1949 it was all over, with less than \$70,000 remaining of the nearly \$26 million raised by Tucker from trusting shareholders and would-be dealers.

A number of publications, particularly *Collier's* magazine, reported on the failure,

leaving little doubt that the Tucker venture had been a business seduction of massive proportions. Tucker himself was exonerated of fraud charges, and it's possible that he had, indeed, fully intended to build and market his dream car. He was reportedly still determined to launch another automaking venture when he died of cancer in 1956 at age 53.

Long before Tucker's death, the myths were already circulating in Detroit. I'm sure I heard them from fellow workers when I worked on assembly in a Detroit engine plant in 1951 and 1952. We heard that Tucker had had such a phenomenal car that the Big Three automakers moved to block it. One of their alleged tactics was to bully their own suppliers into refusing to sell parts to Tucker. They also enlisted the government's help; and the Securities and Exchange Commission helped speed the Tucker car's demise by leaking information about the company. Another "villain"—as the new movie makes clear—was Homer Ferguson, a U.S. Senator from Michigan who had strong personal ties to the Big Three establishment.

As a student of free-market economics, I'm quick to concede that a government-backed business conspiracy can work to stifle a new venture. The involvement of Senator Ferguson and the SEC does muddy the waters in reviewing the Tucker collapse. In fact, however, Tucker needed no help in destroying his company. The government, if anything, bent the rules in Tucker's favor when it awarded him the plant in Chicago on very generous terms. As for Senator Ferguson, his more probable concern was not that Tucker would succeed, but that he was headed for a massive failure which would wipe out shareholders' investments. The SEC did not doom Tucker, nor did it really carry out its role of protecting investors.

Did the Big Three Shut Out Tucker?

What about the role of the Big Three automakers? Their supposed opposition to Tucker is inferred as a result of a common fallacy about big business concerns. There is a widely held belief that any large business or several "oligopolists" can easily shut out an upstart com-

petitor, either with predatory pricing or some other tactic. The way this story goes, the dominant business simply applies such pressures when a new company appears, and then goes back to its usual exploitative practices after the would-be contender expires. This is a fallacious argument that is often used to explain failure. It can be easily disproved by tracking the number of times newcomers have dislodged established firms. It still survives, however, and it contributed to the Tucker myth.

I find it hard to believe that any top manager of a Big Three company actually gave more than a few minutes' thought to the Tucker venture, let alone conspired to destroy him. While Detroit's auto executives would have been curious about any new car, they would have been quick to see that the Tucker program was likely to unravel by itself. They were also in the midst of an extraordinary sellers' market in the late 1940s and had little apprehension that a new competitor might sweep the industry. Nor was there need to fear that failure to bring out a glitzy new body design would cause loss of market share. Though some of them may have admired Tucker's body design, all of them had new aerodynamic models in progress and planned for early introduction. Studebaker and Hudson, in fact, did beat the Big Three to the market with aerodynamic designs, and yet this did not help them survive in the long run.

Even if Tucker had offered a truly revolutionary car, it's doubtful that Detroit's managers would have panicked about possible "losses of billions" in the future, as the Coppola movie suggests. The Big Three automakers already knew how to design "dream" cars, as both GM and Chrysler did just before World War II.⁴ Their concern was not the design of such cars, but the cost constraints of getting them into production. Again, there is far more required for automotive success than just having a great car. Any top executive of GM or Ford, in looking over the Tucker car, would have immediately questioned whether it could be put into production to support the low sales price Tucker had promised. There would have been questions about its likelihood of giving trouble-free performance and whether the car really delivered the excellent gas mileage promised. And it would have raised some eyebrows if it had been

known that Tucker had sneaked reworked Cord transmissions into the car rather than designing his own.

There is also scant reason to believe, as some do, that the Detroit automakers bullied their suppliers into refusing to sell parts to Tucker. I had personal knowledge of this as a result of being associated with Libbey-Owens-Ford for 14 years. I learned that Libbey-Owens-Ford had fabricated Tucker's pop-out windshield at a time when LOF supplied 100 percent of General Motors' automotive glass. Had Tucker gone into production, LOF would have continued as his supplier, just as it also supplied glass to other auto and truck manufacturers. (Ford Motor Company had its own glass plants.) Moreover, sales managers are adamant in denying that any carmaker would prevent a supplier from selling to other companies. Rather than making suppliers totally dependent on them, carmakers are more interested in having vendors who are soundly financed and are likely to have a number of customers in order to survive the times when auto production is cut back.

It is possible, of course, that in 1948 some suppliers would have been more attentive to Big Three customers than to Tucker. The persistent fear at supplier firms is that a customer may not be able to pay the bills. In view of disturbing rumors that were already circulating about Tucker Corporation in early 1948, any prospective suppliers would have been skittish about selling to the company except on a c.o.d. basis. Tucker, however, never reached the point of ordering production parts in volume. He was never strongly in the market for the parts that supposedly had been denied to him.

The most likely Big Three response to Tucker is that the top auto managers noted his company and quickly dismissed it as a speculative venture that would not survive. The duty of following Tucker and reporting on his progress would have been assigned to the market-research person who tracked competitors' activities. Far from conspiring to destroy Tucker, the Big Three executives were more concerned about competing with each other for the long run.

Another reason given for the Tucker failure is that the SEC leaked damaging information

which had the effect of stifling sales of Tucker stock and dealerships. As a result, Tucker fell far short of raising the total amount that would have been needed to get into production. While nobody knows an exact figure for this, \$100 million is probably a fair estimate. This was four times the amount Tucker actually raised.

The Market Responds

Whatever the effect SEC leaks might have had on Tucker's venture, his failure to raise more capital can be easily explained by the ordinary behavior of the investment market. The surprising thing is not that Tucker failed to finance his venture. What's really surprising is that he found investors and dealers who were gullible enough to risk \$26 million with him. With or without the SEC, the stock market has an intelligence of its own and puts values on shares after they have been sold. Though Tucker was able to milk thousands of small, trusting investors, he was not likely to tap into shrewder ones who realized how speculative his entire venture had become. Price is the stock market's way of expressing opinion about company values, and in Tucker's case the share prices plummeted as facts began to surface, virtually foreclosing any hope of raising funds with new equity offerings.

Another myth is that Tucker did have a revolutionary car which foretold Detroit's future. Newspaper articles recently extolled some of the unusual features of the Tucker car: a pop-out windshield, a rear engine, a Cyclops light in the center which turned with the front wheels, a padded dash, and an aerodynamic body style. But were these really the way Detroit went in the future? No carmaker adopted the pop-out windshield, for example, and the Libbey-Owens-Ford engineers who supplied it to Tucker thought it was a bad idea. Few carmakers have adopted a rear engine; and the front-wheel drive has helped eliminate the long drive train. The Cyclops light is a gimmicky idea that intrigues onlookers, but apparently hasn't been considered an automotive selling point. Credit Tucker with the padded dash and the leap into aerodynamic design, but neither was beyond Detroit's capabilities.

A final feature of the Tucker myth was the

David vs. Goliath aspect, always a subject for popular appeal. At the end of the Coppola movie, for example, Tucker is deploring the fact that there's no place for the little guy in the automotive business. This is in line with the frequently expressed idea that nobody can get rich anymore. We heard that in 1948, just as we occasionally hear it 40 years later. Anybody can disprove it, however, by getting the latest copy of the *Forbes 400* wealthiest people and noting how many current multimillionaires were penniless or had not even been born back in 1948. There have been numerous opportunities which were spotted by people like Ross Perot, Sam Walton, or Steven Jobs.

Tucker's point was that the little guy could no longer enter the carmaking business. My point is the same, with the added proviso that carmaking is so competitive and risky, and the capital requirements are so high, that it also excludes "big guys." If there are to be new entrepreneurial ventures in carmaking, they will logically be carried out by well-financed companies who already have expertise in heavy manufacturing. You might think, for example, that a firm like Deere & Company would use its experience as a tractor builder to move into passenger cars. Such companies avoid car manufacturing as they would the plague, knowing that it would mean almost certain losses.

The automotive manufacturing business does, however, offer countless opportunities for people in related lines. If car building itself is a "big guy" business, the industry continues to provide excellent opportunities for hundreds of supplier firms. There have also been entrepreneurial firms who came up with new automotive tools and ideas. Add to that the companies which specialize in modifying and rebuilding stock cars for select markets.

Tucker himself, if he had possessed more self-understanding and business savvy, might have prospered as a custom car remodeler. He did have a love of cars and he had experience in the automotive field. In a way, the Tucker car itself was a customized remodeling of existing car concepts. Tucker's use of the Cord trans-

mission, for example, showed that he understood nifty innovations which somehow hadn't succeeded in the market. But one of Tucker's problems was in being carried away by a "dream" while ignoring the practical work needed to apply it for useful purposes. Mere possession of a dream does not excuse a person from exercising prudence in business relationships.

Though Tucker himself escaped conviction on fraud charges, it is fraudulent at this late date to blame his failures on the Big Three automakers. There are lots of sins we can lay at the door of GM, Ford, and Chrysler managements. They have sometimes been arrogant and complacent; they have occasionally misjudged their markets; they have been sluggish in coping with the new worldwide competition. Their faults are typical of big companies: poor communications, slow response to change, and even bad habits growing out of too much success. Most of the time, however, market realities tend to correct such problems. And in criticizing the Big Three, we should never forget that they are the companies that were most influential in putting the nation and even the world on wheels.

Let us also be careful not to add Tucker's failure to any catalog of Big Three wrongs. There's simply no evidence that any Big Three company was more than an innocent bystander while the Tucker venture was running its erratic course. Tucker did himself in and lost money for lots of trusting shareholders and prospective dealers at the same time. And Tucker was never a victim of anybody or anything other than his own ineptitude. The Tucker Torpedo was a dud from the start, and Tucker was the triggerman with faulty aim. □

1. *Tucker—The Man and His Dream*, which opened in many American theaters in early August 1988.

2. Perry R. Duis and Glen E. Holt, "The Tale of the Tin Goose," *Chicago*, October 1982.

3. Lester Velie, "The Fantastic Story of the Tucker Car," *Collier's*, June 25, 1949.

4. See Alfred Sloan, *My Years With General Motors* (New York: Doubleday and Co., 1963). It carries a photo of the "dream car" designed by GM Styling and introduced in 1938 to test consumer reaction to advanced ideas.

Foreign Capital: Friend or Foe?

by William H. Peterson

Morning. You get ready for another workday. You hear the news on your Sony TV as you wash up with a bar of Dove soap. You put on your Brooks Brothers suit or an outfit from Bloomingdale's. Soon you drive to work in your Honda equipped with Bridgestone tires.

At work you call up a customer on a Northern Telecom phone system after consulting a spreadsheet on your Sharp terminal. For a mid-morning snack you nibble on some Keebler cookies, paying for it with cash from the First American Bank. On your lunch hour you buy a sweater at a Benetton store.

Sometimes these brand names have a nice American ring to them—Keebler, Bloomingdale's, Dove, for example. Other times the brands are recognized as distinctly foreign—say, Sony, Honda, Benetton.

But in every instance all these brands are not only foreign-owned, they all have substantial American operations. They reflect foreign capital invested here. Is that bad? Some people think so, and they mean to do something about it. That something is called protectionism.

Look at First American Bankshares, for example. It is a \$10 billion bank holding company with 5,700 employees in 280 branches in New York, Virginia, Maryland, Georgia, Florida, Tennessee, and the District of Columbia. Some critics note that, despite its name, First American's owners are not Americans but Arabs. The

company was purchased in 1982 with "petrodollars" by private investors in Kuwait, Abu Dhabi, and the United Arab Emirates.

Too, while all of the above brands are marketed extensively in America, critics say darkly, marketing control resides overseas. For instance, Benetton stores are Italian-owned and feature knitwear made in Italy.

To be sure, some of those brands are manufactured in America—i.e., they wear the label, "Made in the U.S.A." But manufacturing control lies elsewhere, say the critics. In their eyes the label is almost as deceiving as the pre-World War II label sported by some Japanese imports. Then "MADE IN USA" referred to a Japanese industrial city, Usa, whose letters neatly corresponded with the acronym for the United States of America.

Northern Telecom, to illustrate further, is a \$5 billion company with 15 manufacturing plants and five research facilities in the U.S., but its headquarters are in Canada. Dove soap is manufactured in a Baltimore factory owned by Unilever, a giant British-Dutch consumer-good conglomerate with such other brands as Pepsodent, Lifebuoy, and All. Your Sony TV was assembled in southern California, your Sharp terminal in Tennessee, your Honda in Ohio.

Americans, be wary of this development, of this internationalization of capital, caution the critics.

Of recent foreign ownership, too: Campeau, a Canadian retailer, just purchased Bloomingdale's; and not long ago Marks & Spencer, a British merchandiser, bought Brooks Brothers. Bridgestone of Japan took over Firestone Tire

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and Rubber for a stunning \$2.8 billion in 1987. So the critics vex Congress with the questions: "Where is the control? Who is in control?"

In addition, with the fall of the American dollar, Japanese and other investors have stepped up the purchase of many resort and other properties in Hawaii as well as office buildings and other real estate in large American cities such as Seattle, San Francisco, Los Angeles, Denver, Houston, Chicago, Atlanta, New York, Boston, and Washington, D.C.

What is more, by 1990, seven Japanese auto companies will have established American "transplants" to assemble cars in California, Illinois, Ohio, Michigan, Kentucky, and Tennessee, with a horde of Japanese auto parts and equipment producers following in their wake with American manufacturing facilities. By 1992, Detroit estimates that 1.5 million vehicles will be rolling off the assembly lines of these "transplants" each year.

"Invading America"

So, Americans, proclaim critics, hold out, stand fast against this "invasion" of America by foreign capital—by, what they really mean, the foreign owners of that capital. They look to Congress to pass laws impeding these "outsiders," who, as the critics see it, slowly but surely are taking over the American economy.

Typical of these critics are Martin and Susan Tolchin, authors of *Buying into America: How Foreign Money Is Changing the Face of Our Nation* (Times Books, 400 pp., \$19.95). Martin Tolchin is a correspondent with *The New York Times*; Susan Tolchin is a professor of public administration at George Washington University. Their persuasion is further revealed in the title of their previous book, *Dismantling America: The Rush to Deregulate*.

In their latest book, they tell us that, sure, foreign "takeovers" may be completely legal, but they are being accomplished "with the stealth and anonymity of illegal aliens." Accordingly the Tolchins ask the American people to stop, look, and listen.

Well, all right, listen to their arguments. Among these are:

Tolchin Argument No. 1: They complain,

among other things, that U.S. laws discriminate against American companies in favor of foreign investors. They cite the case of Citicorp's being shut out from buying a California bank, only to see it sold to a Tokyo bank.

Tolchin Argument No. 2: The authors wonder about the wisdom of states competing for foreign capital, putting up millions of dollars in tax abatements and other incentives. They ask: Don't those incentives amount to U.S. taxpayers' subsidizing foreign investments and acquisitions?

Tolchin Argument No. 3: The Tolchins also question whether some industries are so vital to our national security or industrial strength that the U.S. must maintain a controlling interest in them. They cite such fields as banking, transportation, communications, semiconductors, machine tools, and biotechnology.

Tolchin Argument No. 4: Again, with the Japanese, Canadians, British, Arabs, and other foreigners increasingly becoming holders of prime commercial and residential real estate, the Tolchins ask: Are we becoming a nation of tenants?

And Tolchin Argument No. 5: They also ask if it is really protectionist to demand a *quid pro quo* for foreign access to our markets by having our foreign trading partners end their restrictive practices on American trade and investments abroad. Reciprocity, they claim, is the name of the game: Foreigners, you open your markets, and we'll open ours.

Foreigners. Aliens. Outsiders. People of other lands, other cultures, other races, subject to other governments, increasingly taking charge of *our* economic affairs.

What we witness, I think, is xenophobia: that unreasoning fear of something or someone foreign—here in its latest form: capital xenophobia, the fear that many critics attach to foreign capital invested in America.

The xenophobes may concede—but not always—the urgency of capital as an indispensable tool in modern-day production, as a catalyst in creating jobs and industrial progress; but when that capital originates in other countries, as noted above, ugh! Disadvantages outweigh advantages.

But do they?

Let me try to answer those five Tolchin arguments one by one.

As to the first Tolchin argument on U.S. laws discriminating against interstate banking mergers and acquisitions in favor of foreign investors—yes, the Sherman Antitrust Act of 1890 and the Glass-Steagall Banking Reform Act of 1933 do inhibit bank expansion across state lines. The inhibition may be breaking down today, but it is still relatively easier for a foreign bank to buy an American bank than for an American bank to buy a bank in another state.

So what? This argument has nothing to do with foreign capital; it has to do with our competition-inhibiting antitrust and other laws. True enough, Citicorp was accordingly precluded from bidding for the California bank. So much the worse for competition—a perennial antitrust confusion, I submit, over size and numbers in relation to competition.

To illustrate: Britain has, essentially, but five commercial banks; the U.S. has some 13,500. But does this contrast mean banking is really any less competitive in Britain? Hardly, with the crucial factor of freedom of entry ever determining the vigor of competition. In any event, the blame for foreign bank investment favoritism here lies in Washington and not Tokyo or Zurich.

This line of rebuttal applies to the second Tolchin argument on state laws favoring foreign investors via tax abatements and other incentives. For again, the problem lies not with foreign capital, but with those states courting and subsidizing overseas investors at the expense of firms and all other taxpayers domiciled within.

Still, without defending them, I can see how they rationalize, how they subsidize new capital knowingly, how they perceive a trade-off. What they lose, these states reason, they more than gain through the acquisition of more jobs, greater development, higher realty values and other tax bases—so that, if they are right, ultimate tax revenues greater than immediate tax losses accrue.

The third Tolchin argument raises the flag of national security and industrial strength, citing certain industries and seeking American con-

trol. But the authors seem to get mixed up over control, location, and consumer sovereignty. Any entrepreneur, foreign or domestic, setting up business in the U.S. has to meet all local, state, and Federal laws, licenses, and other regulations, including local, state, and Federal taxes, with any tax forgiveness expiring in a matter of years. In brief, legal control, insofar as a foreign affiliate here is concerned, is entirely American.

Meeting Consumer Demand

Moreover, there is in a sense a larger control confronting the foreign entrepreneur and investor. He must still, *inescapably*, satisfy the consumer, must still meet competition from all comers, with the consumer having the final say, with the ultimate control coming through King and Queen Customer's life-and-death power to confer profits or impose losses.

Thus, for example, Japanese managerial mystique may be vaunted but not invincible. As pointed out by *The Wall Street Journal* of June 23, 1988, for example, one decade after its celebrated takeover of an American firm, Sanyo Electric has seen its payroll in its Forrest City, Arkansas, plant slump from 2,000 to 350, its three dozen or so Japanese executives becoming but ten, its nine TV assembly lines slimming down to two, as it shifts production to Mexican plants. Productivity and quality have simply not been forthcoming. Sanyo has apparently run into serious union and other communications problems.

All of which has been swiftly telegraphed to Sanyo by the American consumer, the final controller.

Even so, the transcendence of consumer control over so-called foreign control should not blind us to the fact that overseas investments here can have benefits beyond that of additional capital. Take, for instance, New United Motor Manufacturing Inc., NUMMI, the successful six-year-old joint venture of General Motors and Toyota, in Fremont, California. Toyota sought low-cost entry into the U.S. auto market; GM sought new technological and managerial skills. The marriage worked, and the sovereign consumer is the beneficiary.

What of the fourth argument of the Tolchins as seen in their plaintive if not disingenuous query: Are we becoming a nation of tenants? The query seems odd in light of the fact that most Americans—practically two out of every

“When goods—and capital—can’t cross frontiers, armies will.”

three—own their homes. Yet practically every firm in the *Fortune* 1,000 is a commercial tenant in one degree or another.

So I ask: Landlord or tenant, to own or to rent, what’s the better option? It all depends, let me respond, on the firm or the individual—his age, income, credit rating, etc.—and on the general situation, including location availability, the height of mortgage interest rates, and so on.

In any event, landlords, foreign or domestic, are hardly privileged. They must compete. They can face onerous property taxes, bewildering zoning restrictions, confiscatory laws. Some landlords, for example, face local rent control laws stretching from New York City to Los Angeles, although I concede the foreign realty investor usually, and most understandably, avoids rent-controlled properties.

And from the viewpoint of the American tenant, commercial or residential, does it follow that his foreign landlord is any less competitive or any less concerned for tenant welfare than his domestic counterpart? The Tolchin query, in short, does not appear germane. Again, it reflects xenophobia.

The fifth Tolchin argument on reciprocity also does not seem overly germane. For all too often such reciprocity becomes a cloak for continuing a policy of protectionism. To reiterate: Says Congress, bolstered by a host of protection-minded industries, unions, and other lobbyists, to foreign investors, “If you don’t open your market for our wares and investments, we’ll not open ours.”

But who’s hurting whom? On whose side is Congress? What of those Americans who wish to sell—and of their constitutional right to sell—their property, shares, firm, patent, in-

vention, and so forth to foreign investors? What of American consumers who benefit, inexorably, from such general optimization of capital investment?

I contend that protectionism betrays more than xenophobia, that, whatever its form—tariffs, quotas, licenses, embargoes, exchange controls—it reflects a hidden agenda of:

- constricting consumer choice,
- infringing on constitutional rights of life, liberty, and property,
- jacking up domestic prices,
- suppressing competition,
- rejecting foreign technology,
- excluding foreign management skills,
- setting back job creation,
- restraining economic growth,
- impeding peaceful international cooperation, and
- rebuffing constructive people-to-people division of labor.

All of which would otherwise flow from freedom of trade and investment.

True, ideally, free trade and investment ought to be worldwide. But we don’t live in an ideal world. We, critics included, should face up to the fact that imports finance exports, that protectionism breeds protectionism, that economic retaliation can even breed military reaction.

In this light, the massive Smoot-Hawley Tariff of 1930 went beyond, quite conceivably, triggering and exacerbating the Great Depression; it contributed to the frictions ultimately helping to ignite World War II.

To paraphrase nineteenth-century French economist Frederic Bastiat: When goods—and capital—can’t cross frontiers, armies will. Unilateral free trade and investment are still better than no free trade and investment.

Besides, the Tolchins and other critics of foreign investment in America are late in the game. For, not so long ago Americans were being warned that our uncaring multinational companies were heartlessly shifting, production and jobs to foreign low-wage lands.

Indeed, in 1964 French journalist Jean-Jacques Servan-Schreiber made an international splash with his own xenophobic book, *The American Challenge*, describing in dire terms

how IBM, General Motors, Ford, Exxon, General Electric, Dow, DuPont, Kodak, Coca Cola, and others were taking over the world economy. Now the shoe of challenge, it seems, is on the other foot—ours.

But instead of deploring foreign capital and threatening to shunt it aside, we should welcome it with open arms. The accompanying table shows wholesome trends: Three million Americans—that number up by almost half since just 1980—are working for better than 10,000 foreign affiliates on our shores, with the number of such affiliates also growing by almost half in the same period.

FOREIGN INVESTMENT IN U.S.

	1980	1987 (Est.)	% Change 1980–87
Number of foreign company affiliates	6,822	10,143	48.7
Gross value of plant and equipment (billions, current dollars)	\$127.8	\$349.2	173.2
Employees (millions)	2.034	3.017	48.3

Source: U.S. Commerce Dept., *Washington Post*

So to the critics of foreign capital, I say that capital whatever its source, is our friend, not our foe. By boosting productivity, capital greatly helps meet human needs. It represents, in the broadest sense, savings turned into vital tools.

These tools of production are inevitably risky, ever subject to the vagaries of technology, politics, demographics, popular taste, caprices of history, acts of nature such as earthquakes, and so on. And, like everybody else, we Americans need all the tools, all the capital, we can get.

That capital is not free. It is not permanent. It flows out as well as in. It must be nurtured. It is inherently sensitive, timid, ever tentative, ever ambivalent in that it is at once risk-tolerant and risk-averse. It can be sullied and bullied, yes, but not for long. It will flee to safer climes, as witness capital flight for decades from much of Latin America, from much of Africa, Asia, and the rest of the world.

That flight accounts, in part, for the greatness, the integrity of tiny Switzerland, home of secret bank accounts, haven for politically hounded “hot money,” guardian of, for example, Jewish capital spirited out of Hitler’s Germany.

Virtue has its rewards: The high-saving, capital-rich, free-enterprise, historically neutral Swiss, in terms of per capita income, are the richest people in the world. (The Swiss, incidentally, celebrate their 700th anniversary as a democratic republic in 1991.) Capital and an amazing culture have bestowed peace and prosperity on the Swiss for centuries.

Too, capital is in a sense nationless, nervous, suspicious, mobile—ever ready, if need be, to move. It stays as long as it is treated with reasonable security and respect, as long as it earns a competitive yield. Indeed, yield, productivity, gain, is its *raison d’être*—gain for both the investor and the consumer. The rule is . . .

Capital ever seeks the greatest yield consistent with the least risk.

What of Our Future?

Lucky for generations of Americans, the United States has long been a magnet for foreign capital, as it has been for immigrants from all over the world. We are a country of immigrant people and immigrant capital. The question is: Will we continue to be? (The new immigration law should give us pause.) Or, will critics continue to harp on capital’s ethnic or overseas origins and eventually kill this golden goose?

Consider. From colonial times to the present hour, investors in other lands—in Canada, Latin America, Britain, France, Germany, Italy, the Netherlands, Belgium, Spain, Switzerland, Scandinavia, Eastern Europe, and, more recently, Japan, other Pacific Basin countries, and here and there in the rest of the world—have bet on America, have risked their savings here, have spurred job creation here, have helped America grow and Americans prosper. As a 1930s pop song put it: “Who could ask for anything more?” □

Letter to the Commission

by Robert Hellam

Editors' Note: *The following letter was sent to the Chairman of the Economic Development Commission of Seaside, California. The Commission was formed as an advisory body, composed of unpaid volunteer citizens appointed by the City Council, to represent the views of the public and the Council to the Economic Development Department of the City of Seaside.*

June 20, 1988

Dear Tom:

This is not a letter of resignation. There is no need for me to resign: my term on the Commission expires June 30, and, although I am pleased that you have asked me to stay on, I have chosen not to seek reappointment. I suppose you could call this a letter of expiration, then; but I prefer to say a letter of explanation, and I hope you will share this with the other commissioners and staff.

I welcome what I see as a more active (I do not say "pro-active") Commission, ready to assert its rightful role, but I believe I have served long enough. I have been on the Commission for two and a half years, and have expressed my views as forcefully as I could whenever the moment was right and I could get a word in. (The minutes often have not reflected my comments, for reasons we have discussed.) Sometimes my words have met with a hostile reaction, sometimes with mild impatience, sometimes with amused tolerance. Often, they have been dismissed as "mere" philosophy.

Mr. Hellam is a long-time resident of Seaside, California, and a free-lance writer.

There is no such thing as "mere" philosophy, in my opinion. The axioms that we carry with us to any enterprise will color everything that we do. Just as a married couple who do not view divorce as one of their options is more likely to stay together, so a city government that does not see confiscation of private property as a proper activity is less likely to violate the rights of its citizens.

Rights are possessed by the people, and only by the people as individual flesh-and-blood human beings. Collective rights are a myth. Rights inhere in the people from birth, granted by God, not by government. Government has no rights at all, only specific, limited, enumerated powers granted to it by the people. Our ancestors thought that these were self-evident truths.

Since the only proper role of government is to protect the sovereign people's rights to life, liberty, and property, it follows that any government that takes away those rights without due process of law is destructive of the very ends it was established to achieve. The phrase "due process of law" has become twisted in many cases into an excuse to justify whatever a governmental body wants to do, and today "due process" is often regarded as meaning no more than providing advance notice of whatever adverse action the legally constituted authorities want to take. This makes the phrase meaningless, and makes the Constitution a dead letter. What was once self-evident is now hardly evident at all.

The supremacy of the people must be respected, not only in words but in actions. The

City Council, composed of the people's elected representatives, is subject to the people. Boards and commissions, appointed by the people's representatives, are subject to the Council. City staff is supposed to be on the bottom of the power structure; unfortunately, in real life things seem to be turned around. Actions that affect the lives and livelihood of people are taken lightly, almost on whim. We must take government seriously, remembering that every government action is an act of force, funded by confiscated money and backed up by the threat of deprivation of life, liberty, or property.

City employees are people like the rest of us, with the same mixture of good and bad; however, anyone in a position of power must be watched carefully. We should not take it for granted that a city employee has the interests of the people at heart. Especially, an employee who does not even live in the city is likely to regard it only as the source of a paycheck, and moreover is not subject to the consequences of his own official acts. A high-ranking city official is probably more loyal to his career than to the particular city for which he is working at the moment. If you are an ambitious city planner, hoping to make a name for yourself and move on up to Fresno or San Jose or Stockton, your focus may well be on what makes you look good in the short term, not what is good for the city in the long term.

Conservatives and liberals alike often preach piously about the virtues of local government and local control, waxing poetic about how local governments are closest to the people and most responsive to those whom they were created to serve. However, that very closeness can be a danger. Government at best is a dangerous tool. At worst, you might see your home or business destroyed or taken away by the very government that was designed to protect it. Even in this day and age, the level of government most likely to do that is based not in Washington but in City Hall. As a Christian and a libertarian, I am concerned that real people, real live men and women, girls and boys, not be sacrificed on the altar of "The People" as a disembodied ideal.

"Economic development" is merely the lat-

est alias of the old "Progress," which had acquired a bad name and a suspicious odor. In a free society, property is owned individually, and each property owner has the right to decide what is the proper use for his land, limited only by concern for the similar rights of his near neighbors. When government, meant to be the people's servant, seeks to be their master, we begin to hear phrases like "economic blight," "underutilization," and "highest and best use of the land." Obviously, these all involve subjective judgments; and to say that someone at City Hall has better judgment than thousands of property owners is to set a dangerous precedent. If you concede that government has authority to take property from any single person to benefit another person or business, or simply to fulfill some almighty plan, then you have given away your own rights.

We need to be a little less vulnerable to the appeal of catch-phrases, not only those listed above, but others as well. "Increasing the tax base" is often repeated as a sort of mantra, but when we listen critically, we ask questions: will "increasing the tax base" lower the tax burden on the people, or will it really facilitate higher spending, higher salaries, and more power for the city establishment? Some say that this area has a shortage of housing; but when we say that we do not want to be "just a bedroom community," do we mean that we want to start eliminating bedrooms in favor of board rooms? The people who sleep in those bedrooms are the city.

The city is not City Hall, not buildings and streets and lines on a map, but people. A city is not like a machine, but like an organism. It will grow, if left alone; it may grow better, with proper care. Radical interventions will probably be counterproductive. I grew up here. I loved Seaside as it was, and I love Seaside as it is. We must be sure that we are serving the real people of the real Seaside, not the ideal population of some professional planner's dream city. Otherwise, we may finish by destroying Seaside in our attempts to help it.

With my best wishes,
Robert Hellam

Against the Creation of Wealth: The Threatening Tide

by Arthur Shenfield

In American memory President Coolidge is, to put it mildly, hardly an object of pride or admiration, still less of veneration. He is often derided for having supposedly declared, "The business of America is business." Though they have not descended to the use of the term, some of his detractors have implied that in him the unfortunate American people had a Yahoo in the White House. In fact what he said was the following:

After all, the chief business of the American people is business. They are profoundly concerned with producing, buying, selling, investing and prospering in the world. I am strongly of the opinion that the great majority of people will always find these are moving impulses of our life. . . . Wealth is the product of industry, ambition, character and untiring effort. In all experience, the accumulation of wealth means the multiplication of schools, the increase of knowledge, the dissemination of intelligence, the encouragement of science, the broadening of outlook, the expansion of liberties, the widening of culture. Of course, the accumulation of wealth cannot be justified as the chief end of existence. But we are compelled to recognize

it as a means to well-nigh every desirable achievement. So long as wealth is made the means and not the end, we need not greatly fear it. (Calvin Coolidge, *Foundations of the Republic*, 1926)

A more unexceptionable statement would be difficult to conceive. It merits perhaps only one improvement or extension. That the accumulation of wealth, within the American framework of liberty under law, produces the expansion of liberties, is true and important. But even more important is the fact that both the creation and the accumulation of wealth are, in their optimum forms, rooted in the liberty in which Americans claim that their nation was conceived. If Coolidge was any kind of Yahoo, then so too must John Wesley have been when he said to his followers, "Gain all you can. Save all you can. Give all you can." And as Irving Kristol has happily said, his half of the Judaeo-Christian tradition has never held it to be sinful to be rich. Nor, on its best construction and contrary to not a few counterindications, has the Christian half.

Perhaps the causal link between liberty and the creation of wealth was rarely fully understood by more than a minority of Americans. Nevertheless, from before the birth of the American Republic to Coolidge's time, the great majority did apprehend its existence and character in broad terms; and a well-instructed

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Calvin Coolidge
(1872-1933)

minority understood it fully and accurately. Now, by contrast, of all the siren voices which assail the American ear, perhaps the most insistent are those which urge the erection of impediments to certain liberties, new and distinct from former familiar impediments, such as import duties and the paraphernalia of regulatory commissions. By immediate effect these new impediments to liberty thwart the creation of wealth, just at a time when a sizeable and growing number of Americans, though as yet far from a majority, have perceived the evils of protective tariffs and industrial regulation.

The sound of some of these siren voices is rising to a crescendo, and their persuasiveness among the general public grows apace. Consider the animus which has thus been developed against the corporate takeover bidder. In public discussion it has become almost routine to picture him as a modern economic ogre. "Corporate raider," "business predator," and other even less complimentary appellations set the tone of debate. Hence legislators in 29 states have been moved to pass measures to block his path. Even so intelligent an observer as Irving Kristol, whom I have quoted with approbation above, has succumbed sufficiently to this agi-

tation as to propose to limit company voting rights to shareholders who have held their shares for at least a year. The implication is that the "predator's" wiles succeed mainly by the enticement of shareholders who are interested in quick in-and-out gains, not in the long-term progress of their companies.

Nowadays with the spectacle before our eyes of the manifest failures of other economic systems (including various forms of mixed economy, as well as those of central planning), it has become less and less plausible to impugn the superiority of the free enterprise system as a creator of wealth, though of course many continue to turn their faces against it on other grounds.

Free Markets

The free enterprise system is a system of free markets. Of all its markets, that which more than any other bears upon its efficiency as a wealth creator is the market in corporate control. Long ago, blinkered observers of the corporate scene noted that the owners (i.e., the shareholders) of the modern, large (or even not so large) corporation could have little or no direct control over the directors or managers, and so concluded that corporate democracy had to be a fiction. Hence, they thought, modern boards of directors had largely become self-perpetuating oligarchies. Their interest, not those of the shareholders, it seemed, determined the governance of the companies.

These observers failed to note that the market in corporate control enabled the baton to be passed to the shareholders. Even if they perceived this, they failed to see that it was not the actual event which was decisive, but the standing threat or possibility of it. It is this market which principally sees to it that managements must beware of elevating their own interests above those of their legal masters, or of falling into ways, of whatever kind, which produce less wealth than the assets under their control might produce.

But why should shareholders' interests accord with optimum production of wealth? Are not shareholders often fickle, or conversely, gripped by mindless inertia, in their attachment to their companies? Do they not generally know

little or care little about the business of their companies? Doubtless they have, as owners, the right to sit in judgment over the directors of their companies, but is it not ludicrous to envisage them as intelligent or informed judges of the directors' performance? All this may be true (though it must be subject to at least partial qualification in the case of pension fund, mutual fund, and other institutional shareholders). However, true or false, it has little bearing on the matter before us.

Performance vs. Expectations

What counts is the difference between the performance of the existing management and the expectations of the "predator." Hence, *prima facie*, if the "predator" is able to offer the shareholders a buy-out price above the current stock market price of their holdings, and to expect a profit for himself, it must follow that at least he, putting his money where his mouth is, and therefore acting with at least some circumspection, has confidence that the management's performance can be bettered. However, this may be too simple a view, and so we must examine the contentions of those who criticize takeover activity.

First, it is loudly asserted that the typical "predator" has a short-term perspective; that he is primarily interested in a fast getaway with short-term gains, often by dismemberment of his "victim" companies and a sell-off of their parts. But why is a short-term perspective necessarily bad and a long-term perspective necessarily good? If a company is irrevocably heading for bankruptcy, a very short-term perspective may be right. On the other hand, if a company's perspective is such that a particular investment in research and development is unlikely to recover its costs in less than a century, then the long-term view is almost certainly wrong. The correct view will be somewhere in a range of perspectives. It will be determined by the expected pay-off of an investment, discounted by the rate of interest over the period of expectation, long or short. In principle a relatively long-term perspective has no special sanctity over a short-term perspective.

But is it not true that the typical "predator" often dismembers companies, selling off parts

of them soon after his takeovers? Does it not therefore seem to be true that his perspective tends to be undesirably short-term? For may it not be true that the value of a company may be greater than the sum of the market values of its parts?

In the first place, it is not true that dismemberment is an automatic or prevailing practice of the "predatory" process. Certainly it often happens, but that is because companies which are the object of "predatory" attention are often less successful than they might be precisely because they have parts which they would do well to get rid of. Indeed efficient managers often divest their companies of parts of their assets even though there is no threat or likelihood of a takeover bid. Thus in such cases divestiture, with or without the promptings of a "predator," is a necessary step toward optimum wealth production.

Furthermore, the purchasers of dismembered parts must believe that their productive potential exceeds in value the prices to be paid for them. Thus on both sides the process of dismemberment can reasonably be expected to raise, not depress, the wealth-creating capacity of the economy. If, however, it is true that the value of a particular company is greater than the sum of the market values of its parts, only an inexperienced "predator" would proceed with dismemberment, and inexperienced "predators" are not long survivors. For in such a case the predator would find that the market value of the retained core of the company would fall. Then the result of dismemberment would be a net loss, not a quick gain.

But in any case is it true that the typical "predator" is predisposed to seek quick, short-term gains, whether by dismemberment or otherwise? This is one of those myths which easily gain popular credence, especially where the impugned characters are held up to public obloquy by those considered to be more respectable than they. In this type of case the respectable characters are supposed to be the businessmen in established charge of substantial companies, who are affronted by the pretensions of the "predators." Often they are regarded as the pillars of the business community, while the "predators" are new men, to whom the epithet "smart" is applied in a pejorative sense.

In fact, studies of takeover cases have shown that takeover bidders are as much committed to rationally long-term purposes as other businessmen. They would be fools if they were not. For fast getaways with short-term gains would not be the end of the bidding game. The gains would have to be invested somewhere, which would inevitably bring longer-term considerations into play. If the companies taken over were, or could be made into, good ones, why should the gains be invested elsewhere? Why not in the companies themselves? Thus if nurturing and developing the companies were likely to be profitable, the “predators” would be likely to perceive this as readily as the ousted managers themselves.

Secondly, it is often maintained that the “predator’s” buy-out price, which exceeds the current stock market price, deceives the shareholders into acceptance, because they do not realize that the stock market price temporarily underestimates the true value of their property. It does so, it is supposed, because stock market investors are likely to have shorter time perspectives than competent managers of sound companies may have. Thus competent managers may be ousted by the wiles of the “predators” against the true interests of the shareholders. Therefore, it is asserted, the shareholders should not fall headlong into the arms of the “predators.” They should wait. Then they would often find that the stock market price would rise above the “predator’s” apparently attractive offer, once stock market investors came to perceive the benefits of the managers’ longer-term plans.

It must be said that this is a travesty of the stock market’s performance. We need not go so far as the “efficient market” theorists, who hold that the market always takes account of all knowable factors bearing on prices, to recognize that awareness of future possibilities indeed plays a role in the market’s prices. That is partly why some stocks sell at ten times earnings, others at fifteen times, and yet others at twenty times. The “predator’s” perception of these factors is more optimistic than the current perception of other market operators, but his feel for these things is likely to be well-honed by practice and experience. If it is not, he will not for long be a “predator.”

Thirdly, the “predator’s” plans may be repellent to many good citizens because, with his innovations and possible dismemberments, he may upset the attachment to local interests which existing managements may have developed and fostered. The ABC company may have become the long-established pride of Pleasantville, and the financier of many good works for its citizens. What the “predator” may do imports at least a risk that this will change for the worse. The company’s attachment to “social responsibility” may even be confidentially pinpointed by the “predator” as one of the causes of its sub-optimal economic performance.

Closing and Moving Plants and Factories

This problem is particularly evident in the widespread animus which has developed in recent years against the liberty of businessmen to close plants and factories, or to move them from established locations to others within the U.S. or abroad.

As far as closing, as distinct from moving, plants is concerned, public discussion so far centers only on the question of mandatory notice periods to workers. In some cases, extended notice may do little harm to business, and so is often given voluntarily. In many more it would do harm by adversely affecting the behavior of workers, suppliers, and creditors. Hence mandatory notice periods would be a typical example of the diseconomies produced by ham-fisted governmental action.

Now suppose that a company decides to move a plant from the Snow Belt (or the Rust Belt part of it) to the Sun Belt. We may assume that it is expected to be more productive in its new location than in the old (perhaps because of lower wages, but perhaps for other reasons). It is obviously good for the Sun Belt. It is also good for the United States, for any move from a less productive to a more productive location must raise the average national productivity. The notion that it may be bad if its purpose is to pay lower wages than the Snow Belt rates is groundless. Not only will the move have an elevating effect on Sun Belt wages, but quite apart from the Sun Belt’s equitable right to such

industry as it can obtain, no valid national purpose can be served by using high-paid labor for work which can be done by less well-paid labor.

But what about about the effect of the move on the Snow Belt? Surprisingly, except in the short run, the Snow Belt also gains from the move. By the side of the now famous principle "There ain't no such thing as a free lunch," we should erect the principle "If you want more jobs and better jobs, you must destroy jobs." All economic history shows that the loss of jobs is a pre-condition for the elevation and increase of employment. For example, if New England had not long ago lost most of its textile jobs to the South, it would now be poorer, not richer, than it is. Indeed we can see this effect already in the Snow Belt (if not yet everywhere in the Rust Belt) which now has more and better jobs than it had before the southward move of jobs in recent years.

Suppose, however, that industry moves not from North to South, but from the U.S. to foreign countries, perhaps to gain the advantage of lower wage rates. The results are still on balance likely to be good for the U.S. and for the losing areas, North or South. There are four reasons:

1. Profits come home from the foreign location to the United States. Even if they are first reinvested abroad, they will still ultimately come home.
2. By moving abroad, American capital is able to produce cheaper goods for the American consumer, who thus has a surplus income to buy other home-produced goods or services and thereby to foster new American jobs.
3. Opportunities open abroad for well-paid managerial and supervisory jobs for Americans in the migrated plants.
4. The dollars paid for these cheaper American-produced imports ultimately come home to buy other American goods or services. As export industries cannot be protected against foreign competition, it follows that their jobs have a sounder economic foundation than that of protected industries.

Thus, on balance, the movement of industry abroad, when based on a realistic assessment of relative costs, benefits the United States. As for the losing areas, the net effect is likely, except in the short run, to be beneficial for the same reasons as it is for the Snow Belt in the case of movement to the Sun Belt.

The Concept of "Social Responsibility"

What about the effect on "social responsibility" to which I referred above? This is sometimes the most powerful motivator of public opinion against both the "predator" and the plant mover. We need not here analyze the concept of "social responsibility" at length. We need only state what full analysis establishes, that it is fundamentally misconceived. Businesses have no right, still less a duty, to espouse "social responsibility" except where, as may well happen, it coincides with and promotes the purposes of lawful and successful business itself. The business of business is business, just as the business of a surgeon is surgery, not other problems of his patients. Business has no expertise in the solution of social problems, except where, as stated above, it coincides with genuine business purposes. Worse still, having no expertise in the matter, it is unlikely to be skilled or successful in its pursuit. Only citizens, acting individually or in relevant groups, have a right or duty to be concerned with social problems; and this includes businessmen, but acting as citizens, not as businessmen.

The ideas and influences which seek to inhibit the takeover process and the freedom of businessmen to move their firms where they will, are sure to undermine the production of wealth and its impact on the admirable purposes outlined in the Coolidge speech with which this article opened. How deplorable it is that just when the American people are in some measure beginning to learn to grapple with older interests and influences inimical to wealth production, they are in growing numbers pursuing the will-o-the-wisps to which these new debilitating influences beckon them! □

The Dark Side of Modern Voluntarism

by Andrew E. Barniskis

Voluntary civic and charitable effort is an American tradition, and most of us have witnessed it at its best at some time in our lives. A young family's home will be damaged by fire, and within minutes people who have never met them come forth with donations of food, clothing, and furniture. A neighborhood will donate a weekend of voluntary labor to clean up and refurbish a local park or playground. We take such actions almost for granted.

But in recent years voluntarism has developed a dark side, which has also come to be taken for granted. Too often, volunteer effort is used by well-meaning people to demonstrate a false feasibility for their favorite charitable or civic undertaking, for the purpose of inducing government to take over the project. The economics demonstrated using privately donated funds and volunteer labor are then replaced by the economics of coercive taxation, and sometimes even conscripted citizen labor.

A municipality near where I live provides a useful example, if only because it's an example being repeated in hundreds of places across the country. Several years ago, a highly motivated young woman and a committee of her environmentally aware friends convinced their township officials to set up a voluntary recycling center on township property.

The township received the proceeds from sale of the recyclable materials, and benefited somewhat from the reduction of landfill space used. Meanwhile, the committee built a constituency of other voluntary recyclers, who would meet on Saturday mornings when residents

dropped off their cans, bottles, and newspapers.

In two years, the township took in about \$3,000 and saved perhaps a dozen truckloads' worth of landfill space. But this was accomplished thanks to countless hours of volunteer labor by workers at the recycling center, and by residents who took the time to sort, wash, and bundle their recyclable trash and transport it to the center on Saturday mornings at their own expense.

Eventually, one member of the volunteer recycling committee parlayed his new visibility in the community into election as a township supervisor. Soon, the energetic founder of the voluntary program was appointed by the township to the newly created position of Recycling Coordinator.

As a result of the "success" of the voluntary recycling program, it soon came about that one neighborhood in the township was chosen for a voluntary pilot program for curbside pickup of recyclables, and a year later—perhaps inevitably—the township supervisors, at the urging of the now quasi-official volunteer recycling committee, voted in an ordinance making curbside recycling mandatory for every resident in the township.

How different the new mandatory program is from the cheerful Saturday morning volunteer efforts! Anyone placing recyclable materials in their ordinary trash is now subject to a \$300 fine. "Scavengers," who used to drive around the streets in the early morning hours, using their own time and effort to gather recyclables from trash, are subject to a fine of \$300 for every property they visit. Recyclables now belong to the township, by law.

A frightening change of spirit surrounds the

new program. Thus far, it appears the township will collect far less for recyclables than it is paying a contractor for the service of picking them up, and the volume collected has been a negligible fraction of the amount of landfill space still being used. Nevertheless, the township is proclaiming the program a "success," while at the same time searching for scapegoats to blame for why it's not more successful. Residents are asked to turn in the license numbers of suspicious vehicles that might be "scavenging," and, in another perversion of voluntarism, there is talk of establishing "block captains" and using Neighborhood Watch groups to enforce the recycling law. People criticizing the program at public meetings have been subjected to vicious verbal abuse, including suggestions that they leave the country if they don't want to be part of a "civilized society."

The above is only one example of how voluntarism ceased being good when perverted by a collectivist mentality. There are others. In an-

other city, a group of volunteers found a way to build shelters for homeless people at a cost of \$40 each. Buoyed by their success, they approached the city with a plan to build more substantial shelters—but now at a cost of \$10,000 each, to be paid for by a public grant. It is unexplained why they expect their concept of public housing to be more successful than the scores of failures of public housing in the past—or why a target cost of \$40 per unit seemed appropriate while using their own funds, but grew to \$10,000 when other people's funds became available.

It has become a cliché for volunteer workers to decry the "Me Generation," but they fail to see that what they offer is something far worse. In the past, when asked who would undertake a volunteer effort, volunteers answered, "Me!" Today, their answer is, "You!"

Somehow, the so-called "Me Generation" seems less self-centered and arrogant—and certainly far less threatening to our freedom. □

Camping: Society in Miniature

by Eugene L. Gotz

My wife and I are inveterate campers. We enjoy the pleasures of traveling, outdoor living, and seeing the country at a relatively low cost.

Campgrounds fall into two major categories—those operated by the state or federal government and those privately owned. Essentially, they offer the same basic services—camping sites, toilet facilities, and water. In

addition, some campgrounds offer such services as electricity, laundries, stores, entertainment, and recreational facilities. Each campground, either state or private, offers a unique mix of facilities.

A campground, in a sense, is a miniature society. Campers generally are strangers, have a wide range of ages, and come from different backgrounds. They live within sight and sound of each other. They share basic necessities such as toilets, water, and other camp facilities. Perhaps even more so than in normal living, a fun-

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damental consideration of one's fellowmen is essential if the campground is to function in a satisfactory manner.

It is in this area that there is a primary difference between state and private campgrounds. In a private campground, reasonable behavior is generally observed. People know that if they present serious behavior problems to their neighbors and to the campground operator, the police will be called. And it is precisely this feature that attracts many people to a private campground—the prospect of enjoying camping without rowdiness, petty theft, and excessive drinking in the area. The private campground operator realizes that to make a profit he must run a tight ship. As in any business, he must satisfy the customer.

State campgrounds, on the other hand, can and often do have local scenes of behavior abhorrent to most people. Some campers, albeit a very few, regard it as their right to behave in any manner they choose. And if you unfortunately are their neighbor, why that's your problem. The staff of most state campgrounds generally make little effort to enforce any type of campground discipline. Complaints usually go unresolved and remain unanswered. The driving force to satisfy customers—the profit motive—is missing.

The maintenance of the physical plant of campgrounds is another area of vast differences. In private campgrounds toilets flush, hot water faucets produce hot water, and showers work. The facilities are reasonably clean and neat. The stores have adequate supplies. Unfortunately, in state campgrounds the same statements cannot be made across the board. Depending on the local area and the staff, the condition of the facilities ranges from excellent to awful.

There is a vast difference in grounds maintenance. Private campgrounds operators properly maintain the grounds and the landscape. Their campers respect the environs and generally refrain from littering and destroying the shrubbery. And, here again, in the state campgrounds the opposite is too often true, reflecting the general lack of camp discipline.

The daily fee for the state campgrounds ranges from \$6-\$10, for the private campgrounds from \$10-\$14. The private operator has



all the normal business expenses such as taxes, depreciation, wages, advertising, and so on. And he still must make a profit. The state campgrounds don't have to make a profit and have few of the normal business expenses. If the value received from the private campgrounds is measured against that from state campgrounds, it is surprising the state's fee is so high.

In the interests of fairness and even-handed reporting, I must point out all state campgrounds are not bad, nor are all private campgrounds good. Each campground must be evaluated in its own right. But, over the long haul and years of camping, my wife and I have found that private campgrounds offer by far the more pleasant experience.

The reasons for this are very basic. When an enterprise is not driven by the need to be profitable, it tends to become inefficient and unproductive. If management does not feel the need to compete, few attempts will be made to satisfy consumers. Clearly, the public would gain if the state and federal governments were to turn campground management over to private enterprise. □

Sailing the Competitive Seas

by William B. Conerly

I picked up my beer at the yacht club's bar, then went out on the deck to watch the last few boats come in. It had been a good day's sailing for us: we finished the race in the middle of the fleet, but we had a couple of new stories to tell. When John grabbed the chair next to me, I was all set to talk about the wind shift that had helped us at the end. John, though, had other interests.

"Tell me, Doctor, what are we going to do about these Japanese imports?" John asked.

I sail on the weekends; Monday through Friday I'm an economist for a local company. Even though I love economics, I didn't want to spend the whole cocktail hour talking about it.

"Did you do the race to Drake's Bay three years ago?" I asked. Without waiting for his answer I began my story.

"After we rounded the point and turned north, a light fog set in. It wasn't thick enough to be dangerous, but we couldn't see the other boats."

"I remember that one," John said. "I never did figure out where the wind was that day, but everyone else seemed to find it. I think I was third from last."

I continued: "After about two hours we happened to sail close enough to another boat to see her. It was Fred's boat, which is pretty competitive with ours. We sailed side by side, about a hundred yards apart, and she was pulling away from us."

"You should have been able to keep up with her," John said. "You've beaten her plenty of times."

"That's what we thought. So we started looking around and decided to ease the Cunningham a bit."

Racing a sailboat isn't as simple as letting the wind catch the sails and push it along. The sails are airfoils, like airplane wings, but with an added complication: being made of fabric, the curvature of the sails isn't fixed in place. We have thirteen separate controls that will change the sail's shape in one way or another. The Cunningham is one of those thirteen.

"It was hard to tell at first, but it seemed we were no longer losing to her. Al was on the helm, and he's always pretty good at steering in puffy conditions. He got on our case about not working the sheets in time with his course changes. We put two good fellows on the sheets—and we started to gain ground. We even got a little ahead of her."

John asked if we had kept our lead. We hadn't. After we got moving a bit faster, the other boat picked up speed. It took them twenty minutes to find the trick, and I don't know what they did; but just as we were feeling confident, they got their boat moving definitely faster than ours.

"Rob started to look up at the mainsail—you know how he's so quiet—and softly said, 'Maybe there's too much mast bend. Can we let off on the backstay a tad bit?' The mast looked fine to me, but on the rare occasions when Rob talks, we all listen. We eased the backstay a little, and then watched the speedometer. We picked up a tenth of a knot in no time, and started to gain on them."

"Sounds like a game of leapfrog," John remarked.

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LEADING INDICATOR/WILLIAM CONERLY

“It was. Pretty soon we couldn’t find any more gains out of sail trim. But watching Fred’s boat helped us spot a tired helmsman right away. I had been steering for 45 minutes when they pulled out on us. I felt fine, or thought I did, but when Murphy took the wheel he brought our speed right back up.”

“How did you finish the race?”

“First and second. Turns out we were the only two boats to have been in sight of anyone else for most of the race. We got the second, which is too bad, but that was one of our best finishes the whole summer.”

“It sounds to me like you have that other boat to thank for your good finish, even if they did beat you.”

“Exactly. The speedometer tells you how fast you are going, but it doesn’t tell you how fast you *could* be going, given the wind and waves. You need a competitor to tell you if you

have greater potential. It’s easy to think that you’re doing your best, but usually you aren’t.

“Besides,” I continued, “we were able to learn a trick from him. When the wind turned light and we were wallowing in the swells, we saw that he had vanged his boom down hard. We weren’t used to doing that, but we gave it a try and it helped.

“All the other crews thought they were doing their best, but they couldn’t see the other boats because of the fog. I know most of the other crews and they’re not lazy. It’s just hard to be fast when you’re out there by yourself.”

John finished his beer and stood up. “Well, Doctor, I’ve got to run. Thanks for the story. But I really would like to sit down sometime and talk with you about the danger of foreign competition.”

“I thought that’s what we were talking about,” I replied. □

Freedom, Coercion, and Family Size

by David C. Huff

The freedom of a husband and wife to bear as many children as they wish is an implicit aspect of the principles of liberty upon which our nation was founded. America's early citizens and statesmen clearly understood the many social and economic advantages of large families, recognizing in the family structure a rich treasure of ingredients for the sustenance of society which far overshadows any benefits a civil government can provide. As Gary North has observed:

The family . . . provides a basic division of labor, and this leads to greater productivity. It provides a zone of safety against life's battles with a fallen, recalcitrant environment. . . . It provides men and women with a stake in the future, and in so doing, makes possible habits of thrift that lead to vast capital growth. . . . It provides welfare and education for its members. It reduces the need for a huge state bureaucracy, so it acts as a weapon against the illegitimate expansion of state power.¹

As might be expected, the concept of the family as the cornerstone of a free society, a principal steward of a society's capital, and a key facet (through steady population increase)

of a society's economic vitality has not lacked detractors. Most parents with more than two children would agree that large families are subtly and sometimes noisily discouraged today. The task for advocates of freedom is to inquire beyond the specific bias against large families and discern the root ideology involved. It will prove to be quite familiar.

Any consideration of the freedoms involved in choosing family size necessarily involves the larger issue of ownership and property rights. Even to question the fact that the ownership and responsibility for children vests exclusively in their parents once would have seemed superfluous. Yet in the current environment of Zero Population Growth, Planned Parenthood, and Global 2000, private ownership of children no longer enjoys unanimous consent: "The 'right' to breed implies ownership of children. This concept is no longer tenable. Society pays an even larger share of the cost of raising and educating children. The idea of ownership is surely affected by the thrust of the saying that 'He who pays the piper calls the tune.'"²

Does this tune sound familiar? While one obvious response is the insight that a "society" has no existence or identity apart from the individuals composing it, such a coercive mind-set merely regurgitates a common statist strategy. Any drive for omnipotence by the state or its agents always involves an insatiable appetite to control private property for the "good of society." And understandably so, since the ownership and control of private property is integral to a free society and therefore an inherent enemy of central planning.

Given that the tenets of interventionism idolize the state as a benevolent, all-wise parent to its children, it is not a difficult leap for government to concoct a policy which includes seizure of the "right to breed" and thereby arrogates the ultimate control of family size to the state. Only then can it begin to enact the kind of "necessary" controls (to protect society, of course) envisioned by some: "It can be argued that over-reproduction—that is, the bearing of more than four children—is a worse crime than most and should be outlawed. One thinks of the possibility of raising the minimum age of marriage, of imposing stiff penalties for illegiti-

Mr. Huff, chief financial officer of Fox-Rowden-McBrayer in Atlanta, Georgia, is married and has three children.

mate pregnancy, of compulsory sterilization after a fifth birth."³

We see, then, that in order for a bureaucracy to gain its desired position of pseudo-parent and thereby the power to control family size, it must begin by usurping property rights over children.

Malthus and Human Capital

As alluded to earlier, the barbs directed at prolific parents generally are launched from the various elements of the population control movement. Their basic message is that our planet is becoming overpopulated, which in turn will purportedly cause food shortages, destroy the balance of nature, wreck economies, and generally drive civilized society into extinction.

This population control ideology had its origins in the theories of Thomas Malthus, who two centuries ago predicted a population crisis which would shackle the world in the perpetual grip of poverty. The passage of time, however, has not seen the fulfillment of his dismal prophecies—but it has yielded decades of experience which show that healthy population growth is an asset, not a threat:

The basic axiom of economics—both classical and modern—is that wealth is the product of labor. The mineral resources of the earth are not wealth until human effort has been exerted, either to discover or extract them.

Throughout the ages—until the current era of statistics-worship—population has been regarded as the foremost source of wealth; the prime object of rulers and governments has been to attract and increase the number of their people. Density of population and rising population historically have been the mark of a prosperous, vital civilization.⁴

By their very nature, Malthusian precepts (which have been substantially disproved) are ideologically at war against the principle of human capital expansion through population increase. This seems strange, when the evidence in favor of large families and growth is amply available.

So again, to fully comprehend the real issue, one must uncover the motivation of those who fret over the "population bomb." Is the issue actually *conservation*—of resources, living space, and the balance of nature—or is the issue *control* of the human capital represented?

The Propaganda Explosion

An exhaustive chronicle of the many factors working toward family size limitation by force is beyond the scope of this brief essay. Nevertheless, the fundamental idea which should be retained is the insight that discouragement of large families represents but one narrow symptom of an age-old, chronic illness—interventionism. The dangerous explosion has not been population, but propaganda.

Population control is an uncannily accurate objective for a movement whose prime motivation is, indeed, control. The march of the state toward attainment of the power of life and death over its citizens, if unchecked, will allow no competing sovereignty on the part of individuals or families. Thus, not only the right to bear children, but the very sanctity of human life must be diligently guarded and defended. For as Frederic Wertham notes, "If someone in authority tells us that we have no right to procreate, it is only one step further for him to tell us we have no right to live."⁵

History bears telling witness to an observation which captures the essence of the family-limiting philosophy: "Population control is the last desperate act and ultimate weapon of a Welfare State whose lust for power and instinct for survival knows no political or moral limits."⁶ □

1. Gary North, *Unconditional Surrender: God's Program For Victory*, 2nd Ed. (Tyler, Texas: Geneva Divinity School Press, 1983), pp. 102-3.

2. Garrett Hardin, "Parenthood: Right or Privilege?" *Science*, July 31, 1970, p. 427, quoted in James A. Weber, *Grow or Die!* (New Rochelle, New York: Arlington House Publishers, 1977), p. 179.

3. Kingsley Davis, "Will Family Planning Solve the Population Problem?" *The Victor-Bostrum Fund Report for the International Planned Parenthood Federation*, Report No. 10, Fall 1968, p. 116, quoted in Weber, *Grow or Die!* p. 178.

4. Elgin Groseclose, "Too Many Mouths to Feed?" *Research Reports*, American Institute for Economic Research, Great Barrington, Mass., December 9, 1968, p. 198; reprinted from *Barron's* November 18, 1968, quoted in Weber, *Grow or Die!* p. 21.

5. Weber, *Grow or Die!* p. 183.

6. *Ibid.*, p. 190.

Racism: Public and Private

by Walter Block

When an individual or a group of persons in the private sector discriminates against a racial or ethnic minority, the results can be debilitating. Psychological harm, feelings of isolation, and a sense of hostility are likely to result.

Fortunately, in the private sector there is a little-recognized phenomenon which helps to protect minorities from great economic harm: the fact that private individuals tend to pay for their discrimination. For example, if a segment of the population is discriminated against in employment, this tends to drive down their wage rates. However, the lower wages they now command act as a magnet, inducing other employers to make them job offers. Employers who discriminate pass up these lower wages. Other things equal, competition will tend to drive the discriminating employers out of business.

This is hardly an ideal situation from the viewpoint of the minority—they would be better off with no discrimination. But at least this aspect of the free market tends to reduce the injury which would otherwise accompany discrimination.

Things are far worse for the minority victimized by government discrimination. For one thing, the incomes of prejudiced bureaucrats and politicians are protected from market forces. Their incomes do not tend to fall, as they do for prejudiced businessmen in the private sector. For another, civil servants do not run the risk of bankruptcy at the hands of non-

discriminating competitors—their jobs are guaranteed.

Consider, for example, the “back of the bus” rules which discriminated against blacks in the South. This aspect of Jim Crow was part and parcel of government. The buses were part of the public sector; they were subsidized, and no competition was allowed. As a result, blacks had to suffer discrimination for many years, until the “back of the bus” rules finally were changed through massive demonstrations. Had blacks been told that they could ride only in the back of the bus in a market situation, other bus companies would have been formed, and would have enjoyed an inside track in competing for black customers.

Sometimes discrimination in the public sector is so well camouflaged that few people realize it is taking place. For example, the Hutterites were victimized by discriminatory legislation in the Canadian province of Alberta that did not even mention them by name! These people commonly live in colonies of 100 families or more. But the economics of farming in this part of the prairie are such that each colony needs two or three square-mile sections to support itself. An Alberta law which restricted holdings by size thus made it very difficult for the Hutterites to form colonies.

But well-hidden public discrimination is by no means limited to rural areas. In Vancouver there is a crackdown on illegal suites, and a ban is in the works for second kitchens in areas zoned for single-family occupancy. None of the laws mentions the Sikh community by name; nonetheless, this spate of legislation singles out

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the East Indian community for discriminatory treatment. The reason is not difficult to fathom. Like the Hutterites, Sikhs live in very large groups. According to Gurnam Singh Sanghera of the East Indian Workers Association of Canada, many ethnic communities live with three or four generations under one roof—and with an extended family in each generation of aunts, uncles, cousins, and so on.

Were the private sector discriminating against the Sikhs or Hutterites, these groups could find accommodations, albeit perhaps at

slightly higher prices. But when they are victimized in the public sector, their plight is far more serious. They must convince a majority of the electorate—many of whom are hostile to them—of the injustice in discriminatory laws. History tells us this is no easy task.

Given that public-sector discrimination is far more harmful to minorities than private discrimination, those who sympathize with racial and ethnic victims should think twice before entrusting human rights to the state. The market is a far better alternative. □

Affirmative Action: A Counterproductive Policy

by Ernest Pasour

“**T**hat teacher was selected for affirmative action reasons.” That is how I first heard the term used—implying a lack of ability on the part of a teacher at my high school.

The phrase “affirmative action” was first used in a racial discrimination context in Executive Order No. 10,925 issued by President John F. Kennedy in 1961. This executive order indicated that Federal contractors should take affirmative action to ensure that job applicants and employees are treated “without regard to race, creed, color, or national origin.” The civil rights legislation of the 1960s followed in the same vein.

As initially presented, affirmative action referred to various activities to ensure the fairness of hiring and promotion decisions and to spread information about employment opportunities. Emphasis was placed on encouraging previously excluded groups to apply for jobs, admis-

sion to colleges, and so on—after which the actual selection was to be made without regard to group membership.

Affirmative action was originally conceived because it was thought that simply stopping discrimination against minorities would not overcome the results of past employment and promotion patterns. Prior to the 1960s, employers frequently hired by word of mouth and, consequently, friends or relatives of current employees were more likely to be hired.

Kennedy’s executive order implied equal access and nothing else. The system that has evolved since is a perversion of the original intent of affirmative action.

A shift in emphasis from equality of prospective opportunity toward statistical measures of results was already under way by the time the Civil Rights Act of 1964 was debated in Congress. Quotas and the right of minorities and women to have a “correct” percentage of their population employed have since become rallying cries for civil rights activists. Affirmative

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action as it has been applied is detrimental to the operation of the job market, to white males, and to the groups it is supposed to benefit.

First, affirmative action promotes the hiring of less skilled workers. It sometimes forces employers to choose the best of the minority workers they can find, regardless of whether they have the required job skills. For example, Duke University recently adopted a resolution requiring each department to hire at least one new black for a faculty position by 1993. However, only six blacks received Ph.D.'s in mathematics in 1987 in all of the U.S., casting doubts as to whether it would be possible for each department to find a well-qualified black, much less hire one.

Colleges and universities frequently also have quotas for how many blacks it is necessary to admit to "round out" their freshman classes. An example is the admission practice at Berkeley. Only 40 percent of the entering class in 1988 were selected solely on the basis of academic merit. While whites or Asian-Americans need at least a 3.7 grade point average in high school to be considered for admission, most minority candidates who meet a much lower standard are automatically admitted. Berkeley continues this practice of preferential admissions for minorities even though the graduation rate of minorities is very low. Sixty-six percent of whites or Asian-Americans graduate while only 27 percent of blacks graduate.

An Influence on Curriculum

The practice of affirmative action in employment and admissions policies is now being extended to the selection of writers to be studied at universities. At Stanford, race, gender, and nationality of authors are to be considered in book selection—not merely the quality of their work. Requiring that books be selected on the basis of such criteria is absurd. The selection of books should be based on merit rather than on the race, gender, or national origin of the authors. The effect of affirmative action based on quotas rather than merit is that quality suffers, regardless of whether the issue is employment, college admissions, or book selection.

A closely related point is that affirmative ac-

tion causes reverse discrimination. Discrimination against white males is just as bad as discrimination against minorities. Some people say that affirmative action is justified as a way of making up for past discrimination. Although discrimination still exists in the U.S., as it does in the rest of the world, most blacks entering the job market today were born after the Civil Rights Act of 1964 and have suffered little or no prejudice in terms of salary.

When this Civil Rights Act was passed, its spirit was not one of reverse discrimination but of getting employers to consider applicants objectively in filling jobs within their companies. Hubert Humphrey, a major sponsor of the Act, swore that he would eat the bill if it were ever used for discrimination of any sort. The past cannot be changed and we should stop compensating people who were never hurt at the expense of people who have done them no harm. The Alan Bakke Supreme Court case held that it is reverse discrimination to accept a minority student at the expense of a white student with better credentials. Unfortunately, this decision has had little influence in subsequent cases of reverse discrimination.

Another problem caused by affirmative action is that it places a stigma on groups which receive preferential treatment, especially on individuals in those groups who earn their positions because of their ability. Consider an employer who hires a member of a minority group for a high position on the basis of merit, not for affirmative action reasons. Other employees, however, are likely to assume that it was an affirmative action hiring, as are many other minority hirings. As a result, such employees can suffer from lack of respect which makes them less useful to the company.

The increase in racial tensions between whites and blacks at U.S. colleges, as described in recent news articles, is also related to preferential admission policies. It is not surprising that racial tensions have grown worse since affirmative action policies were implemented. At colleges in North Carolina, for example, black students recently stated that they were treated like affirmative action cases even if they were not. Professors, seeking to help, asked them if they needed tutoring or other assistance, already assuming that blacks were unqualified.

Affirmative action also appears to have been generally ineffective for blacks in the job market. Economist Thomas Sowell shows that in certain places, including some prominent companies and public utilities, there have been gains. But overall, the economic position of minorities has changed little since "goals and timetables" (quotas) became mandatory in 1971.

As originally conceived, affirmative action may have been a constructive policy, but it has been counterproductive in practice. I hope by the time I am in college that students, teachers, and others will be selected on the basis of ability—not according to quotas based on race or sex. If so, we will have finally achieved true civil rights for everyone.

□

The Quality of People and Products

by Jonathan Athens

Go to any restaurant, hotel, or business place that deals directly with the public, and the person behind the desk in the lobby is usually a clean-cut young man or an attractive, well-dressed woman. This is a common, unwritten practice employed by most businesses as a way of "putting their best" forward. Look at almost any advertisement and you'll find the same kind of people selling anything from toothpaste to cigarettes. It is a means of making a product more attractive to the consumer.

Of course, the consumer has the ultimate choice as to which brand of toothpaste to use or whether to buy cigarettes. When it comes to patronizing a hotel or restaurant the consumer has the same right. However, the right of the business office (or hotel or restaurant) to choose the kind of person they want to promote their product or service is slowly being taken away.

As an advertising consultant for a local newspaper syndicate, I deal with a variety of businesses with the goal of helping them attract customers as well as prospective employees. One day a print shop owner called and asked to place

a classified ad for employment. The print shop owner told me he wanted a young lady to work the front desk of his office. She should be adept at dealing with the public and capable of juggling the paperwork that had piled up.

"Can I do that?" he asked, sounding somewhat unsure.

"Certainly," I told him. "It's your business, your money, your advertisement. You can do what you please." The print shop owner called back to place the final copy of the employment ad only to discover that I was wrong. My supervisor explained in detail how and why. It wasn't the newspaper's policy, she said, nor hers. Rather it was the state's policy. To advertise for an attractive young lady or man with a pleasant personality is discrimination on the basis of age, sex, and appearance. Reluctantly, I informed the print shop owner and worked with him to rewrite the ad so that it did not give an indication of anything other than the job title, the pay, the location of the shop, and the hours of business.

The print shop owner began his business years ago without government grants or assistance, and neither did he have contracts with the government. Still, he had to play by the government's rules of hiring and firing. After key-

ing the advertisement into the computer system, I sat back and thought of how many people were going to apply for the job and how many the owner was going to have to turn down before finding the right applicant. I then thought of the number of people who were going to read the ad not knowing what the employer was specifically looking for, and waste their time and effort along with his money just to be told "no."

The Right to Hire

Two forms of civil rights legislation affect the business owner's right to hire. Equal Opportunity guarantees that a person be considered for a job *without* regard to race, age, or sex. Affirmative Action, on the other hand, commands that a person be hired *with* regard to such criteria.

How contradictory the two anti-discrimination laws are! And the results are pernicious. If someone is hired on any basis other than individual merit, the employer will generally have employees who perform substandard

work. Time, money, and energy are spent trying to correct and/or overcome substandard work—time that could be devoted to improving product quality. The bottom line is that a corporation is only as good as its product, and the product is only as good as its makers.

A popular misconception is that a "product" is merely a material item with physical dimensions. But services are products, too. The product a waitress makes is food service. The product a salesman makes is selling. The product a mechanic produces is automotive maintenance. The product a doctor provides is health care. If any of these positions were to be filled strictly by Affirmative Action, what kind of service would the consumer get? The consumer can always go to another restaurant for better food service, another doctor for a second opinion, and another salesman for a different kind of product. But what if the options are limited? What if there are no choices?

The consumer ultimately loses his freedom of choice. It is a freedom no person and no business can afford to be without. □

Achieving Genuine Equality

Despite our problems, one of the central facts of American history has been the achievement of a high degree of individual equality for most citizens. Perhaps the nation somehow sensed that human beings achieve their fulfillment in what they become. Certainly we are most fully ourselves as we aspire to further development, and enjoy the freedom to pursue it. It is in connection with our aspiration that we seek equality for each person. Surely race or sex is an inadequate basis for such equality. We do not aspire to be black, white, or yellow, male or female. These categories are facts of existence, but the achievement which we seek in life must lie elsewhere, and it is elsewhere that the definition of true equality must also be located.

What we all want, and what some members of society presently lack, is acceptance as an individual by others. It is that acceptance which constitutes genuine equality. Each of us wants to be a person in his own right. Such acceptance can hardly be produced by governmental compulsion. Compulsion smothers any creative response to a problem.

—GEORGE C. ROCHE III,
The Balancing Act

IDEAS
ON
LIBERTY



Two Senses of Human Freedom

by Tibor R. Machan

When we consider whether a capitalist, libertarian society is free, whether it secures human beings their maximum individual freedom or liberty, serious controversies arise. Some agree that, of course, in capitalism, where one's private property rights are respected, we enjoy the greatest freedom. Despite the fact that such a system does not offer the utmost security in life, nor equality of wealth or even of opportunity, many maintain that capitalism certainly does secure for people the maximum freedom.

But there are those, too, who dispute this contention. Not only do they criticize capitalism for failing to ensure for us well-being and equality of opportunity, they also hold that capitalism is, in fact, an enemy of individual freedom. Marx made this point in the 19th century, and in our time many have followed his lead. For example, in his posthumously published work, *Grundrisse*, Marx notes that "This kind of [capitalist] individual liberty is . . . at the same time the most complete suppression of all individual liberty and total subjugation of individuality to social conditions which take the form of material forces—and even of all-powerful objects that are independent of the individuals creating them."¹

Professor Larry Preston, following in Marx's footsteps, has advanced a similar claim, namely, that "a capitalist market, understood as a system in which production and distribution are based on the pursuit of private interest through the acquisition and transfer of privately

owned property, generally denies freedom to most participants."² Preston defends this position by first advancing the following characterization of freedom: "Free decisions and actions are identified as those in which an agent's conscious deliberation has played an essential role."³ He clarifies this by adding that "The prerequisite of deliberate choice can only be determined with reference to specific activities associated with particular roles."⁴ Furthermore, "A choice is voluntary (freely made) if the persons who agree to it possess, before they decide, the relevant capacities and conditions for deliberation regarding the proposed transaction."⁵

In contrast, within the Anglo-American political tradition, freedom has been characterized quite differently. According to F. A. Hayek:

It meant always the possibility of a person's acting according to his own decisions and plans, in contrast to the position of one who was irrevocably subject to the will of another, who by arbitrary decision could coerce him to act or not to act in specific ways. The time-honored phrase by which this freedom has often been described is therefore "independence of the arbitrary will of another." . . . In this sense "freedom" refers solely to a relation of men to other men, and the only infringement on it is coercion by men.⁶

For Marxists the emphasis has always been on possessing the requisite abilities—including resources and information—to act in any way one might wish to act after necessary delibera-

tion. In Hayek and the classical liberal tradition, however, the emphasis is placed on a choice being that of the agent, that it be "his own" decision. Furthermore, unlike Preston, Hayek does not insist that deliberation has an "essential role" in free choice.

The difference between the two conceptions of freedom seems to be that whereas Preston does not stress personal autonomy and self-determination, Hayek does; and while Hayek seems to accept decisions of any sort (whimsical, intentional, negligent, or deliberate), Preston allows only deliberative or self-consciously calculated decisions to be free choices.

What Is "Real" Freedom?

Preston holds that "real" freedom is not the libertarian, capitalist sort. What his theory, following a very respected tradition, proposes is that one can be really free only if one is on the right path. Consider again Marx on freedom: "[F]reedom . . . can only consist in socialized man, the associated producers, rationally regulating their interchange with Nature, bringing it under their common control, instead of being ruled by it as by the blind forces of Nature; and achieving this with the least expenditure of energy and under conditions most favorable to, and worthy of, their human nature."⁷

Marx was invoking the idea of freedom which ordinary people invoke when they say they wish to be "free" of worry, trouble, hardship, psychological blocks, bad memories, disease, or whatnot. From the time of Plato this sense of "human freedom" has been a powerful contender. It refers to our capability of attaining full human flourishing, unhindered by such obstacles as ignorance, illness, or sin. In our day many think of this sense of freedom when they refer to Marxist-Leninist type liberation. Unlike the more libertarian sense of this term—within the American political tradition—liberation here means guiding one toward emancipation. Compare the liberation of France to the liberation of Poland! And consider the character of Marxist-Leninist liberation movements, which all reject libertarian freedom.

Now Preston's idea of freedom does not state explicitly that his understanding of "free to choose" implies that only those are free to

choose who in fact choose properly. But this is the result of his characterization, nevertheless. This is because the "relevant capacities and conditions for deliberations" would in the final analysis include the individual's ability to select wisely from among the alternatives. It would also include the absence of any impediments to such wise decisions, including ignorance and poverty, whether imposed by other persons, or by nature, or by the social system in force. No doubt, if a social system protects property rights, this also means that those who have no wealth or health, or squander them, will face the obstacle of poverty or ill health in their effort at successful living.

That there may not be any system that could "remedy" this situation is, of course, one of the major problems of characterizing freedom along these lines. But by speaking as if such life circumstances were limitations of liberty, Marx (or Preston) suggests that there may be social systems that do not place any restrictions before persons who might at some stage of their lives aspire to success. Marx hints at this when he points to "the absurdity of considering free competition as being the final development of human liberty."⁸ Presumably there is a final development.

Another problem with the Marxian idea Preston advances is that a deliberation is a rare process. Most people proceed through their days without deliberation, yet acting *intentionally*—that is, fleetingly thinking of their objectives and almost automatically using the means to attain them, as when they switch on a light as they enter a room. The intentional character of such actions may be gleaned from the fact that if some mishap is associated with them, persons who took the actions are held responsible for what they did. These, then, are treated as perfectly free actions when they are not forced on the doers by others. For Preston, however, they would be unfree actions since they did not involve deliberation—the self-conscious, self-monitored mental process characteristic of intellectual activities (such as theorizing about freedom).

It is also important that in Preston's and Marx's characterization of freedom, there is no consideration of the place of free will. If persons are metaphysically free—possess free will

or the power of self-determination—they might not elect to inform themselves about the facts that may make a choice a wise one. They may then be regarded as unfree in the Marxist sense. Nevertheless, in the liberal sense of the term “freedom,” they are free, since they might have placed themselves in a position of being better informed—even though they did not do this—which would mean they are essentially free.

Women’s Liberation

The different meanings of “human freedom” can be more fully appreciated in connection with the women’s liberation movement, in which two meanings of “liberty” are prominent, though not always noted. First, women’s liberation sometimes means the *absence of restraints imposed by other people* who would keep women under a yoke or treat them as if they were not of age but in constant need of guidance (from males or the state). Second, women’s liberation sometimes means being guided to a higher state of consciousness and human emancipation.

Another way—hinted at before—to distinguish the two ideas of liberty is to recall the contrasting meaning of “liberation” for the Soviet Union and the United States vis-à-vis the countries of Europe they helped liberate in World War II. The Soviet Union “liberated” by helping to defeat the Germans and then fully occupying the eastern European countries, while the United States helped cast off the German forces (e.g., in France) and then left, which freed these countries to develop themselves.

Which sense of the term “freedom” is then primary? On the one hand, if we are focusing on progress toward human flourishing, human freedom may well mean what has been meant in the tradition from Plato, through Rousseau, Hegel, Marx, T. H. Green, and many contemporary intellectuals. These thinkers would all join Marx in the view that the liberal/libertarian conception of human freedom is limited and incomplete. To pretend to be concerned with human freedom when one is really only interested in freedom from the aggressive intrusion of other people—as so well expressed in the Colonial

slogan: “Don’t tread on me!”—is, according to this line of thinking, to distort an important value in human existence. (Even some neoclassical economists prefer to mean by freedom the maximizing of our options, creating a broad range of possibilities. Our freedom, they say, is enhanced with an increase of our wealth.)⁹

There is something to this, of course. It is arguable that full human freedom—being unimpeded by various obstacles in life in reaching one’s proper goal of self-development—should mean what members of this tradition have meant. Yet, on the other hand, the view that human freedom or liberty, in the aforementioned sense, is a *political* concern, lack of which ought to be dealt with through law and politics, is highly disputable. This view simply fails to credit individuals with self-initiated effort. It demeans them, treats them as helpless and always in need of guidance from above. It is paternalistic and ultimately self-defeating if we extend it to everyone, including those who advocate totalitarian measures to liberate us.

The ultimate reason behind this drastic and devastating error is that the conception of freedom embraced by the tradition following Plato, and today mostly promoted by Marxists, presupposes a conception of human nature which is contrary to fact. Marx did not credit human individuals with a basic kind of freedom, namely, freedom of the will or the power of self-determination.

Neither do Preston and other Marxists (e.g., Andrew McLaughlin, Charles Taylor, G. A. Cohen). Preston notes that “Capitalist exchanges have become coercive because participants can recognize an alternative situation which would provide them with substantially greater freedom, a situation that the capitalist market prevents them from having.”¹⁰ In other words, people are not acting freely under capitalism because by virtue of the structure of the system—i.e., its framework of private property rights—they are forgoing options that they might enjoy and that it would be beneficial for them to enjoy.

This treats people as helpless, inept creatures, who are unable on their own initiative to come to terms with lacking some of what they might want and benefit from in life. And while such a conclusion is warranted in societies

where people face persecution, oppression, and liquidation from the state if they try to remedy their circumstances by individual initiative (including forming economic alliances), for a society in which no such political limits to liberty are sanctioned, the judgment comes to little more than either stressing the exceptions or demeaning human ability.

The "freedom" Preston thinks people might enjoy involves what people could benefit from in their relationship to others, namely, greater access to information, better conditions for deliberation, etc. For example, they might be better educated, they might possess more wealth, etc. This is, of course, not political freedom but a better standard of living. To obscure the difference is dangerous.

Making the Most of Our Lives

When Marxists say that we lack freedom or liberty under capitalism, they don't make clear that what they have in mind is something we probably would lack far more under any other system—the ability and opportunity to make the most of our lives. And that is perhaps because if put this way, it becomes clear that at least under capitalism everyone has his or her political liberty—freedom from other people's forcible intrusion into one's life—and in the main this provides most with a good chance of attaining a high standard of living. While capitalism is not preoccupied with the equal distribution of wealth—or, rather, poverty—it is a system under which those who make a good try have the chance of reaching considerable economic success. (Nor does capitalism assume that everyone would, or even should, want this!)

The Marxist position sees persons as we do trees or flowers that grow not from their own determination but are spurred on by the natural environment. And if there are deficiencies in this environment, there will be impediments standing in the way of growth.

As Preston puts it, "We now realize that the exchanges of capitalism generally do not represent agreements in which both (or all) participants are better off if 'better off' is viewed as gaining access to the resources needed to exercise freedom."¹¹ Once Preston has defined

"free choice" as, in effect, "the best possible choice one could make," it is no wonder that he views capitalist exchanges as not being "free." It may not be immediately obvious that Preston and this entire tradition hold this conception of "freedom," but it becomes so, once it is clear that here the objective is to ensure human perfection, the full emancipation of human beings—not merely their freedom to do what they choose to do, regardless of the outcome. Preston, like others in this tradition, in effect identifies human freedom with human success. Without that identification, human freedom or liberty simply have no value to him.

The liberal tradition, however, sees human freedom (from aggression by others) as valuable in itself, because it is a constituent part of human goodness—without the freedom to choose one's conduct, one is not the agent of whatever good behavior one might engage in. This is not always clearly put in the liberal tradition, but it is there, nevertheless.

In the liberal tradition, government aims at protecting the individual's role as the agent of his own conduct. That is why it stresses individual liberty and rights. Once persons enjoy this protection, they will then do what they choose, well or badly. Society is not perfect, but it is politically best if it secures for everyone a sphere of jurisdiction or personal sovereignty. The rest is in the hands of individuals.

In contrast, for the Preston/Marx position the primary task of good government—of those who understand and have the power to upgrade the species—is to free human beings from impediments to growth. This is clearly not accomplished simply by protecting people against the aggressive intrusion of other human beings. No, they need total "liberation"—the prevention of all intrusions such as poverty, disease, ignorance, illness, and even sin. Thus Preston holds that "Physical force need not always be either morally objectionable or a denial of freedom. Efforts physically to restrain drug addicts from gaining access to drugs may be done for moral reasons and in the interest of freedom—to enhance the addicts' ability to make deliberate choices."¹²

This is a convenient example for Preston, because even in contemporary near-capitalist societies people are not granted the right to con-

sume the drugs they choose. But for Preston, the scope within which lack of free choice is appropriate is far greater. It is only a short distance to the view that forcing people not to advocate anti-revolutionary policies or the wrong religion, or censoring the viewing of trashy movies and the reading of bad literature, is morally justified because it enhances the ability of people to live properly.

Many people who advocate Marxism but find the Soviet Union politically reprehensible insist that the Soviets have distorted Marx and that a proper understanding of Marxism will avoid the kind of policies that have characterized the U.S.S.R. throughout its brief history. Some of those who hold such views are, nevertheless, wholly disenchanted with capitalism, whether its ideal version or the watered-down type evident in some Western societies. Indeed, some of these people hold out hope for societies whose leaders proclaim themselves to be Marxists—e.g., Cuba, Nicaragua—even when these societies are directly allied with the Soviet Union.

The confusion arises from failing to distinguish between what Marx might have liked, and what his views usher in, especially when his vision of the future is not coming about automatically, as a matter of historical necessity. Maybe Marx would have hated Stalin or even Gorbachev, no one knows. But that the policies of these Soviet leaders most closely follow Marx's views, given that those views are basically wrong, cannot reasonably be denied.

Marx may have thought that capitalist societies will turn socialist without much need for violence. But since this hasn't happened, so-

cialists have resorted to coercion to force socialism upon various countries in the name of Marx. And there are plenty of concepts in the Marxist edifice that give philosophical fuel to the idea of forced socialization. One of these is the conception of freedom that Marx and his followers embrace. Their idea of liberty may have some grounding in ordinary language. But in one sense that idea is most destructive toward the freedom of one individual from the intrusions upon his life by another. This is the sense in which it encourages the idea that people must be made to be "free," whether they choose this or not. □

1. Karl Marx, *Grundrisse* (abridged), ed., D. McLellan (New York: Harper Torchbooks, 1971), p. 131.

2. Larry M. Preston, "Freedom, Markets, and Voluntary Exchange," *The American Political Science Review*, Vol. 78 (December 1984), p. 961. A somewhat oblique answer to Preston's analysis may be found in Paul Craig Roberts and Matthew A. Stephenson, *Marx's Theory of Exchange, Alienation and Crisis* (Stanford, Calif.: Hoover Institution Press, 1973). Roberts and Stephenson show that substituting rational planning for the exchange system introduces tyranny. The choice, then, may be between market exchange, which can involve some "exploitation," meaning the opportunity of some to take advantage of the circumstances of others, and totalitarian rule, which guarantees that exploitation will occur, as a permanent and unalterable feature of the system.

3. *Ibid.*

4. *Ibid.*, p. 964.

5. *Ibid.*

6. F. A. Hayek, *The Constitution of Liberty* (Chicago: University of Chicago Press, 1960), p. 12. An interesting group of discussions on the concept of liberty may be found in John A. Howard, ed., *On Freedom* (Greenwich, Conn.: Devin-Adair, 1984). The most recent "classic" on this topic is I. Berlin, *Two Concepts of Liberty* (London: Oxford University Press, 1958).

7. Karl Marx, *Selected Writings*, D. McLellan, ed. (Oxford: Oxford University Press, 1977), p. 496.

8. Marx, *Grundrisse*, p. 131.

9. See George Stigler, "Wealth and Possibly Liberty," *Journal of Legal Studies*, Vol. 7 (June 1978), pp. 213-17. Cf. E. C. Pasour, Jr., "Liberty, and Possibly Wealth," *Reason Papers*, No. 6 (Spring 1980), pp. 53-62.

10. Preston, p. 965.

11. *Ibid.*

12. *Ibid.*

Freedom as a Moral Principle

The most important among the few principles of this kind that we have developed is individual freedom, which it is most appropriate to regard as a moral principle of political action. Like all moral principles, it demands that it be accepted as a value in itself, as a principle that must be respected without our asking whether the consequences in the particular instance will be beneficial. We shall not achieve the results we want if we do not accept it as a creed or presumption so strong that no considerations of expediency can be allowed to limit it.

—F. A. HAYEK

IDEAS
ON
LIBERTY



Readers' Forum

To the Editors:

In your September 1988 issue, you carried a piece entitled "What Should We Do About Luck?" Without wishing to plunge into the intricate philosophical issues raised by the question of whether having "character" is a matter of luck, I do wish to make one important observation. If being competent, self-assured, and therefore successful is a matter of luck, this is all the more reason not to penalize success. If we are, basically, subject to determinism, then it is surely essential to structure penalties and rewards in such a way as to manipulate people into having successful, rewarding lives. The more scope there is for character to be self-grounded, the more we might expect people to strive and succeed without tangible rewards, although we might still want to say that character is admirable and should be rewarded. But if character and aptitude are determined mechanically by the outside world, let us by all means create an outside world in which as many people as possible are determined into having character and aptitude. Either way, reward success, not failure.

—JOHN S. P. ROBSON
Austin, Texas

To the Editors:

As a Jew and a libertarian, I read with interest Milton Friedman's essay, "Capitalism and the Jews" (*The Freeman*, October 1988). Dr. Friedman admitted to having no answer for the question of why intellectuals, and Jews in particular, tend to dislike capitalism. I think I have one.

Judaism stresses education, and college degrees are common among Jews. But before we conclude that Jews' anti-capitalist beliefs were instilled by their professors, we must analyze this argument. It assumes that the professors in

question, in their turn, were radicalized by *their* professors, and so on. So where did the original radical professors come from? While there is ample truth in the assertion that professors tend to radicalize students, we must reject it as another chicken-vs.-egg argument.

I find it far more accurate to say that intellectuals tend to feel guilty about not being poor or not feeling as though they belong to the working class, as it were. And if one did feel such guilt, would one support a system that allows citizens to work for their own benefit (capitalism), or would one support a system that demands that citizens do penance by working for the benefit of others (socialism)? Leftist and egalitarian beliefs, not surprisingly, have always figured prominently in the lives of those who have the most guilt to relieve, and this puts intellectuals in the same category with film stars, poets, and writers even though the intellectuals may not be wealthy. One's surname need not be Rockefeller or Fonda to regret not being poor; all one need do is not be poor. Educated people, in many cases, have the same sort of vulnerability, since their education relieves them of the necessity of performing manual labor. Since most Jews fall into this category, they can be expected to favor guilt-relieving (egalitarian) politics to any other kind.

For those who are working to win over bright minds to our side, I therefore recommend, along with the usual reliance on facts and logic, an equal emphasis on promoting pride and self-respect—or anything else that might successfully combat guilt.

—ALLAN LEVITE
Dallas, Texas

(Readers are invited to share their opinions on ideas appearing in The Freeman.)

Private Property and the Environment: Two Views

by Jane S. Shaw and John Hospers

Editors' Note:

In the May 1988 issue of The Freeman we published John Hospers' review of Property Rights and Eminent Domain by Ellen Frankel Paul. In the following essays, Jane S. Shaw and John Hospers exchange views on some issues raised in that review.

Jane S. Shaw:

People concerned about freedom recognize the importance of property rights as the foundation for a system of cooperation and mutual exchange. Often, however, they abandon their convictions about the value of property rights when they address environmental issues. Yet a more thorough understanding of property rights would lead them to recognize that private rights offer the best hope for protecting many components of the natural environment.

Many writers have expressed concern about environmental devastation such as the loss of wild animals in Africa and the destruction of tropical forests in Latin America. In the May 1988 issue of *The Freeman*, for example, John Hospers shared his alarm about these losses and suggested that private property rights are part of the problem: "And here the property rights in

land conflict sharply with the need for retaining the natural links in the food-chain. . . ."

It's right to be concerned about environmental harm, but we need to understand that solutions will occur when private property rights are strengthened rather than weakened.

Wanton destruction of animals occurs primarily because no one owns wildlife. Contrast wildlife with cattle: No one worries about the destruction of livestock and the reason is simple—cattle are owned and the owner has a direct interest in protecting them.

It is lack of ownership, or common ownership, that leads to destruction. Aristotle observed this more than 2,000 years ago. He noted that "what is common to many is taken least care of, for all men have greater regard for what is their own than for what they possess in common with others."

As James Gwartney and Richard Stroup wrote in *The Freeman* in February 1988, the devastation of the American buffalo on the Great Plains came about because no one owned the buffalo. Without ownership, it was to the advantage of Indians, and later white men, to kill whatever buffalo they could. Without ownership, no individual could benefit by saving more buffalo—someone else could easily go after any buffalo an individual refrained from killing. Had the buffalo been owned, it would have been in the interest of the owner to assure that enough buffalo remained to reproduce for the future. While ownership of the buffalo was not practical then, Gwartney and Stroup point out

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that other Indians successfully turned to a system of private rights to protect other animals such as beaver, which did not have the nomadic characteristics of Plains buffalo.

Of course, common ownership does not always pose an environmental problem. At earlier periods of human history, when human beings were scarce, grazing land could be held in common. However, even with extremely low levels of population, people could barely subsist on it! Similarly, as long as Indians didn't have horses or weapons such as guns, they couldn't threaten the buffalo. But the Indian standard of living was extremely low and their population sparse. Once people got beyond a primitive standard of living, common property became a serious problem, one that private ownership corrected.

Private property assures accountability. A person who owns property will reap the rewards of good stewardship and bear the consequences of poor stewardship. The owner who lets his land erode pays the price because the value of that land sinks as soon as the erosion becomes visible. The owner who protects the land enhances or sustains its value. In general, private property makes good stewardship pay.

When property rights are insecure or incomplete, so that someone else bears the costs or reaps the rewards, accountability is missing. That is the case with the Amazon rain-forest.

In Brazil, government policies are encouraging deforestation of the rain-forest through subsidies and tax credits. The biggest effect is that owners of land are reaping the rewards of ownership without paying the costs, and thus are encouraged to act irresponsibly. A study by The World Resources Institute (by no means a group committed to private property) concludes that cattle ranching and settlements by small farmers are the major factors behind deforestation. Both of those activities are heavily subsidized by the government. Author Robert Repetto says that the subsidies encourage the livestock industry to cut down trees to promote pastureland and encourage settlers to turn forests into farmland. (In addition, the government subsidizes the forest products industry.) "By supplying virtually free money, the federal government invited investors to acquire and clear large tracts of forested lands," says Repetto.

Under a system of true private ownership, where owners were required to pay the full cost

of their activities, the Amazon forest would be far more likely to be preserved. Yes, tree-cutting would occur, but not on today's scale. With so much forested land, some conversion of trees to pasture does not pose an environmental problem; some land undoubtedly will be more productive as pasture. However, where cutting is excessively costly, owners would refrain from cutting trees. In the U.S., recent economic research has shown that contrary to received wisdom, cutting down forests in the Midwest during the 19th century was not wasteful. The trees were simply quite valuable when cut; to keep them standing longer would have been costly to society.

Furthermore, in a system of private property, individuals who believe that the forests will be valuable in the future have a strong incentive to protect them. Some might be speculators who believe that the value of endangered species in the future will outweigh the current cost of preserving the land from cultivation. Under the present scheme in Brazil, the cost of preservation is high because taxpayers are subsidizing so many of the costs of devastation.

Others who would preserve the rain-forest in a private property system are likely to be private groups and individuals concerned about ecological balance. In fact, today, non-profit organizations such as the World Wildlife Fund and The Nature Conservancy are taking steps to save tropical forestlands in Latin America. (Since they have to work with governments, however, they face a number of difficulties they probably wouldn't face if the land were privately controlled.)

In conclusion, what causes environmental destruction is the *lack* of private property rights, when resources are owned in common or by the government. Strengthening private property rights will improve the chances for wildlife and forests. □

John Hospers replies:

Jane Shaw seems to assume that my quarrel is with private property. But it is not: the deforestation of the Amazon basin would be an ecological tragedy regardless of by whom or under what auspices it is done, whether by private owners, communal owners, or government owners. If Brazil had a Home-

stead Act similar to that of the U.S.A. in the nineteenth century, and the new owners destroyed the forests, the result would be the same as it now is under a government program of resettlement. It is *what* is done that portends disaster, not *by whom* it is done.

But, one may say, ecological damage is *far less likely* to occur if property is in private hands. Probably so: government programs are usually wasteful and counterproductive, and take little thought for the environment, a matter which is not usually very high on politicians' list of priorities. Still, this issue is something of a "mixed bag." Sometimes it happens the other way round: in a safari through the Okavanga basin in Botswana I found (and all safari guides confirmed this) that lions, leopards, giraffes, zebras, and antelopes continued to exist at all *only* in those large areas designated by the Botswana government as national parks. In the areas owned by the native tribes themselves, there was not a single bit of game to be found—all the animals had long since been slaughtered by the natives. The same is true in India and elsewhere, where hungry people do what they can to eat today, with not much thought for tomorrow.

Under private ownership, Botswanans are now growing cattle, ecological intruders which (because of their form of grazing, the protection they need against the tsetse fly—to which all the native animals are immune—and the construction of fences, making it impossible for the wild game to reach the rivers) after a time destroy the habitat of the native animals. The native animals can no longer roam free to find food and water. Private ownership has sealed the doom of most African wildlife.

You can, indeed, preserve *some* species of plant or animal by owning a tract of land and growing the plant or animal on it. But this won't do in the case of migratory animals whose pri-

mary need is to roam, and who would be shot down the moment they crossed the boundaries into someone else's land. And it would hardly apply at all to birds, which fly over people's lands. You can raise condors on your ranch, but unless there are strictly enforced conservation laws the birds will be shot down by the owners of other land who have no soft spot in their hearts for condors.

"Individuals who believe that the forests will be valuable in the future have a strong incentive to protect them," writes Ms. Shaw. (1) Yes, and *not* to protect them if for one reason or another they do *not* believe this. (2) Or they may believe it but not act on it—perhaps they want quick profits now; there are, surely, people who care less about their children and grandchildren than they care about themselves. (3) Or, like the Botswanan cattle-growers, they may not have the luxury of thinking all that much about tomorrow, because they desperately need the game today, just to survive at all.

The point I was making in the essay was that vast ecological damage has been and is being done through the misuse of land in one part of the world, which affects soil and weather patterns in other parts of the world—that the fate of these parts is *interdependent*. (See my paper, "Ecology and Freedom," in the September 1988 issue of *Liberty*.)

Thus, the main problem is *not* whether you make wise use of your own land for the sake of your own future and that of your children; the ecological problem I was trying to dramatize occurs when the use of *your* land may have catastrophic effects on the use by others of *their* lands, which may be many thousands of miles away. How does one provide a motivation for taking care of your own land, not in order to preserve your land but to preserve that of others? □

Basic Economics

by John Chamberlain

If there is a puzzle to Clarence Carson's *Basic Economics* (American Textbook Committee, P.O. Box 8, Wadley, Alabama 36276, 390 pp., \$12.00 paperback), it is that the author skips about when visualizing his audience. Much of the book is addressed to students who have barely learned in high school or freshman year in college to parrot phrases about supply and demand. But nothing remains simple for long in Carson's expositions. The book abounds in scores in qualifying distinctions.

First, as an Austrian economist who believes that individual choices are unpredictable, Carson rejects the idea that mathematical certainty in economics is possible. Statistics tell you what happened yesterday. "All attempts to reduce the complexity of what occurs in the market and the diversity of human motives in acting in the market to some one explanation or to mathematical precision must ultimately fail . . .," says Carson. Still, Carson believes there are economic principles. Men have natures, and natures may be studied with an eye to determining likely uniformities.

One of the uniformities of behavior is that men try to establish their own monopolies. "The most basic of all monopolies," says Carson, "is the exclusive right of free men to dispose of their services. Indeed, it is the specific difference between freedom and slavery. It is a natural right, hence a natural monopoly, in that the individual is the only one who can direct the constructive use of his services." Land, of course, is a monopoly of its owner. So are

shares in corporations, copyrights, patents, automobiles, and currencies.

But, having established these points, Carson finds himself in semantic trouble. Most of our historic debate about monopoly has not been cast in these terms. Carson has already said that one of the definitions of monopoly is the grant by government of an exclusive privilege to carry on the traffic in some good or service. Force enters the picture here. If an individual should attempt to deliver a first-class letter, he might find himself under arrest. When government, with its monopoly of legal force, intrudes into the market, "it tends to bring habits formed in another arena with it."

The Sherman Antitrust Act quickly became unenforceable because no one could be sure of what it meant. The Clayton Act, which supposedly exempted labor organizations from the provisions of the antitrust laws, declared that labor is not a commodity. But labor is nonetheless bought and sold in the marketplace. Congress, in its attempt to help the unions, was, so Carson writes, "caught once again in the illogic of trying to prevent what does not so clearly exist, i.e., private monopolies, and doing it by hampering competition." The National Labor Relations Board, as the constituted clarifier, was supposed to bring order out of chaos by insisting on bargaining in good faith. Alas, the phrase "good faith" eludes easy quantification.

Land, labor, and capital are correctly accepted by Carson as the basic factors of production. They are all scarce to varying extents. It is

***Basic Economics* by Clarence Carson is available at \$12.00 paperback from The Foundation for Economic Education, Irvington-on-Hudson, NY 10533.**

when one turns them into “isms” that semantic troubles begin. Landism was particularly important in the Middle Ages, when feudal overlords kept their serfs from moving about. But towns persisted, often on old Roman and Greek sites, so there were avenues of escape from serfdom. The Black Death gave laborism its big opening. But labor needed tools. Its guilds tried to monopolize tools. But fluidity had come to stay in Western economic systems. The capitalist, in his first guise as a mercantilist, had arrived with the eighteenth century.

Karl Marx is described by Carson as a “cosmic thief.” He advocated stealing both the land and all important tools from their owners, his justification being that all property is theft anyway. But the cosmic thief was deficient as a cosmic thinker, as were Lenin, Trotsky, and Stalin after him. The Russian peasants thought they were going back to a peasant-owned landism. Bolshevik Party members, with their union adherents, thought the new day would be one of laborism. They were all fooled. What happened was that capitalism, in the form of state capitalism, took over in the developed or developing parts of the world.

It is at this point that Carson falls back on his remarkable descriptive powers. The last part of his book goes into detail to explain the various formulations of mercantilism (in which the new nation-states vied with each other to corner gold and silver) and the big breakout in Adam Smith’s Britain when mercantilism gave way to free trade. With the lowering of tariffs and the repeal of the Corn Laws, Britain became, for the nineteenth century, the workshop of the world. Carson goes to T. S. Ashton, among other historians, for his knowledge of the “workshop” period. The tremendous growth of population in Britain during the Industrial Revolution is explained by the “substitution of wheat for inferior cereals . . . the use of brick instead of timber in the walls. . . .” There was

more soap and cheap cotton underwear. The “larger towns were paved, drained and supplied with running water. . . .” Many more people were surviving birth and childhood diseases.

From England Carson moves on to America, where the British experience was repeated at a much faster tempo. Carson includes a look at Sweden, where capitalism fuels the welfare state, which “keeps the cow fat in order to increase the amount of milk it can get from it.” A general description of welfarism throughout the West, and a scathing chapter on Communism as a centrally planned economy, conclude a book whose biggest audience may want to tackle it at the end before going to its beginning. □

IN PURSUIT OF HAPPINESS AND GOOD GOVERNMENT

by Charles Murray

Simon and Schuster, 1230 Avenue of the Americas, New York, NY 10020 • 1988 • 301 pages • \$17.95 cloth

Reviewed by Joan Kennedy Taylor

The 1988 national election campaign offered a contest over whether Republicans or Democrats could create more and better social programs to help the family, educate and care for children, and above all, alleviate poverty. “Poverty,” writes Charles Murray, “has in recent years been to policy analysts what damnation is to a Baptist preacher. . . . It is the generic stand-in for the social problems of our age. Solve the riddle of poverty, we have often seemed to hope, and the rest of our problems will solve themselves.”

Murray’s first successful book, *Losing Ground*, argued persuasively the now widely accepted thesis that poverty programs are part of the problem rather than the solution. Now, in this new book, he suggests that, in an even wider sense (no matter what the politicians say) the failure of social policy is not a failure of compassion or human feeling—it is a failure to connect cause and effect; a failure to have realizable goals and standards; a failure to see that *all* policies have unintended outcomes, but that

those unintended outcomes can be positive rather than negative, if they are policies that restrain government and maximize individual choice.

Adam Smith, Bastiat, Mises, Hayek, and Milton Friedman have explained unintended outcomes in economics. Now, Charles Murray details for us how both the invisible hand and the invisible foot work in that vast spider web of regulation, redistribution, and indoctrination that we call "social policy" today—coming to many of the same conclusions as these freedom philosophers, although his argument doesn't build on theirs.

"First, I will associate myself with a particular set of views," he says bluntly. "Reduced to their essentials, these views are that man acting in his private capacity—if *restrained from the use of force*—is resourceful and benign, fulfilling his proper destiny; while man acting as a public and political creature is resourceful and dangerous, inherently destructive of the rights and freedoms of his fellowmen. I will explain these views using the language and logic of the American Founding Fathers. Next, I will suggest that if one accepts that set of views of man, the way we assess social policy is pushed in certain directions."

He starts this book by asking, "What constitutes success in social policy?" and goes on: "For most of America's history, this was not a question that needed asking because there was no such thing as a 'social policy' to succeed or fail. . . . As late as the 1930s, there was still no federal 'policy' worthy of the label affecting the family, for example, or education, or religion, or voluntary associations."

Murray finds complex answers to his question by going back to the beginning, to the Declaration of Independence, and re-examining that little-understood phrase, "the pursuit of happiness." He starts by asking, "What is happiness?"

There is a long philosophical tradition, or rather, there are two long philosophical traditions that assumed the question could be answered definitively and attempted to do so. The first stemmed from Aristotle, focused on the nature of the good life, and attempted to define and rank all aspects of happiness. The second, which arose in the eighteenth century, stressed

individual psychological satisfaction, but both traditions agreed substantially on how men should *pursue* happiness—develop those talents you have, do your job well, raise a family, contribute to the community—even though they disagreed profoundly on such issues as whether or not an outsider could rank "happiness" for others.

"It was not until the twentieth century," says Murray, "that social science dispensed with the intellectual content of both traditions and began to define happiness by the response to questionnaire items." Despite this refreshing irreverence, he proceeds to examine more modern approaches to the question also, and summarizes a wealth of argument, experiment, and data collected by contemporary social scientists, to show that there is hard evidence out there that there are objective criteria for the pursuit of happiness.

Government, he says, can provide the "enabling conditions" for this pursuit, a framework that has little or nothing to do with the distribution of material resources other than to protect a functioning market economy. The wrongheaded focus on poverty has obscured the importance of such things as safety from criminals, dignity and self-respect (Murray presents persuasive evidence that self-respect cannot be faked, but results from the successful response to challenge), and finally, the possibility of self-actualization.

Happiness, of course, pertains to individuals—groups, whether united by class, race, creed, or special interest cannot properly be said to be happy. So taking the pursuit of happiness seriously as a standard exposes as meaningless all the aggregate statistics that social policy analysis relies on, statistics showing that a particular policy creates so many jobs, or saves so many lives, or raises so many income levels. Murray hopes to turn the whole field of social policy analysis on its head, by persuading analysts that they should ask instead, what effect will this social policy have on the happiness (properly understood) of the individuals affected by it?

By this standard, our social policies are found sadly wanting. The training program that produces such hopeful aggregate statistics is found overwhelmingly more likely to teach any

individual in it that he cannot succeed—only one in 25 trainees actually finds a job. The speed limit that “saves thousands of lives” is, on examination, only infinitesimally raising the chances that any one individual will escape an accident caused by someone else, but it exacts a measurable price in time and money from that same individual. And happiness, properly understood, Murray shows, requires the opportunity to build a self-respect based on efficacious individual action and choice—but those are precisely what most social programs limit or eradicate.

For all its theoretical bent *In Pursuit* is full of facts, findings in sociology and social psychology, summaries of the differing views of scholars and thinkers, and hardheaded, real world arguments, as well as wonderful “thought experiments” on how associations (“little platoons”) can take the place of government action—how, for instance, people might join together to hire teachers to educate their children, or to limit the depredations of crime.

This is a book to treasure for a number of reasons. Primarily, it is a rare example of a modern liberal arguing himself into a classical liberal stance. Never mind that in the beginning the author seems to imply, for instance, that everyone thinks that food stamps are good—the more you read, the more you will realize that this is a book written by someone who has been a professional policy analyst, for the policy analysis community as well as the general reader, using language and data that can reach that community. Never mind that, like the patron saint of this book, Thomas Jefferson, Murray’s standard for the pursuit of happiness seems to leave room for some government role in fields such as education. A book that begins with the Declaration of Independence and ends by quoting Jefferson on the need for some form of severely limited government is a valuable weapon in the fight for freedom, especially when it is by a fine and original mind whose argument is a pleasure to follow. □

Joan Kennedy Taylor is a former Contributing Editor of The Freeman and the editor of the FEE anthology, Free Trade: The Necessary Foundation for World Peace.

PUBLIC CHOICE AND CONSTITUTIONAL ECONOMICS

edited by James D. Gwartney and Richard E. Wagner

JAI Press, Inc., 55 Old Post Road, No. 2, Greenwich, Connecticut 06830 • 1988 • 422 pages, \$56.50 (Available at \$29.95 from Laissez Faire Books, Department F, 532 Broadway, New York, NY 10012-3956; Telephone: 212-925-8992)

Reviewed by Robert W. McGee

This book is a compilation of eighteen articles written by authors from slightly different perspectives. There are essays by James D. Gwartney and Richard E. Wagner, James Dorn, James M. Buchanan, Knut Wicksell, Gordon Tullock, Roger Pilon, Richard Epstein, Terry Anderson and P. J. Hill, Peter Bernholz and Malte Faber, Gale Ann Norton, Peter H. Aranson, Forrest McDonald, Robert Bish, Robert Higgs, Dwight R. Lee and Richard B. McKenzie. But unlike most compilations, there are few gaps or overlaps, and the authors are writing from a common viewpoint—public choice, broadly defined. They all agree that government has overstepped its bounds. Their discussions range from how things got out of hand to how we can get back on course.

The first two chapters provide an especially good backdrop for those who are new to public choice theory. Gwartney and Wagner do a fine job of outlining public choice theory in non-technical language. Over the last 200 years, the Constitution has protected political rights fairly well, but economic rights have been seriously eroded. Politicians act in their own interests rather than those of their constituents. Voters choose candidates who promise them the most. The result is that democracy takes from the majority, whose power is dispersed, and gives to concentrated special interest groups. A few people benefit a lot, while everyone else has to pay just a little bit. But the effect is cumulative. Everyone is trying to live at the expense of everyone else. As the eighteenth-century Scottish historian Alexander Tytler said:

A democracy cannot exist as a permanent form of government. It can only exist until a majority of voters discover that they can vote

themselves largess out of the public treasury. From that moment on, the majority always votes for the candidate who promises them the most benefits from the public treasury, with the result being that democracy always collapses over a loose fiscal policy.

While government is not supposed to take property for public use without just compensation, it now "takes" as a matter of course, for both public and private use, seldom thinking of compensating the individuals whose property has been taken. Rent control laws are but one of many examples given. One of the most outrageous instances is the 1984 Supreme Court case of *Hawaii Housing Authority v. Midkiff*, wherein the court permitted the State of Hawaii to use eminent domain to take land and apartments from their owners and sell them to the previous tenants. This action not only was a taking, but a taking for private rather than public use. Yet the action was declared constitutional, even though the Constitution grants authority to government to take only for "public" use. The definition of "public" has become so twisted over the years that it has come to the point where just about anything government does is for the "public."

Federal spending is supposedly limited to common defense and the "general welfare." Yet many Federal expenditures go to benefit very small groups, such as sugar farmers, artists at state universities, or any other group that can line up at the Federal trough. But government control over our lives isn't limited to government spending. Government can take our tax dollars and give them to others, although tax rates can be raised only to a certain point without generating a backlash. Our elected representatives get around this by regulating businesses and forcing them to pay for things that otherwise would be paid for with tax dollars.

Other constitutional protections of economic rights have been seriously eroded over the years. The contract clause has withered and died on the vine. Parties no longer can enter into a contract without worrying about violating a minimum wage law, antitrust law, civil rights law, labor law, or numerous other statutes and regulations. The equal protection clause has

been massaged to the point where it now means whatever the court says it means. None of the clauses in the Constitution still can be taken at face value. To learn what each sentence means, we now must look to case law rather than the original wording. It is almost as though the Constitution is void where prohibited by law.

Government is no longer restrained by the chains of the Constitution. The only limits are those in the eyes of our elected and unelected officials. People are now using government to do what they would be prohibited from doing as private citizens.

How did we get into this position? Several of the authors provide answers. As I read each chapter I could see a multi-layered mosaic being woven before my eyes that, on the whole, gives a good, detailed, and scholarly explanation. One of the most interesting interpretations is given by Robert Higgs. Government power (and abuse of individual rights) expands during times of crisis, and never fully retreats after the crisis has passed. Our various wars, as well as the Great Depression, have given rise to new governmental powers. Over the centuries, the power of government has expanded to the point where it now permeates every aspect of our lives.

How can we get out of this mess? Higgs is not optimistic. Electing better public officials is not enough. Neither is appointing better judges. Things will start to turn around when public sentiment demands that things be turned around. In the words of Abraham Lincoln, "With public sentiment nothing can fail; without it, nothing can succeed. Consequently, he who molds public sentiment goes deeper than he who enacts statutes or pronounces decisions."

This book is one of the better ones on public choice theory. Its scholarly approach, detailed footnotes, and case, name, and topical indexes provide a wealth of references for further study. The fact that it was written by numerous authors does not detract much from the unity of the presentation because the editors did a good job in selecting the articles to be included. □

Professor McGee, who holds doctorates in both accounting and law, teaches accounting at Seton Hall University.

THE PRESENT AGE: PROGRESS AND ANARCHY IN MODERN AMERICA

by Robert Nisbet

Harper & Row, Keystone Industrial Park, Scranton, PA 18512 • 1988 • 145 pp. • \$17.95 cloth.

Reviewed by Richard M. Ebeling

Robert Nisbet is one of the most respected sociologists in America. His works, *The Sociological Tradition* and *Sociology as an Art Form*, have long been classics in the field. Professor Nisbet also stands out because, unlike many in his discipline, he is neither a socialist nor a welfare statist. He views himself in the tradition of Edmund Burke and Alexis de Tocqueville, and espouses a conservatism that blends a deep respect for spontaneous social order and cultural tradition with a strong belief in the dignity and autonomy of the individual. This blending makes Professor Nisbet a powerful and eloquent defender of the free society and individual liberty. Two of his best works in this defense are *The Twilight of Authority* (1975) and *Conservatism* (1986).

In his latest book, *The Present Age: Progress and Anarchy in Modern America*, Professor Nisbet takes critical stock of the political, economic, and cultural status of the United States 200 years after the founding of the Republic.

He argues that a fundamental break occurred in American history with the entrance of the United States into the First World War in 1917. Prior to that, he explains, America was a land of limited government with a small Federal presence. Americans believed in and practiced political and economic liberty. The U.S. had a "small town" orientation in which the individual saw himself primarily as a member of a local community to which he gave his allegiance and from which he received support through a variety of voluntary, religious, and traditional associations.

This environment (and the social psychology that went with it) was shattered by America's entry into the war. Woodrow Wilson's ideal was of a "national community" that would be guided by strong governmental leadership emanating from Washington and manned by a new intellectual elite that would regulate and mold

economic and cultural affairs. The goal was the creation of a new state-managed society for a higher "moral good."

Seventy years later, Professor Nisbet says, the United States has become a moralizing world policeman, a vast bureaucratic state in which government intrudes into practically every corner of our economic and personal affairs, and a culturally bankrupt society in which pursuit of short-run monetary rewards has increasingly replaced loyalty and fidelity to all ethical standards in personal and social conduct.

Since Wilson's crusade to "Make the World Safe for Democracy," Professor Nisbet insists, America has been armed with the vision that it has a duty not only to offer a moral example to the world, but also to take upon itself the responsibility actively to intervene in the affairs of other nations to "teach them" good government. This policy has bred a vast military establishment, fostered an often-corrupting symbiotic relationship between the Pentagon and sizable segments of the business community, and produced disastrous outcomes in foreign policy. (As an example, Professor Nisbet discusses Franklin Roosevelt's naive fawning over Stalin at the Tehran and Yalta Conferences, all in the name of getting "Uncle Joe" on "our side" in making a better and more moral post-war world.)

Domestically, the emergence of a state-managed "national community" has politicized every facet of economic and social life. While Americans constantly complain about the burden and irritations of the new bureaucratic state, practically everyone wants to see it expand—in the direction that materially benefits them. Professor Nisbet explains that this has arisen from a subtle shift in the meaning of freedom. As he expresses it, freedom no longer means "autonomy from power but participation in power." In the new lexicon, a free society is one in which each individual has an equal opportunity to plunder all the others.

But it is in the social and cultural realm that Professor Nisbet sees the worst effects of the new America that has grown up since 1917. The omnipresent state has created "the loose individual." It has intruded upon, disrupted, and, in many instances, fostered the demise of the cultural webs of spontaneous social order

and stability. In so doing, the bureaucratic state has severed both individuals and groups from the traditional networks of family, community, and religion that have historically taught, reinforced, and protected the ethical and social values essential for a sound, healthy, and growing society. Today the individual has fewer and fewer attachments to these traditional institutions. The individual has been increasingly "atomized" as the State has destroyed or weakened the intermediary social institutions that historically separated and protected him from political authority. Man in modern American society has lost an Archimedean point to stand on outside of himself. Hence, modern man collapses into an unending introspection about himself and how he "feels" about things, with nothing greater or more worthy outside himself to which he should aspire. His values have been reduced to a narrow "cash nexus" and the pleasures money can buy.

The critical reader can find many points upon which to disagree with either the emphasis or the argument in Professor Nisbet's analysis. For example, his conception of the "cash nexus" in a market economy ignores the positive role the

anonymity of money transactions has played in enhancing and protecting individual liberty and freedom of choice. His conception of the workings of trading deals, and corporate takeovers in financial markets, likewise, suffers from a fundamental misunderstanding of how a competitive market establishes avenues for shifting control of capital resources to more competent hands.

But it is the general focus and orientation that make Professor Nisbet's reflections an insightful contribution to our understanding of late twentieth-century America. The America of the 1980s would have been radically different from the America of 1917 even without two World Wars and the introduction of the Welfare State. What Professor Nisbet shows is that many of the most repellant features of the present age are the unintended consequences of the plans of those in the political arena who wished to implement an American "new order" at home and abroad. The question now is, how do we undo what has been done? □

Professor Ebeling holds the Ludwig von Mises Chair in Economics at Hillsdale College.

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THE FREEMAN

IDEAS ON LIBERTY

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Published by

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

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The Freeman is the monthly publication of The Foundation for Economic Education, Inc., Irvington-on-Hudson, NY 10533 (914) 591-7230. FEE, founded in 1946 by Leonard E. Read, is a nonpolitical educational champion of private property, the free market, and limited government. FEE is classified as a 26 USC 501 (c) (3) tax-exempt organization. Other officers of FEE's Board of Trustees are: Thomas C. Stevens, chairman; Ridgway K. Foley, Jr., vice-chairman; Paul L. Poirot, secretary; H.F. Langenberg, treasurer.

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Bound volumes of *The Freeman* are available from The Foundation for calendar years 1969 to date. Earlier volumes as well as current issues are available on microfilm from University Microfilms, 300 North Zeeb Road, Ann Arbor, MI 48106.

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PERSPECTIVE

Justice and Charity

What is justice? The first thing to remember is that justice is blind. We have been trying to tell people that for a great many centuries. There leaps to mind the famous statue of Justice with scales held high and sword in hand, and blindfold over the eyes. Justice does not discriminate. It does not see whether one is of high or low class, rich or poor, black or white, working or not working. It does not see one's national origin. It does not detect one's religion. It treats all men alike and all men equally. That is the essence of justice. The statue would also remind us by the sword that it is enforced by the coercive power of the state. The principal business of the state, of law and of government, is the enforcement of justice, the protecting of the rights of all people equally.

On the other hand, charity is not based on coercion, nor is it blind. Charity is discriminating and voluntary. If you remove the voluntary aspect of charity, it ceases to be charity. What would you think if, after Robin Hood had placed his sword at the throat of some rich man and deprived him of his purse and scattered his coins to the poor, that rich man told his friends how charitable he had been to the poor? There was no charity in what happened on the rich man's part—not a penny's worth! If you take away the voluntary aspect of charity, it becomes despoliation. It is legal plunder. It is robbery, not charity. Confusing justice and charity has produced something called "social justice," the basis for the welfare state. Social justice is having a tremendous negative impact upon the economic well-being of this country.

You cannot have charity or justice when you forcibly take money from A and give it to B. You have not charity because it was not freely willed. You have not justice because you are not treating A and B alike but are taking from one and giving to the other. The rights of each have not been protected, but stripped.

—excerpted from "The Bible and Economics," a sermon by Dr. D. James Kennedy, Coral Ridge Ministries

The Decline of Moral Consciousness

The great tragedy of the welfare state has been the decline of moral consciousness among the American people in the twentieth century. The use of the political process to provide special, privileged benefits to certain classes of people is now considered to be as American as apple pie. The common belief is that since the welfare system is now an ingrained part of American life, people should simply accept its legitimacy and direct their efforts to making the system function more efficiently.

This degeneration in moral consciousness can be found even in some of the most free-market oriented people in the country. I recently attended a conference whose purpose was to promote an improved understanding of the free enterprise system. One keynote speaker at the conference proudly attributed his business success to a Small Business Administration loan. Another keynote speaker called for a closer partnership in business development between businessmen and politicians.

Neither speaker even remotely suggested that the use of the political process to feather a person's nest is morally wrong. Equally tragic, the talks appeared to be well-received by the audiences, almost as if the listeners were comforted by this "practical approach" to free enterprise.

We should never be ashamed or embarrassed to speak out against the immoral actions of our own government. How else can we hope to eradicate the evil which pervades the entire political system? To remain silent in the face of wrongdoing not only constitutes cowardice, it also is an implied acceptance of enshrined political immorality.

The only legitimate functions of law are the protection of life, liberty, and property and the preservation of peace. We have permitted the politicians to pervert law by using it to direct lives, limit liberty, and plunder property. The

result is not peace but rather perpetual conflict over the distribution of the loot. It is time to eliminate, not reduce or make more efficient, government welfare, social security, food stamps, loan guaranties, subsidies, licenses, import restrictions, educational grants, and all other means by which some people use the political process to gain at the expense of others.

Only by standing firm against the immoral nature of the welfare state can we hope to raise the moral consciousness of our fellow citizens.

—JACOB G. HORNBERGER

The Insanity of Inflation

Sanity consists in limitation; the inordinate is always insane and always ends in destruction. Because inflation is indeed inordinate, it too has a certain insanity about it and naturally it tends to end in an explosion of destruction, a nihilist act with money. The insanity of inflation leaves a mark of insanity on society; it changes a good society into one which, so long as inflation lasts, is wholly and fraudulently unjust. All evil is a breach of order, but only some evil is a breach of order with unlimited effect; inflation is an unlimited monetary and *economic evil*.

—WILLIAM REES-MOGG

The Reigning Error

Reader's Digest Reprints Free Trade Article

"The Political Economy of Protectionism," by Thomas J. DiLorenzo, has been reprinted in the February 1989 *Reader's Digest*. This article originally appeared in the July 1988 issue of *The Freeman*.

We have extra copies of the *Digest* version of Professor DiLorenzo's article. Please write to FEE, stating the quantity you'd like.

Lessons in a Supermarket

by John A. Baden and Ramona Marotz-Baden

Bozeman, Montana, a town with 30,000 people, contains a modest supermarket that offers valuable lessons. This store has tens of thousands of items of various sizes and brands, generic labels, and bulk products. Competition for the consumer's dollar occurs among this and other stores, among brands within the store, and among different products within individual brands.

Information regarding consumer preferences toward items in this huge mix of products is continuously generated by a simple procedure. People make decisions, a process with which we are all familiar. Consumers take their selection of products to the check-out line. There, check-out clerks tally the price and automatically enter information about the sale on the store's computer by passing the product's bar code across a scanner.

Among the stores in Bozeman, as elsewhere, the shopkeepers compete in offering differing mixes of service and economy. Even the check-out lines vary in lengths and the degree of service. Each self-interested grocer seeks to attract and satisfy consumers holding varying degrees of wealth, economic sophistication, nutritional knowledge, and body-type preference associated with differing food groups.

Competition responds to differing consumer preferences for health, economy, convenience, and vanity. In these stores we see people as

diverse as ranchers who survived the dust bowls of the 1930s, refugees of the counterculture of the 1960s who look like they are in a time warp, Park City blondes from Dallas summering at Big Sky, and neo-Spartan hedonists of all ages who bounce among Montana's ski slopes, white-water rivers, and mountain trails. We find them all in Albertson's at the University Mall.

Individuals representing all of these diverse types shop cheek to jowl, sample ice cream and fajita strips in the aisles, and peacefully shuffle through the check-out lines at the supermarket located between the Bonanza Steak House and Yogi's Vegetarian Bakery. The stores and suppliers who fail to satisfy are passed by in favor of those who offer more attractive products.

This selection of winners is determined by voluntary transactions. The losers gradually lose shelf space. Ultimately they either improve their products or lose out and pass from the scene. The consumer really is sovereign. The market registers his preferences and automatically makes the adjustments which harmoniously reconcile demand with supply.

This process is quite remarkable. It demonstrates that the market is best understood as a system which organizes information with truly amazing efficiency and effectiveness. At root, the market is a social arrangement which efficiently generates information about peoples' wants and reservations while providing incentives to heed the preferences of others. It is a system which economizes on the information required to make rational decisions.

Dr. John Baden is Chairman of the Foundation for Research on Economics and the Environment (FREE), with offices in Dallas, Texas, and Bozeman, Montana. Dr. Ramona Marotz-Baden is a Senior Associate of FREE and a Professor at Montana State University.



The recent well-intended but thoroughly pathetic Soviet efforts at economic reform offer a valuable lesson. The Soviet Union's failing attempts to mimic the market's ability to respond to consumers' wants demonstrate the importance of allowing buyers and sellers to communicate freely. They also teach us how difficult it is to coordinate economic activities when people are not allowed to communicate.

Price controls prohibit buyers and sellers from communicating their true preferences with one another. Thus, price controls are best understood as a form of censorship. Fortunately, they are rarely found in their worst form in American supermarkets. That is why these stores work so well.

Despite their success in meeting citizens' demands, however, supermarkets are often criticized. Some people object to products with a lack of fiber, some to products with an excess of sugar. Some oppose plastic packaging or advertisements that appeal to children.

In this setting offered by a free and open market system, each can satisfy his wants without imposing his preferences on others. In this manner, diversity, freedom of choice, and innovations are all encouraged. In this imperfect world, we can hardly ask for anything more. Yet, there is another huge advantage we normally take entirely for granted.

Surely the store in the mall provides a model for efficiently responding to diverse and rapidly changing preferences. But this efficiency, marvelous though it is, is only the minor miracle. The benefits of harmonious interaction fostered by market exchange in accordance with the rule of willing consent are even greater.

Market exchange, subject to willing participation by full-facultied individuals, permits people with radically differing views to peace-

fully coexist. In Bozeman we find a substantial number of hard-core vegetarians. They can shop peacefully and amicably with rancher and logger meat eaters who consume vegetables only as a concession to their health.

Bozeman is also a national center for teetotaling Seventh-Day Adventists. The supermarket accommodates their preference for nonalcoholic wine, and they shop harmoniously with those whose nightly ritual includes a bottle of French wine. This peaceful interaction occurs only because all transactions are voluntary. Imagine the uproar if the decisions to permit the selling of wine were determined in the political arena.

Nearly all analysts who have seriously studied the free market agree that the market promotes efficiency, diversity, and innovations which respond to consumers' changing preferences. Few, however, appreciate the degree to which private property rights and free exchange foster harmony and peace. This set of social arrangements renounces coercion as a means for making choices. These arrangements enable people who feel strongly about such issues as vegetarianism or prohibition to coexist constructively with people holding antithetical views.

This great benefit of market exchange is often neglected or underrated. Essentially, markets economize on that most scarce resource, love in the Christian sense of the term.

What if the stocking of a grocery store were determined politically? Think of the fights between vegetarians and meat eaters; the teetotalers and those who enjoy wine with dinner; the granola organics who argue against pesticides and the farmers who find chemicals useful; the populists who are strongly opposed to corporate agriculture and those with an interest in these firms; employed mothers who want the stores open 24 hours a day, seven days a week, and the fundamentalists who believe they should be closed on Sunday.

Fortunately, we have pretty much kept these decisions out of the political arena. People make decisions and exercise their consciences instead of imposing their preferences by using the force of the state. Peace, progress, and efficiency are the result we have learned to expect. □

Growth Controls and Individual Liberties

by Jonathan Sandy and Dirk Yandell

A fundamental freedom in the United States is the ability to travel, and to move and live wherever an individual finds the greatest opportunities. However, this freedom is increasingly coming under attack. Although no policies exist that directly regulate movement, more subtle restrictions are emerging. Potential entrants to many regions face limits in the form of housing shortages brought about by residential growth controls.

The argument in support of growth controls is that rapid population growth reduces the "quality of life" of existing residents. Members of existing communities often fear change, and want to protect themselves from the risks of new development. New residents require new homes that lead to changes in the character of an existing community. Growth control proponents argue that unregulated growth is the cause of crowding at beaches, parks, and public facilities. Unregulated growth is also blamed for traffic congestion, reduced air and water quality, the loss of open space, and the destruction of the natural environment.

The proposed solution is to place a moratorium on residential building permits as though houses were the fundamental cause of all growth-related problems. In extreme cases a municipality may even set a legal population limit, forbidding entry by law. The shortcomings and inefficiencies of such growth controls are numerous.

The fundamental flaw in the argument for growth control is the perception that housing growth causes a regional expansion. In fact, the reverse is true. A strong regional economy attracts new residents. New homes are built by developers in response to this increase in demand. Restrictions on building during an expansion will result in a deliberate shortage of housing and will do nothing to solve regional problems.

Policies that reduce the housing supply simply do not address the quality of life concerns that are purported to be the major issues. Growth controls are offered as a blanket solution for such diverse issues as traffic, inadequate sewage facilities, overcrowding of all types, the deterioration of air quality, and the loss of open spaces. In fact, growth controls can increase all of these problems if development shifts out from the controlled area.

Traffic provides a good illustration. Can anyone deny that traffic congestion results from the improper management of our highways? If roads were operated in private competitive markets, drivers would pay some price for the service. This price would reflect the demand for road use so that it would be highest during prime driving times. The prices would give drivers and firms the incentive to spread driving out across the day, reducing traffic congestion.

Rather than focusing directly on the traffic problem with incentives, however, many metropolitan areas are proposing growth controls as the solution. When a city restricts housing development it causes developers to build on un-

regulated land on the urban fringe. New home buyers have no choice but to move farther from the central business district. The result is longer daily commutes and a loss of open space. The intent is to reduce traffic. The result is just the opposite—more traffic and the attendant increase in air pollution.

Controls Lead to Higher Prices

Of course, growth controls have a more obvious consequence: higher housing costs and rents. The more severe and broad the controls, the higher the prices. Building restrictions limit the supply of homes without reducing demand, increasing competition for available houses. Higher prices reduce the ability of low- and middle-income families to afford a home. Renters find that rents rise as housing prices climb, and that a larger percent of income must be paid for housing. It becomes more difficult for renters to acquire a down payment, and upward mobility suffers.

Those who own more than one house, on the other hand, will gain. They will receive both capital gains and higher rental income from their investment property. Those with only one house may gain depending on the details of the growth control policy. For example, many such policies define environmentally sensitive areas as off-limits to future construction. Owning a house adjacent to such an area will result in above-normal appreciation.

For other families who own only one house the net result of a growth control policy is not clear. There will be an increase in capital gains, but this may not translate to an increase in a family's standard of living. All houses in the region will increase in value, so capital gains will always be tied up in housing, even if the family moves within the city. The only way to cash out the capital gains is to move out of the region.

Renters, who as a group contain a large proportion of poor, young, and minority families, clearly are made worse off, so growth control policies are regressive. Further, these policies are at least somewhat discriminatory given the demographic characteristics of renters.

It is ironic that growth controls are increasing in popularity when one considers that a major

goal of all prosperous countries is to provide adequate and affordable housing for its citizens. A variety of policies have been enacted in the United States to support this goal. Housing subsidies for the poor and elderly, FHA and VA mortgage subsidy programs, and the tax deductibility of mortgage interest are all designed to promote home ownership. Growth control policies are in direct conflict with these goals, since they increase prices and preclude many from home ownership and upward mobility.

The state of housing in many socialist countries is dismal. It is not unusual to wait five years for the chance to rent a single room in a government housing project. Parents in many Eastern bloc nations will place the name of a newborn child on the official state housing waiting list so that the child will have a chance of obtaining a small apartment when he or she grows up and marries. Housing is regulated by the state, and families often must share small units in crowded housing complexes.

Rent control serves as an analogy in the United States. Trying to rent in controlled areas is a difficult task. It inevitably includes long waiting lists (and occasionally kickbacks or other non-price allocation methods). The controlled rent makes investment in apartments unattractive, so the quality and availability of rental units decline. The lesson is obvious: controlling housing markets yields serious and detrimental consequences.

Despite this, housing markets in the U.S. are already highly regulated. Zoning regulations and building codes restrict the quantity and quality of housing. Environmental impact reports and planning studies require years of review before some developments are authorized, and substantially increase the cost of building. Even so, the market has had some flexibility to respond to the demands of consumers about the types and locations of housing that are preferred. Willing buyers and sellers have been allowed to make mutually beneficial exchanges. The result is an increase in freedom and well-being.

Growth controls change all that. Developers are simply not allowed to respond to the desires of consumers. Instead, local bureaucrats determine every aspect of new developments, including who can build, what can be built, when

it can be built, and what facilities must be included in the development.

Housing markets play a major role in the U.S. economy, and the past success of the U.S. housing market is striking. New residential construction expenditure represents nearly five percent of Gross National Product, and over four percent of the labor force is employed in residential construction. In 1985, about 64 percent of American households owned their own home. Growth controls threaten this success.

Controls also reduce the freedom of people to move and live where they hope to find the greatest opportunities. A simple example shows this clearly. Consider the declining cities in the Northeast or Midwest from which people are exiting in large numbers. This outward migration has significant negative economic consequences. Local economies are stagnating and the tax base is eroding. These cities would be better off if businesses and residents were not leaving. Should they mandate that no one may leave so that the remaining residents can maintain their quality of life? This is obviously absurd, and would be seen as a blatant attack on personal freedom and civil liberties. Yet growth control is really the same thing.

Another example can be used to show that growth controls are not in the best interests of society collectively. Suppose all people are initially suspended in time with no location. All families will be randomly assigned a residence location. If we initially had no location, would we ever agree to growth controls? The answer is clearly no. We could get assigned to an undesirable area and be unable to move to our preferred location.

Simply put, the political process that institutes growth controls excludes the desires of all potential entrants. The final policy is an "us against them" state where the "us" are current homeowners and the "them" consists of everyone else.

When people in a region are asked to vote on growth control policies they must consider obvious trade-offs. Foremost is the question of how much freedom they are willing to give up to obtain capital gains on their residences.

Existing homeowners may feel that they can shift all costs resulting from a building freeze to renters and potential entrants to the housing

market. To the extent that current owners will not encounter the higher housing prices, they are correct. Other costs do exist, however. The house to which they aspire, for example, may never be built. Residents may become less mobile and find moving within the city difficult. In addition, the local economy may suffer. Higher housing costs can reduce the willingness of firms to locate in the area. Future employment opportunities fall as a result.

Developers and landowners have their property rights denied when control of building is passed to government. Landowners will no longer be able to determine the most efficient use of their land, and the market-determined timing of development is altered.

When property rights are given up they may never be recaptured. A government bureaucracy must be put into place to administer the controls, and will exercise all rights concerning development. Politically, a return to the prior state of a freer housing market is unlikely for several reasons. Everyone who owned a home prior to the controls has the incentive to maintain the controls to protect his capital gains. Everyone who purchases after the controls has a vested interest in continuing them. Local politicians will not give up their expanded role in housing. In short, once adopted, growth controls are very unlikely to be repealed.

It is clear that appointed or elected officials will have neither the necessary information nor the incentives to effectively and efficiently control development. The results are economic inefficiency, the creation of deliberate shortages of housing, more control over individual rights, and no guarantees that the negative aspects of growth will ever be addressed. The personal costs and economic costs of growth controls may prove to be exceedingly high. □

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Why Is There a Drug Problem?

by George C. Leef

Many people in the United States regularly use “recreational” drugs. But drug use is not recreation at all. It is a foolish type of escapism.

Now, there is nothing necessarily wrong with escapism. We all do it when we read novels or listen to music or go to the movies. Drug use, however, is virtually always harmful to the one who engages in it, and is frequently harmful to others who are victimized by drug users. There is as much agreement as one ever finds in this country with the proposition that we confront a serious drug problem and that we need to do something about it.

Most of the discussion about the drug problem has been about proposed solutions. But, as is so often the case, most of the “solutions” fail to analyze and deal with the causes of the problem. Attempting a solution before you know the causes is usually a waste of time and money, and often makes things worse. So, what I intend to do in this essay is to venture some thoughts on this subject: Why are so many people choosing to use drugs?

Let us first keep in mind that drug use is an individual matter. It is a misuse of language to say that the United States has a drug problem. “The United States” does not and cannot take drugs. What we should say is that a large number of people in the United States use drugs, and that their use leads to serious harm to themselves and often harm to others. We should focus on the problem at an individual level and ask: Why do so many people make the stupid and self-destructive decision to take drugs?

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Almost everyone knows that drug use is expensive and debilitating—a threat to one’s health, job prospects, and family relationships. Perhaps there are a few who begin using drugs in the mistaken belief that it is just a harmless pleasure which they can quit at will, but they must be a very small minority. The typical drug user begins and continues his habit knowing that the long-range consequences of his actions will be decidedly negative.

Now, why would anyone risk losing the chance to live a long, healthy, and happy life in exchange for some immediate pleasure? I can think of two possible answers. First, someone who thinks he has no chance to live such a life, and who faces immediate problems which seem very severe, might think that taking drugs is desirable. Second, someone who is very present-oriented in his decision-making, ignoring or heavily discounting future considerations, might be taken in by the blandishments of the drug pusher. What I conclude is that drug use will rise as the number of people who fall into the above two categories (which are not mutually exclusive) rises.

Throughout most of our history, drugs have been legal, but use has been minimal. So, why has drug use risen so much in the last two decades? I submit that the answer, or a major part of it at least, must be that we have more people in the country who are prone to make the decision to use drugs. That is, there are more people who are very short-sighted or who view life with despair or indifference.

Why are there more people who fall into these categories? Historically, the United States has been the premier land of hope and opportunity. Millions of people have immigrated here

for that reason. The work ethic has been exceptionally strong here. The vast majority of Americans for the last two centuries have accepted the idea that the proper way to live your life is to work hard, save, and improve yourself so that you and your family may have a more prosperous future. That ethic is missing in any drug user. If we can figure out why the work ethic is in decline, we will have made a big step toward understanding why there is a drug problem in this country.

Seeking an Answer

I doubt that I know the entire answer, but I believe that I know some parts of it.

First, we should look at our system of education. As a professional educator, I see proof every day that our primary and secondary schools are failing to prepare young people for the challenges of a competitive world. The horror stories about our educational collapse are true. Many students graduate from high school today with the most feeble reading, writing, and reasoning skills. (The large numbers who drop out are even worse off.) In many schools, standards are so low, and the dogma that a student's self-esteem is sacred is so pervasive, that passing is virtually automatic. In this pathetic environment, little is taught, little is expected, and little is learned.

One lesson, however, is learned all too well: You don't have to try to get by. Young people who see that there is no penalty for failing to work, to plan, and to exercise personal discipline will want and expect the rest of life to be that way. That is the mind-set of the drug user—short-sighted, indifferent, illogical.

A good education does more than just teach specific skills and facts. It also inculcates certain habits of mind which make the use of drugs (and many other forms of destructive, anti-social behavior) unthinkable. A good education teaches one not only how to use his mind, but also to appreciate it as his primary tool for success in the competition of life. It should come as no surprise that many young people who have an education in name only are attracted to mindless diversions, of which drug use is the most harmful manifestation.

Let us also keep in mind that people with little education are ill-equipped to cope with the problems which life inevitably presents. When a well-educated person confronts a problem, he is usually able to use his mind to analyze it, figure out what information he needs, obtain it, and then use it. But the poorly educated person doesn't have those abilities, and is apt to try to escape from his problems rather than to deal rationally with them. That escape, of course, includes turning to drug use.

Furthermore, for the ill-educated, job opportunities are very scarce. The high school dropout or the graduate who can hardly read a set of instructions isn't likely to be able to find and hold a job. The absence of discipline, cooperation, and courtesy, which are also learned as part of a sound education, makes it harder still for the ill-educated to keep a job. Idleness and boredom lure many into drug use.

Second, I think that the growing welfare state is also part of the explanation of our drug problem. The concept of welfare (now often referred to as the "safety net") says that you'll be taken care of without regard to your actions or lack of actions. Welfare encourages, especially in the poorly educated, a feeling of indifference and irresponsibility. A child who sees one or both of his parents doing little or no work and just barely making ends meet at the government's expense is apt to conclude that life will be the same no matter what you do. And it is people like that who are most prone to the short-lived escape which drugs offer. The huge expansion of the welfare state during the "Great Society" of the mid-1960s corresponds closely with the onset of the drug problem. Temporal correlations don't necessarily demonstrate causality, but I am convinced that there is a connection here.

Third, I believe that some aspects of our nation's economic policy are to blame for the rise in drug use. Because of a plethora of laws and regulations, it is very difficult today for a poorly educated person to obtain employment. Sixty years ago, even an illiterate immigrant could get a job rather easily. Of course, his wages would be low at first, and he wouldn't have guaranteed job security or any fringe benefits, but that is exactly why an employer could afford to give him a chance.

Today, the poorly educated run up against minimum wage laws. If their labor isn't worth the minimum wage (plus employer Social Security contributions and other government-mandated costs), they won't be hired. Moreover, "anti-discrimination" statutes raise the possibility that an employer will face a lawsuit if he dismisses a worker. The unhappy worker may charge discrimination even if the employer's decision was made strictly on merit, and may win if the employer can't persuade the court that he had a good business reason for his action.

These laws make it more costly and risky for a business to hire people with few skills, and thus opportunities for gainful employment are restricted. The number of people prone to drug use is further increased.

In *Losing Ground*, Charles Murray argues that the "welfare problem" is rooted in sociological changes which made welfare dependency easier and more acceptable from the mid-1960s on. The same is true, I maintain, about our current drug problem. The decline of quality education, the rising availability of welfare benefits, and rules which militate against the hiring of unskilled people have changed the social environment for millions. Where previously young people almost universally had reason to hope for a better future and possessed the mental acumen to bring it about, today a tragically large number are unable to read, write, and think well enough to take advantage of the limited opportunities open to them. Quite a few of our problems have their roots in this change in the social environment. The drug problem is one of the most serious.

Market Interferences

The common thread in these three factors which lead to increased drug use is that they are interferences with the natural order of the free market. Public schools are a non-market phenomenon, as are the welfare system and restrictions on freedom in the labor market. Nobody wanted these institutions to foster a drug problem, but I believe that they have contributed significantly to it. At work here is the law of unintended consequences. Laws which interfere with the free market have negative unintended

consequences. The laws I have mentioned, rather than making life better for people, have harmed the lives of many.

Even if there were no drugs at all, a nation with large numbers of ill-educated, indifferent, and unemployable people would experience serious problems. If these people didn't turn to drugs, they would surely turn to some other vice. A completely successful war on drugs—which is probably impossible no matter what level of effort—would simply lead to other problems we'd have to wage war on.

The drug problem is not the disease itself, but one of the symptoms of a disease. The drug problem will go away when we again have a nation in which no one has any desire to take drugs. The problem lies in the demand for drugs, so that is where we must look for the solution.

If my analysis is correct, curing the disease will necessarily include the restoration of a sound educational system. People who are well educated—or at least not badly educated—will see the utter irrationality of drug use and abstain from it. Precisely how we can best go about restoring a sound educational system is the topic for many other essays, but I doubt that any significant progress will be made so long as education is publicly financed and run.

Solving the drug problem will also necessitate changing our welfare system so that it doesn't breed indolence and hopelessness. That is much easier said than done. And we will need to open up our labor market so that even those with few skills will have a chance at finding jobs.

I don't know if these changes by themselves are sufficient to eliminate the drug problem, but I am confident that they would reduce it greatly. Without making these changes, it is doubtful that significant progress can be made.

People in the free market movement have been advocating privatization of schools, welfare reform, and repeal of labor market interferences for years, and despite impeccable arguments have made little headway against determined opposition from powerful special-interest groups. We may be more successful in overcoming that opposition if we can show how much is at stake—a United States without a serious drug problem. □

“What Do You Want to Be?”

by Margaret Bidinotto

“**W**hat do you want to be when you grow up?” is a question my daughter, Katrina, has heard countless times from adults unsure of how to start a conversation with a six-year-old. Like most children her age, she has a different answer for each questioner—artist, dancer, teacher, bus driver, actress, mother, store owner—you name it, she’s going to be it.

We adults smile to ourselves at the infinite variety and scope of our children’s ambitions. But we sometimes fail to realize that an idea vital to the existence of liberty is taking root in their young minds—an idea that we instill almost accidentally, and then spend years inadvertently destroying.

“What do you want to be?” is not a universal question. Many if not most societies have been structured for sons to follow in their fathers’ footsteps, while daughters repeat the lives of their mothers. Individuals have few choices to make and rarely expect any. Even in the early years of this country, choices, if not ambitions, were often severely limited by the primitive conditions of the society. But with ever-increasing wealth and well-being, men’s options grew, and “What do you want to be?” became a valid and meaningful question.

By asking them what they want to be, we create in children the *expectation* that they will choose their own roles in life. Lacking maturity, children seldom fix upon one goal; but then, rarely do they question the belief that they someday will. Their observations of what appear to be fascinating adult occupations bring out a natural eagerness to be involved, and they

look forward to that magical day when they will get to “pick for real.”

Making Choices

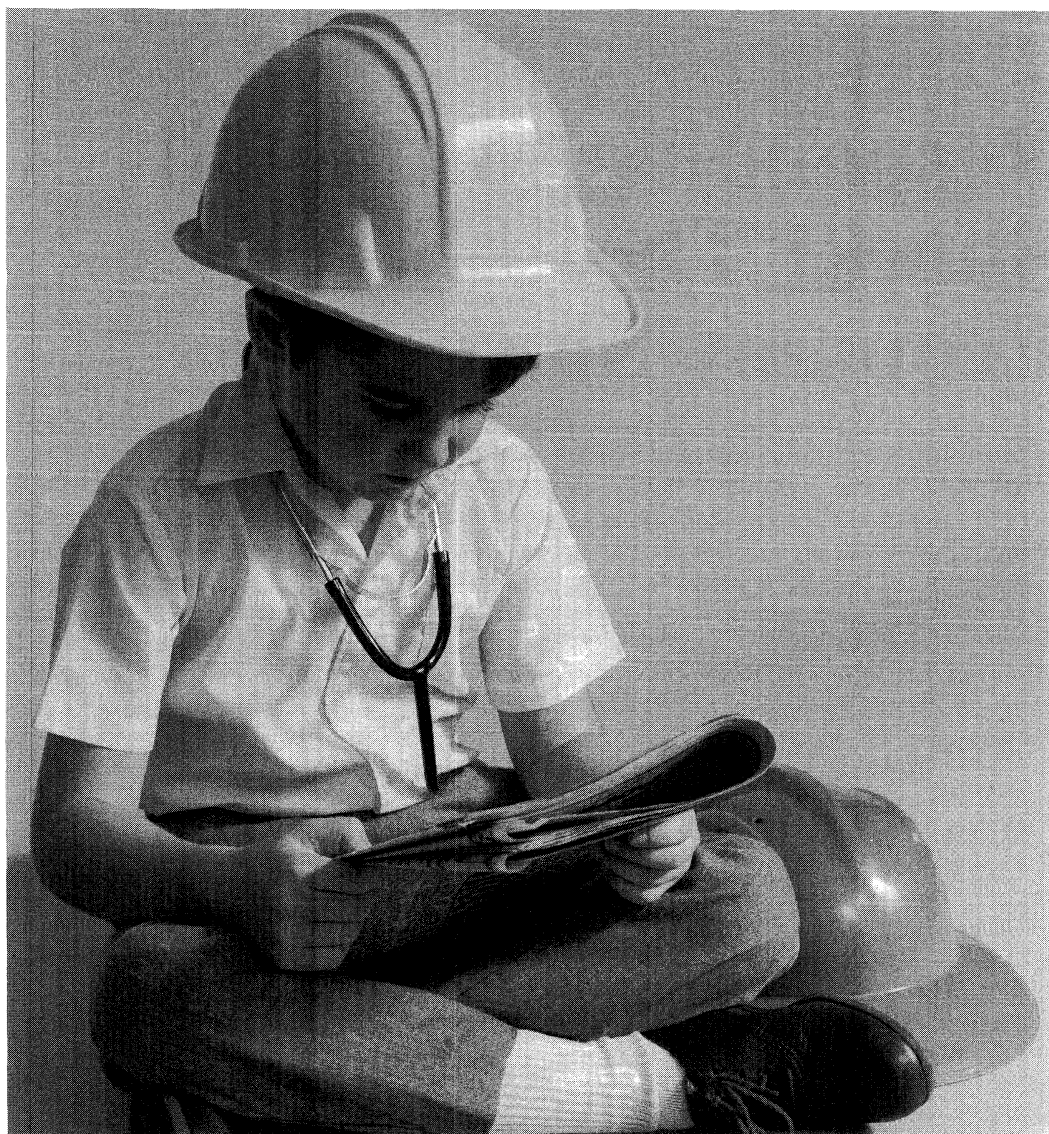
Human beings *need* to make choices, to function and thrive as their nature designed them to do. Liberty is the only condition under which legitimate decisions can be made. But for liberty to survive, people must *expect*—and, more importantly, *want*—to make choices. The individual who does not expect to make choices, or who does not want to do so, is in no position to defend liberty, or his own individual humanity.

It is ironic, then, that this country, full of opportunity, has so many well-intentioned naysayers. Doting aunts tell a young person, “you can’t do that,” while concerned uncles grumble, “nobody’s done that before.” Exasperated teachers tell him to “get serious and grow up,” as his parents lecture him to “come down to earth and be realistic.”

By the time he is in his late teens, a person has heard enough adult exhortations to convince him that his goals and ambitions were foolish and nonsensical. By the time he is in his early twenties, he’s been exposed to enough adults complaining about their “lot” in life, shirking their work, playing the lottery, and griping about their “lousy luck,” to be convinced that life is just a crapshoot with overwhelming odds. It is the rare individual who makes it to adulthood with his youthful ambitions intact.

Most would agree that it would be the height of cruelty to tell a starving child, “just step into this room and you’ll have all you can eat”—only to have him walk into an empty room. No one would be surprised if the child became cyn-

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ical or bitter. Nor should it come as surprise when young people, once promised a rich diet of unfettered choice, become cynics when force-fed the thin gruel of pragmatism and determinism.

These young cynics can only look back on their childhood ambitions with nostalgic longing and, eventually, pain. They will feel somewhat guilty as a small reproachful voice inside tells them they should have stuck to their goals; but as time progresses, they will convince themselves that they "couldn't help it," that circumstances rule their lives, and that they don't *want* to make their own decisions. Then, they will eagerly embrace any collective that

will absolve their guilt and offer to relieve them of the personal responsibility of deciding their own fate. Finally, in time, they will work to relieve others of that same burden.

The next time a breathless six-year-old bubbles enthusiastically about his plans to be "a doctor, then a veterinarian, and then a singer," check your amusement and offer him warm approval instead. Share your own dreams and ambitions with the next teenager you encounter and encourage him to strengthen, not repress, his own interests. Tell him to close his ears to the voices preaching pragmatism and determinism, and ask him instead: "What do *you* want to be?" □

Responding to the Oil Shock: The U.S. Economy Since 1973

by Rodolfo Alejo Gonzalez and Roger Nils Folsom

In 1981 the price of crude oil peaked at \$36 per barrel; today it is less than half as high. Meanwhile, prices in general have risen almost 30 percent.¹ The price-setting power of the Organization of Petroleum Exporting Countries (OPEC) cartel clearly has waned as oil consumers reduced their oil use, as the end of oil price controls encouraged oil production in the U.S. (the second largest producer in 1987, producing less than the Soviet Union but more than Saudi Arabia), as non-OPEC countries such as Britain, Norway, and Mexico greatly expanded their oil output, and as OPEC's members surreptitiously produced above their OPEC quotas and discounted below OPEC prices. Occasional intermittent truces in this economic warfare still twitch the oil markets from time to time, as will the end of the Iran-Iraq war, but OPEC's power is much diminished if not totally gone.

In the face of these developments, neither Keynesians nor monetarists have been able to supply a consistent explanation for the macroeconomic behavior of the U.S. economy since the first oil shock in 1973. Nevertheless, the main economic events of this period can be explained by assuming that private decision mak-

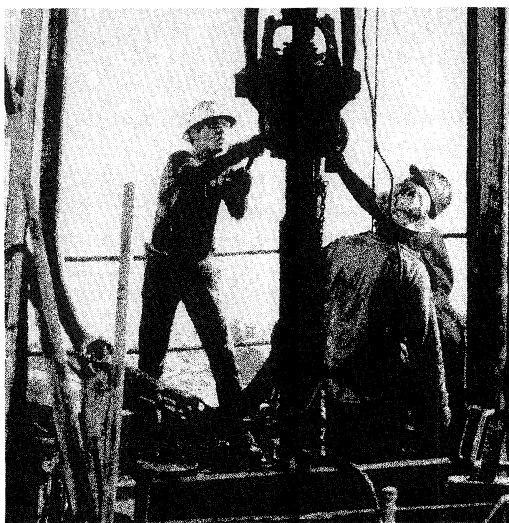
ers responded rationally to the energy "crisis" while policy makers, particularly the monetary authorities, did not.

In terms of aggregate economic output, energy is a complementary resource to both labor and real capital (including other natural resources). The shocks that decreased the availability of oil to the U.S. in the 1970s must have greatly decreased the (marginal) productivity of labor and also capital at that time. In contrast, if labor and the owners of real capital both believed that the energy crisis was temporary, and that energy would once again be plentiful, the oil shocks may not have significantly depressed the expected future opportunities for labor and capital in the 1980s.

Workers and capitalists may have been unimpressed by the argument—advanced by many energy "experts" in the 1970s—that the rise in oil prices was a sign of dwindling worldwide energy sources. Instead, they may have realized that high oil prices almost certainly would induce energy conservation and the discovery and development of new oil supplies not controlled by the cartel, and might stimulate the development of alternatives such as solar power. If they correctly perceived the energy situation as a temporary disruption caused by the OPEC cartel, they should have assigned a high probability to a recovery of energy supplies in a not-too-distant future.

Cartels rarely prevail for long against competitive market forces that move investment to

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Thus the oil supply contractions of the 1970s and the resulting decline in productivity had a negative effect on real national output and income, which was magnified by rational decisions to shift the sale of labor and the use of plant capacity to an expected more productive future.

Given the expectation that after the temporary oil shortage was over, supplies of labor and capital would be higher than during the shortage, households must have believed that their current income was substantially below what it would be in later years. Therefore, consumption spending was relatively buoyant, leading to a steep decline in the savings rate measured against current national output and income.

Inflation and Recession

The supply of money—which government policy has largely insulated from market forces—did not adjust quickly enough to the slowdown in real economic activity. In fact, the Federal Reserve encouraged the banking system to provide more money than the public was willing to hold, in an apparent attempt to induce more economic growth than was compatible with the reduced supplies of oil, labor, and capital. The result was a rise in the inflation rate, as the public tried to exchange excess money for goods and services. With stagnant output and high spending levels, the worsening inflation decreased the public's willingness to hold money even more.

By the end of the 1970s, accelerating inflation had so impaired public confidence in the government's willingness to exercise monetary discipline that there was talk of a flight from money and possible hyperinflation. This process continued until the Federal Reserve abruptly decreased the money supply growth rate and induced the 1981-82 recession, which lasted until sharply lower inflation rates finally changed the expectation that inflation would get worse and worse. Unfortunately, the Federal Reserve reduced the money supply growth rate so erratically that it took unnecessarily long for people to realize that monetary policy had in fact changed.

Meanwhile, Ronald Reagan's 1980 Presidential campaign suggested tax cuts that promised

the activities expected to be most profitable. Moreover, even if a profit-maximizing oil cartel had a perfect and unassailable monopoly, it would not reduce oil production permanently, but would merely shift production to the future.

If we suppose that the suppliers of labor and capital anticipated the return of more plentiful energy supplies, and responded rationally to the difference between existing and expected future opportunities created by the oil crisis — and by government policies that were at least partly reactions to the oil crisis² — by reallocating labor effort, leisure, and capital use over time, then the economic history of the U.S. in the 1970s and first half of the 1980s could read as follows:³

The demand for labor decreased with the fall in its productivity, but real wages did not fall significantly because workers did not expect the oil crisis to last, and therefore they were reluctant to accept real wages lower than those they expected in the future. Instead they accepted unemployment and greater leisure, expecting to increase their labor supply to above-normal levels in the future, when energy supplies and labor productivity had returned to normal.

Decreased productivity also reduced the demand for capital, and owners of capital responded in the same general way that workers did. Capital depreciation increases with use, so rather than accept lower returns, capital owners opted for a lower rate of depreciation and greater excess capacity, expecting to use the saved capacity in the future, when capital again would earn high returns.

long-run benefits but that inevitably generated short-run uncertainty: whether a tax cut would be adopted at all, what its detailed provisions would be if adopted, and how long it would last before the next major tax change. As occurs with any tax cut proposal, the uncertain promise of lower tax rates encouraged people to shift economic activity to the future, when marginal tax rates might be lower (and almost certainly not higher), and when the best way to structure business decisions from a tax standpoint would be less obscure.

Unfortunately, these unavoidable incentives to postpone productive economic activity were compounded by the fact that the Economic Recovery Tax Act adopted in August 1981 phased its tax rate reductions so that they did not become fully effective until January 1984. Also, there were continual serious Congressional proposals to repeal or modify much or all of the 1981 tax cut, particularly its investment incentives, as occurred in the Tax Equity and Fiscal Responsibility Act adopted in late 1982. People were encouraged to postpone economic activity not only until 1981, but also until the lower marginal tax rates became fully effective and the details of the 1982 tax act (and the associated Internal Revenue Service regulations) became clear. Thus, fiscal policy contributed to the economy's below-capacity output between the 1979 and 1981-82 recessions, and worsened the length and severity of the 1981-82 recession.

During this period of low productivity and relatively high desired spending, many households were credit-constrained and unable to borrow as much as they wished. These households pressed for the Federal tax cuts discussed above, for state and local tax cuts (for example, Proposition 13 in California and Proposition "2.5" in Massachusetts), and for continued expansion of transfer payments and other government spending, and were unwilling to let government pay for increased defense spending by significant reductions in nondefense spending. In short, these households—unable because of their credit constraints to dissave as much as they wished for themselves—pressed for government dissaving. The U.S. government deficit exploded.⁴

After 1982 the demand for real investment

increased substantially, to prepare for the expected higher productivity of capital after the return of normal oil supplies and prices.⁵ But because of the decreased saving by households and dissaving by government, this increase in real investment had to be financed by a large change in the international flow of financial capital, so that the U.S. would have a large net inflow instead of its usual net outflow. Real interest rates in the U.S. rose very high in order to attract this net inflow of financial capital, which showed up statistically as a very large U.S. international trade deficit. The capital inflow increased the foreign demand for investment assets in the U.S., raising the international demand for dollars and consequently lifting the dollar's international exchange rate value to unprecedented heights.

An Inflow of Capital

The net flow of capital was from the rest of the world into the U.S., rather than the reverse, because the rise in the demand for investment relative to domestic savings was more pronounced in the U.S. than elsewhere. Although the oil shocks affected the whole Western world, oil was a more important productive input in the U.S. (Oil input per dollar of Gross Domestic Product was, and is, much higher in the U.S. than in Europe and Japan.) Consequently, the oil shocks decreased productivity—and contracted national income and saving—more in the U.S. than in other important centers of economic activity, while the need and willingness to invest in preparation for a greater abundance of oil was also higher in the more oil-reliant U.S.

Other things equal, high real interest rates raise the time value of money and encourage oil production out of existing fields, but simultaneously discourage oil exploration investments (along with other real investments). Thus the high real interest rates of the early and middle 1980s hit the major oil producing states such as Texas, Louisiana, and Oklahoma particularly hard, by driving oil prices even lower than they would have dropped otherwise and by decreasing oil exploration below even the levels that would be expected as a result of very low oil prices.

Once the expectation of lower oil prices had dramatically—albeit unsteadily—come true, the results were quite straightforward: confirmed expectations of much lower oil prices expanded economic output and greatly reduced unemployment, excess capacity, real interest rates, the government budget deficit, and the size of the trade deficit relative to Gross Domestic Product, and dropped the international value of the dollar. The most recent data suggest that our trade deficit has begun to decline not only relative to Gross National Product, but also absolutely.

Here ends our history. Note that our initial assumption, that actors in the U.S. economy expected the oil shortages and resulting declines in productivity to be temporary, plays a key role in explaining most of the significant features (also known as “problems”) of the U.S. economy in the 1970s and early 1980s: slow real economic growth, severe inflation, high unemployment, excess capacity, low savings rates, huge government budget deficits, extraordinarily high real interest rates, large trade deficits, and a very high exchange-rate value of the dollar.

Given the steady improvement in the U.S. economy since 1982, there is no need to raise taxes in order to deal with the government budget deficit, which after peaking in fiscal 1986 then dropped by 30 percent. Nor is there any need to impose inefficient protectionist measures in order to reduce the trade deficit. Higher taxes (whether on personal or corporate income, oil, or energy), or higher trade barriers, would in fact be counterproductive.

The impatient may argue that because the improvement in the U.S. economy since 1985 has been not only steady but also slow, our optimism is too reminiscent of Pollyanna's. But the sluggishness of the economy since 1985, as in 1980-82, can be explained easily within the framework of this paper. In May 1985, after digesting angry criticisms of U.S. Treasury tax reform proposals⁶ issued in late November 1984, the Reagan administration seriously proposed massive tax law revision and lower rates. The promise of lower future marginal tax rates, together with the enormous uncertainties generated by very different alternative proposals for

massive revision of the tax code, encouraged people to postpone productive economic activity. Tax uncertainty lasted at least until the new tax law was enacted in late 1986 (numerous important regulations still remain to be written), and lower tax rates did not become fully effective until January 1988. And now we face new uncertainties about the tax and other economic policies to be adopted by President Bush and the Congress elected in 1988. In addition, adjusting to lower oil prices involves some costs: as resources are reallocated, some activities contract before others expand.

The economy is in transition. We need only to enjoy the supply-side benefits that will continue to come as the economy adjusts to lower oil prices and lower effective marginal tax rates. This prediction, of course, assumes that our legislators and monetary authorities will refrain from actions that would derail the current economic expansion. □

1. As measured by the Gross National Product Implicit Price Deflator, which rose from 94.0 in 1981 to 121.8 at the end of the second quarter of 1988. In contrast, the “crude petroleum” component of the Producer Price Index fell 58 percent, from 109.6 in 1981 to 46.0 at the end of the second quarter of 1988.

2. The U.S. government could have taken steps, such as price decontrol of natural gas, to moderate the decrease in energy availability. Instead, the government decreased the supply of U.S. oil by continuing existing price controls (introduced by the Nixon administration as a general anti-inflationary measure in 1971) on oil and petroleum products, and in 1980, by imposing windfall profit taxes on domestic oil producers.

3. Our history reads as if there were a single oil shock to the U.S. economy in the early 1970s when in fact there was an initial shock with the Arab-Israeli war of 1973, followed by a partial recovery of oil supplies, and a second shock following the Iranian revolution in 1979. But to treat each shock separately would add substantially to our history's length without altering its substance.

4. Our analysis of household behavior builds on two ideas: first, that consumption depends primarily not on transitory income fluctuations but on expected permanent or “life-cycle” income; second, that credit constraints can significantly alter households' abilities to spend as much as would be appropriate given their expected permanent or “life-cycle” income. The first of these ideas was introduced by Milton Friedman (*A Theory of the Consumption Function*, Princeton, 1957), and then in a series of papers by Franco Modigliani, Richard Brumberg, and Albert Ando (see, for example, Modigliani's “The Life Cycle Hypothesis of Saving, the Demand for Wealth, and the Supply of Capital,” *Social Research* 33, 1966). The modifications necessary to incorporate credit constraints into these expected permanent “life cycle” income models are being developed by Thayer Watkins, in papers that have not yet been published.

5. Some real capital investments undoubtedly were delayed as investors waited to see whether Congress would respond to the government budget deficit by repealing the lower tax rates enacted in 1981 and raising taxes even more than they were raised in 1982.

6. See Charles E. McClure, Jr. and George R. Zodrow, “Treasury I and the Tax Reform Act of 1986: The Economics and Politics of Tax Reform,” *Journal of Economic Perspectives*, 1 (Summer 1987), pp. 37-58. The same issue contains a number of related papers.

The Entrenchment of the State

by Matthew Hoffman

Mikhail Gorbachev's new themes for the Soviet Union, *glasnost* (openness) and *perestroika* (reform), and their scant but widely publicized concrete manifestations, have caused a great stir in the West. Speculation about what has caused the Soviet leaders to attempt such changes varies widely, but one of the most popular theories is that they are desperate: their empire is crumbling from within, and if they do not change their system and relax controls, they will lose their power completely.

To classical liberals, this line of reasoning is appealing, for it is consistent with the principles of the free market. The lack of productivity incentives, supplied in a private property order by the availability of profit, as well as the inefficiency of a vast, corrupt, bureaucratic system of economic management devoid of the benefits of monetary calculation, will cripple the economy of any socialist nation. As Ludwig von Mises wrote, "In the face of the ordinary, everyday problems which the management of an economy presents, a socialist society would stand helpless, for it would have no possible way of keeping its accounts."¹

The theoretical unworkability of socialism is, without a doubt, consistent with socialist experience. To dispute this would be to contradict the implications of almost all available data gathered from numerous failures of socialism around the world.

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It is wrong, however, to conclude that the failures of the stated goals of socialism, and the resulting public dissatisfaction with the system, are the causes of the reformation movement currently under way in the Soviet Union. In reality, the popularity of an entrenched Communist government is not a factor in its behavior. To such governments, public opinion is irrelevant, because it is for all practical purposes impossible for the populace to rebel successfully against their rulers. In fact, no major Communist government has ever been overthrown from within. To discover why this is so, we must analyze the system.

The Use of Terror

One of the principal ways a Communist totalitarian regime maintains its grip on the populace is the unconstrained use of terror.

The Bolshevik Party, for instance, had only an estimated 200,000 members when it overthrew Russia's Kerensky regime in 1917.² Aleksandr Kerensky was a member of the Socialist Revolutionary Party, which had the support of vast numbers of peasants, and received 58 percent of the vote in the elections of the Constituent Assembly, a congress elected by universal suffrage.³ The Bolsheviks quickly abolished the Assembly, but the fact remained that the majority was clearly against them. How, then, did they maintain their power?

A short lull followed the Bolshevik coup, but preparations to consolidate their power began almost immediately. On December 20, 1917,

Lenin established the Cheka, a secret police organization designed to "combat counterrevolution, speculation, and sabotage."⁴

Several months later, after a failed assassination attempt directed at Lenin, the Central Committee resolved that, "To the white terror of the enemies of the Workers' and Peasants' Government the workers and peasants will reply by a mass red terror against the bourgeoisie and its agents."⁵

With this decree, the Cheka was unleashed upon the population, indiscriminately arresting and torturing thousands of people, especially intellectuals. They paralyzed the country with fear, eliminating trust by creating false resistance organizations, and extracting "confessions" from victims at any cost.⁶

The Cheka, today called the KGB, has grown over time, and now penetrates every sphere of Soviet society. It contains hundreds of thousands, if not millions, of people and maintains a vast network of informants.⁷ Dissidents are regularly arrested by the KGB and tortured in mental institutions.⁸ The country is held in an iron grip of fear.

The use of terror to consolidate power has been adopted by many, if not all, Communist regimes. The Chinese Communists, after promising to maintain private property and free enterprise in 1949, began in 1950 a program of mass terror against property owners and "counter-revolutionaries," in which millions died.⁹ The Khmer Rouge annihilated approximately one-third of the Cambodian people during their four-year reign.¹⁰

George Orwell, who ironically was a socialist, had a keen understanding of the ability of totalitarians to maintain their power, despite a lack of popular support. He modeled the workings of his futuristic police state in *1984* after the Bolsheviks, who practiced most of the repressive measures that Orwell's imaginary Oceania used. Orwell has the novel's antagonist state: "Obedience is not enough. Unless [a man] is suffering, how can you be sure that he is obeying your will and not his own? Power is in inflicting pain and humiliation. Power is in tearing human minds to pieces and putting them together again in new shapes of your own choosing."¹¹

After a Communist government secures control over a people, it usually sets out to construct the utopia it has promised them. This often satisfies the socialistic intellectuals who may have been spared in the initial purges, as well as the masses, who often believe the party line. Many are convinced that their economic and political hardships are merely temporary, and will fade away as the Communist paradise evolves. In the new atmosphere of fear and lofty promises, dissent tends to abate. The government then will attempt to implement its policies, which usually include the complete abolition of private industry and free trade, the collectivization of farmlands, and bureaucratization of the economy.

In China, after the initial purge and the end of the Korean War, the government set out to do all these things, as did the Soviet Union after its Civil War. The Soviets enacted programs such as "War Communism" and the "New Economic Policy" (which allowed limited private enterprise), and finally settled on their system of five-year plans. Mao Tse-tung attempted "the Great Leap Forward," the failure of which ultimately led him to unleash the "Cultural Revolution."

None of these policies stimulated the economies of the two countries or improved the citizens' standards of living. However, they did put the economies under strict central control, exercised through immense bureaucracies. Today, for example, the People's Republic of China has approximately ten million government officials.¹²

Governments of such size and economic power are not overthrown. The only coups that take place do not result from mass uprisings, but from struggles within the bureaucracy. Viktor Suvorov, a defector from the Soviet Army, describes gigantic hierarchical factions within the government, supported by a system of interdependency.¹³ These struggles may lead to government manipulation of the general populace, often using mob psychology.

When Stalin wished to collectivize Soviet farms in the late 1920s and early 1930s, he met with great resistance from the upper class of peasants (the kulaks) as well as the vast middle class (the seredniaks). Both groups had nothing

to gain from the collectivization of their lands. However, the lower class, called *bedniaks*, were quite poor and favored the plan.

Stalin turned the *bedniaks* against the other groups, allowing them to attack the other peasants and take what they would. A great civil war erupted in the rural areas of the Soviet Union, and Stalin used the opportunity to force the collectivization. In doing so, he caused a famine that killed between 5 and 10 million people. Yet, they did not rebel against the government itself. Stalin had transformed a statist imposition into a conflict between groups.¹⁴

When the paranoid Stalin perceived the growing power of his rivals, he began to eliminate them one by one, in numerous assassinations and bogus trials. In order to consolidate his personal control of the state, he engineered the Great Terror, which resulted in millions of deaths. Under these horrible political conditions, the people did not rebel.

Similarly, with the failure of Mao Tse-tung's "Great Leap Forward" in China, various factions within the government suggested revising policies in order to cope with the economic problems of the country. Mao perceived this as a direct threat to his power, and struck at his enemies within the party by unleashing the "Great Proletarian Cultural Revolution" in which children and teenagers were organized in "Red Guard" groups, and told to annihilate anything "traditional," "luxurious," or "revisionist." They swept over the country in what may have been the most phenomenal orgy of destruction in history, and successfully purged the party ranks of anti-Maoists. The economy was left in ruins. The people, however, did not rise up against the government.¹⁵

As the antagonist in 1984 said: "It is time for you to gather some idea of what power means. The first thing you must realize is that power is collective."¹⁶

Entrenchment in the United States

Because of the growth of government power in the United States during the last century, America has acquired some of the characteris-

tics of the totalitarian nations that facilitate the entrenchment of power.

Our government continues to send its tentacles deeper and deeper into the nation's economic life. The federal, state, and local governments employ almost 16.7 million people, about 7 percent of the entire population!¹⁷

The collectivization and factionalization of our society continue, as special interest groups vie for coercive privileges, power, and government largess. Today, 90 million Americans depend on the government for support.¹⁸

In addition, the state controls our children's intellectual development through compulsory education laws, public schools, and school licensing. The regulation of thought is essential to the entrenchment of the state.

If we do not wish to meet the Orwellian fate of the citizens of the Communist nations, we must halt the growth of our government, and reverse the coercive, collectivist trends that threaten to deliver us to a potentially eternal tyranny. Walter Cronkite wrote in his preface to 1984: "It has been said that 1984 fails as a prophecy because it succeeded as a warning. Well, that kind of self-congratulation is, to say the least, premature. 1984 may not arrive on time, but there's always 1985."¹⁹ □

1. Ludwig von Mises, *Liberalism* (Irvington-on-Hudson: The Foundation for Economic Education, 1985), p. 72.

2. Robert E. Elson, *Prelude to War* (New York: Time-Life Books, 1976), p. 45.

3. *Ibid.*, p. 53.

4. William R. Corson and Robert T. Crowley, *The New KGB* (New York: William Morrow and Company, 1985), p. 31.

5. Edward H. Carr, *The Bolshevik Revolution 1917-1923*, vol. 1 (New York: W. W. Norton and Company, 1952), pp. 151-183.

6. Corson, pp. 41-42.

7. John Barron, *KGB Today: The Hidden Hand* (New York: Berkley Books, 1985), p. 385.

8. *Ibid.*, pp. viii-ix.

9. H. E. Chen, *The Chinese Communist Regime* (New York: Frederick A. Praeger, 1967), pp. 3-4.

10. "A Mass Murderer's Exit," *Maclean's* (September 16, 1985), p. 22.

11. George Orwell, *1984* (New York: New American Library, 1949), p. 220.

12. *Encyclopaedia Britannica*, 1986, vol. 16, pp. 57-58.

13. Viktor Suworov, *Inside the Aquarium* (New York: Berkley Books, 1986), pp. 81-82.

14. Basil Dmytryshyn, *USSR: A Concise History* (New York: Charles Scribner's Sons, 1984), pp. 170-171.

15. Anne F. Thurston, *Enemies of the People* (New York: Alfred A. Knopf, 1987).

16. Orwell, p. 218.

17. U.S. Department of Commerce, *Statistical Abstract of the United States* (Washington D.C., 1987).

18. Hans F. Sennholz, *Debts and Deficits* (Spring Mills: Libertarian Press, 1987), p. 11.

19. Orwell, p. 3.

Blockading Ourselves

by Cecil E. Bohanon and T. Norman Van Cott

Blockading enemies is a standard wartime tactic. The objective, of course, is to prevent an adversary from trading with other countries. At the same time, warring nations try to keep their own seaports open. In light of this centuries-old wartime tactic, it is curious that nations at peace regularly blockade themselves by pursuing policies which restrict imports. The irony of nations turning a wartime weapon on their own citizens during peacetime has escaped attention in the flood of recent commentary on international trade.

One might object to this wartime/peacetime contradiction on the grounds that it is an imperfect analogy. Note, however, that the goals of wartime blockades and peacetime import restrictions are similar in that both seek to prevent foreign goods from entering a particular market. Logical consistency implies that if wartime blockades hurt enemies, peacetime restrictions hurt our own economies. Alternatively, if peacetime restrictions improve a nation's economic strength, wartime blockades are treasonous.

A Lesson from U.S. History

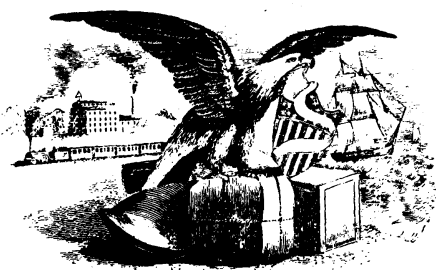
During the U.S. Civil War, the North blockaded the major seaports of the South. Historians generally agree that the South's economic strength was sapped by the blockade. Entering and leaving Confederate seaports became more costly, usually requiring the skills of blockade runners.

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The adverse economic effects of the blockade on the South were twofold. First, the blockade made imported goods less available, so that the Confederacy had to eliminate certain uses to which imports heretofore had been put. The resources the Confederacy previously had been using to pay for these imports had to be redirected to less-preferred goods. Second, the imports that did slip through the blockade came at a greater cost. More costly imports meant the Confederacy had to send more of its production to foreigners as exports to obtain these imports.

Today's media pundits sing the praises of exports and consistently denigrate imports. Fortunately for the North, Abraham Lincoln and his Secretary of the Navy, Gideon Welles, knew better. The purpose of the blockade from the North's point of view was to reduce the Confederacy's access to *imports*. Admittedly, the North also tried to prevent Confederate exports when, for example, it intercepted cotton-laden ships bound for England. But these export interruptions served the North's interest only because they reduced the Confederacy's ability to pay for imports. The North surely would have been willing to permit Confederate exports, *provided* it could have completely eliminated Confederate imports. Popular wisdom aside, exporting without importing is counter to a nation's well-being; it reduces the availability of goods and services to the inhabitants.

From the time of Adam Smith and David Ricardo, economists have carried the torch for free trade. It is common to hear people say that economists have won all the formal debates on the subject, but have been steady losers in the



political arena. Curiously, economists have not trumpeted the fact that governments' wartime actions are consistent with the free-trade doctrines of Smith and Ricardo. Perhaps the economists' reticence reflects what Milton Friedman, in *The Optimum Quantity of Money and Other Essays*, describes as a tendency among economists "to discard war years as abnormal."

We submit, however, that government officials' wartime actions should not be overlooked. Indeed, the contradiction between their wartime and peacetime actions can be explained in terms of the first principles of economics. These same principles suggest, moreover, an important consideration if the dream of free trade is to become a reality.

Why do government officials behave as they do? The *personal* benefits and costs to politicians obviously play a key role. Peacetime import restrictions benefit politicians because they can confer privileges on domestic industries that are facing foreign competition. Politicians bear little personal cost because consumers harmed by the restrictions are spread throughout the economy and are too unorganized to be politically important. Politicians cover their tracks with rhetoric to the effect that imports "weaken the economy," "deter economic growth," and "destroy jobs."

However, if one believed this political rhetoric, one would never suggest a wartime blockade. Quite the opposite—a better wartime strat-

egy would be to encourage neutral nations to trade with your enemies. Indeed, why not subsidize your own citizens' trade with enemy nations, since it supposedly saps your enemies' economic strength?

Any schoolchild, of course, can see the folly of this logic. Such policies risk national disaster, which in this case translates into personal disaster for the policy-makers. For this reason, the lessons of Smith and Ricardo necessarily loom large in the calculations of wartime politicians. When viewed in this perspective, the contradiction becomes more understandable.

At the risk of belaboring the wartime/peacetime imagery, the contradiction is similar to the foxhole religious conversions that occur during every war. Soldiers under heavy fire promise God they will "walk the straight and narrow" if God will get them out of their predicament. Once safe, however, they return to their "backsliding" ways. So it is with government officials and international economic policy. Peace reduces their personal costs of acting contrary to national economic efficiency.

Raising the Costs

Aside from pointing out the logical inconsistency of protectionist rhetoric, what does the foregoing tell us? Perhaps the salient point of the contradiction relates to how personal costs influence government policy-makers. This in turn suggests that the path to reform of international economic policy must go beyond merely explaining the economics of trade, as desirable as this may be. That is, essential to international economic reform is the idea that peacetime protectionism must be personally more costly to government policy-makers. It is quite likely that reform along these lines encompasses changes that are of a quasi-constitutional or constitutional nature. □

Popper, Hayek, and Classical Liberalism

by Jeremy Shearmur

Karl Popper, who turned 86 years old this past July, is justly famous for his work in the philosophy of science. As a young man, Popper was inspired by the way in which Einstein called into question the ideas of Isaac Newton. Einstein put forward a theory that, if true, explained why Newton's work had been so successful. From Einstein's theory, however, there could also be deduced consequences that differed from those of Newton's theory; predictions that could be put to the test.

Now Newton's *Principia* was possibly the best-confirmed scientific theory of all time. Alexander Pope, when composing an epitaph for Newton, wrote:

Nature and Nature's laws lay hid in night,
God said: Let Newton Be! and all was light.

It would scarcely be an exaggeration to say that, as more and more impressive confirmations of Newton's work were discovered, a major problem for philosophers became: How can we explain that, on the basis of experience, we have knowledge of truths such as Newton's theory.

Popper reflected on the character of Einstein's achievement, and was led to a new account of the development of scientific knowl-

edge. In Popper's account, science is the product not of induction, but of a process of conjecture and of refutation. Science, which for Popper is probably mankind's greatest cultural achievement, always remains conjectural in its character, and human beings are seen as inescapably fallible.

All this also led Popper to a more general view of our condition. Popper sees human beings, like other animals, as involved in problem-solving. We have various inbuilt expectations and mechanisms by which we interpret the world around us. But our expectations and our interpretative mechanisms are fallible. We need to learn by trial and error. Unlike animals, however, it is possible for man, using the descriptive and argumentative functions of his language, to construct a world of culture, outside of himself, in which he is able to externalize, and thus to criticize, his knowledge. By this means, as Popper has often said, men differ from the animals, because it is possible for man to let his theories die in his stead.

Popper is also well-known for his writings on political philosophy, notably his *The Open Society and Its Enemies*. In this work, written during the Second World War, Popper drew upon themes from his philosophy of science. He criticized those who, like Plato, wished to claim power on the grounds that they had access to secure knowledge. And he criticized those like Marx who had allowed their essential humanitarianism to be channeled into directions that were hostile to the Open Society, because they held false theories of knowledge and of history. Popper's *Open Society* contains much detailed

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The author would like to thank Sheldon Richman and Pamela Shearmur for their comments on an earlier version of this paper.

critical discussion of both Plato and Marx. In addition, it contains Popper's own picture of an Open Society. Popper is here concerned with the freedom and well-being of all citizens. He pictures a democracy as functioning very much in the spirit of the scientific community. Politics, for Popper, is a matter of our discovering problems and putting forward tentative solutions to them. Just as in science, we should then hold our conjectures open to criticism—to feedback and critical responses from all citizens—so that we can most effectively discover where things are going wrong.

Learning from Our Mistakes

When Popper was writing, he considered that the big issue after the war would be the defense of the ideals of a free society against those who called them into question, from the left and from the right. Today, however, we may look to Popper's work with a different question in mind. What form of social organization would best enable us to learn from his insights about human fallibility and the need for us to learn from our mistakes?

Considered from this perspective, Popper's work does not fit too easily within the usual approaches to politics. Popper, when writing *The Open Society*, showed great sympathy for working people. He had no time at all for conservatives who felt that working people were unfit for citizenship, and he was also critical of the policy of "laissez faire." At the same time, Popper strongly emphasized the importance of markets and of the government's acting only through a legal framework.

Bryan Magee, at one time a member of the British Labour Party, has argued that "the young Popper worked out what the Philosophical foundations of democratic socialism should be."¹ And Popper has been hailed as a kind of secular patron saint of social democracy by a number of leading political figures, especially in West Germany.² Magee himself notes that Popper's own views have changed and that he would now describe himself as a liberal in the "old-fashioned" sense. And Popper, in his autobiography, has said that "if there could be such a thing as socialism combined with individual liberty, I would be a socialist still."³

But is it the case that the logic of Popper's argument points toward one rather than another form of social organization? I believe that, perhaps *despite* the views of the younger Popper, the logic of his argument points toward a form of social organization in which the market plays a major role, and politics a rather restricted one. I would thus suggest that the best way of making use of Popper's ideas about politics would be through those ideas that have been advocated by his old friend, Friedrich Hayek.

Popper and Hayek have influenced one another in many ways. Hayek has told us that his views on science were importantly changed as a result of his contacts with Popper. And Popper's political writings seem to bear the mark of Hayek's work (notably in his appreciation of the importance of markets and of a legal framework for government action).⁴ There are certain common themes to their writings. Both see human freedom and well-being as of the greatest importance. They both see all human beings as fallible, and give great weight to the idea that, in designing social institutions, we should put a premium upon our ability to learn. They both believe that, in an affluent society, we have an obligation to help those who need it. And they both recognize the importance of our being able to change governments through elections, rather than only by force.

There are differences between them, however. Hayek views the market and a liberal constitutional order as a mechanism, by which individuals can learn by trial and error. For Popper, learning by trial and error in social affairs is made more the responsibility of government. Politicians and civil servants would diagnose our problems and offer solutions to them. Democratic politics is regarded as a mechanism by which they may learn that they have got things wrong.

But which is the most effective means through which we can learn in the realm of social affairs? Let us contrast the behavior of the entrepreneur and of the politician.

The entrepreneur wishes to discover if he is wrong. If he has backed a bad idea, he will want to discover this as quickly as possible and abandon it, because a bad idea will lose him money. He cannot peddle his bad ideas to people, because they will buy his ideas—his goods—only

if they consider them worthwhile. And while no one likes to discover that they have made a big mistake, the entrepreneur has every incentive to abandon old failures and to move on to new and better ideas. He also has every incentive to try out bold and daring ideas. There is nothing wrong with his doing so, for only those citizens who choose to adopt his idea will share the risk. And there are excellent mechanisms to tell the entrepreneur when he has made a mistake.

Contrast with this the politician. When did you ever hear a politician who still had an election to fight admit that he had made a serious mistake? And if he did admit it, would he ever be allowed to forget it? Unless he was very lucky, it would dog him to his grave. Indeed, politicians typically die with their mistakes. And so—they seldom admit they are wrong. If they are wrong, they will attempt to cover it up. And if they are in power, they will be able to use the mechanisms of government to force their errors onto the rest of us, while telling us that they are successes. Above all, politicians are interested in power: and thus, in democratic countries, in their popularity, and in not saying anything out of turn. After spending over a year as Director of Studies of a public policy institute, I was still amazed by the unwillingness of politicians to say what they *really* felt about anything, even in private conversation.

In a country in which government plays a major role, much of the power is in the hands of civil servants. Civil servants, while usually dedicated to their work, are creatures of routine. And there simply do not exist mechanisms for assessing whether most of what government actually does should be undertaken at all, let alone whether it is being undertaken effectively.⁵

Above all, it is difficult for us to tell our

masters—whether politicians or civil servants—in what respect they have got things wrong, or what in our view the trade-offs should be between, say, expenditure on one thing or another, and letting us keep our money in our own pockets.

The lesson in all this, it seems to me, is that we should put into the hands of government *nothing* that we can organize by other means. And we should also be reluctant to take from individuals the power of deciding what they want and to give it to anyone else. Once that power is shifted, we move decisions away from our most effective mechanism of accountability: accountability to individuals in the marketplace.

Many years ago, Friedrich Hayek came to the conclusion that it was not socialism (in which he had believed as a young man), but institutions in the tradition of classical liberalism that would do most for the well-being of his fellow citizens, especially the poor. It seems to me that it is the tradition of classical liberalism, as exemplified by Hayek's work, that also offers us the best institutional model for putting into practice Karl Popper's insights about our need to learn by trial and error in political and social affairs. □

1. Bryan Magee, *Popper* (London: Fontana Books, 1973), p. 84.

2. Cf. G. Luehrs et al. (eds.) *Kritischer Rationalismus und Sozialdemokratie*, I and II (Berlin and Bonn-Bad Godesburg, 1975, 1976).

3. Karl Popper, *Unended Quest* (London: Fontana Books, 1976), p. 115.

4. It is largely in this context that Popper refers to Hayek in his notes to *The Open Society and Its Enemies*.

5. If this seems an exaggeration, I would suggest the perusal of the discussion of rationality and decision-making in any standard text on policy making in the public sector, such as Christopher Ham and Michael Hill, *The Policy Process in the Modern Capitalist State* (Brighton: Wheatsheaf Books, 1984) or Brian Hogwood and Lewis Gunn, *Policy Analysis for the Real World* (Oxford: Oxford University Press, 1984).

Islamic Capitalism: The Turkish Boom

by Nick Elliott

Once dismissed as the “sick man of Europe,” Turkey is now building a prosperous future. The Turkish economy has been growing at a faster rate than that of any other country in the OECD (Organization for Economic Cooperation and Development)—including Japan, Great Britain, and the United States. The Turks seem to have evolved a successful union of Islam and capitalism, not always a comfortable mix.

My own impressions were formed on a recent trip to Istanbul, during which I witnessed the frenetic commercial activity that is fueling the Turkish economy. Istanbul is a city with a fast pace, a whirlwind of people hurrying about their business, working hard.

For a country that is still relatively poor, it is a surprise to find no beggars. Instead, everyone works, in whatever niche he can find. To the Western eye, some of these jobs appear very menial: outside the railroad station a row of men crouch over jars of polish, offering to shine shoes. Everywhere men and boys squat beside flagons, with a drink of cold water for sale. To the Turk, these simple jobs are a way to make a living; and all of these people in their small ways are contributing to the economic expansion.

Turkey needs a booming economy to support a booming population. The current population of 52 million may reach 75 million by the end of the century.

In Istanbul, children are everywhere. Turkey is still emerging from a Third World culture, in which children are a valued part of the family economy. They go to work in the family business, and they provide for their parents in old age. In Istanbul, young children work in shops, sell packets of postcards to tourists, sell birdseed to visitors who want to feed the pigeons, or learn the trade of shoe-blackening.

To the visiting Briton, the sight of a small child cleaning shoes clashes with the taboos we have constructed around “child labor.” In Britain we have legislated to make children attend school until the age of 16. We force children to be taught about kings and queens and glacial striations, and to go on cross-country runs. Many of the children who pass through the system pick up little in the way of useful knowledge or values.

In Istanbul, children start learning early how the world works. They learn the rewards of hard work and application. They learn something about the pressures and pleasures of independence and responsibility. The sight reminded me of the bootblack hero in Horatio Alger’s *Ragged Dick*.

Younger Turks have realized that a large part of their future will depend on working with foreigners from the West. Many of the young children have learned the benefits of being able to sell in more than one language. Stopping at a postcard shop in Istanbul, I was surrounded by a group of small boys who asked me where I was from, and proceeded to tell me in fluent English what I could buy. When a German stopped to look, they spoke to him in German.

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These boys had learned their skills from finding a use for them in everyday life.

Istanbul is a city that bridges two continents, in more than the geographical sense. On Turkey's eastern border is Iran, the focus of a world fundamentalist revival, a movement for vigorous and uncompromising imposition of Holy Law. In Istanbul women cover their faces, and the wailing from the mosques resonates around the city, part of a culture that stretches across Islamic Asia. Yet modern Turkey is founded upon the ideas of Kemal Atatürk (1881-1938), who sought to make Turkey a secular republic. The Turks are serious about their religion, but recognize that it has its place.

One reason why Moslems are sometimes suspicious of capitalism is that it can disrupt the Islamic pattern of society. Capitalism entails an extension of choice, as its foundation and as its result. By making available new arrays of material goods, it tempts the Moslem with Western values. Capitalism pays no respect to hierarchies of power. It allows individual people to live independently of government, and disperses power to the many. It opens up new networks of communication, beyond the critical supervision of the guardians of Holy Law. Where Islam is imposed as a rigid code of uniformity, capitalism is a threat.

In Istanbul, alongside the mosques are shops selling Japanese cameras. In amongst the symbols of a traditional and ancient culture you find

the trappings of Western materialism. A contrast it may be, but it is also a compliment to the tolerance of Turkish society. Turkey remains an Islamic country—a member of the Islamic Conference Organization—but Turkish society retains a flexibility that can admit deviation. It is marked by an openness that has never been more valuable than today.

From the East, Turkey must incorporate the pull of the fundamentalist revival, popular in universities. From the West come the attractions of liberalism and permissiveness. Potentially a conflict of values that could fracture their society, this meeting of East and West is more likely to be the making of modern Turkey. Turkey can find prosperity and status as the go-between in trade and international relations.

Some Turks frown upon the changes that have accompanied new riches. In Britain some observers already have started to lament the loss of the "simple life" in Turkey. Their fears are groundless: Turkish culture is too deep to be subsumed by Western life. To most Turks the future must be an exciting prospect, in a country gaining respect and influence.

Many Third World governments have foundered in their attempts to modernize their countries by pursuing false ideas to unworkable conclusions. Turkey is one of the better examples, a country where progress is succeeding by being left to evolve through the efforts of individuals. □

In the March Freeman:

- "How Smart Is Big Brother?" by James L. Payne
- "Why Deny Health Care?" by Robert K. Oldham
- "1992: Which Vision for Europe?" by Nick Elliott

Markets and Morality

by Peter J. Hill

In terms of sheer ability to provide goods and services, most people would agree that capitalism wins hands down when compared with alternative economic systems such as socialism. Even so, many critics of private property and markets prefer a more socialistic system or at least one that places more power in the hands of the government. They argue that although capitalism delivers the goods in a material sense, it doesn't deliver them morally. That is, capitalism doesn't satisfy certain basic standards of justice.

This article challenges that position by examining several areas where moral issues weigh in on the side of the marketplace. This is not an argument that a society based on free markets is the same as a moral society; people can behave morally or immorally in a free market system just as they can in other systems. However, capitalism does have a number of moral strengths that are lacking in other economic systems.

Although the "market" is often considered an alternative to central planning or state ownership of the means of production, it is not a rigid institutional order like socialism or communism. What we call capitalism or a free-market society is a society based upon private property rights. Individuals may own, buy, and sell property (including their own labor) if they do not do so fraudulently, and they are free to do what they want with their property as long as they do not harm others. Individuals may decide to exchange their property with others,

thereby creating a market. This market process is not mandated by anybody and requires only a well-defined and enforced system of private property rights in order to exist.

Inherent in capitalism is the ability to: provide freedom of choice, encourage cooperation, provide accountability, create wealth for large numbers of people, and limit the exercise of excessive power.

Freedom of Choice

A market system assumes very little about the ideal way to organize economic life. Other societies may mandate cooperatives, or communes, or cottage industries, or they may prohibit them. But a system of private property offers a wide range of possible forms of organization. If cooperatives are desirable, they can be used; but other forms for organizing production are also permissible. And, in fact, the individual who wishes to ignore the market or construct alternative institutional arrangements is perfectly free to do so.

Throughout history certain groups have chosen to operate largely outside the market. One such group, the Hutterites, lives in the northern Great Plains of the United States and Canada. The more than 200 Hutterite agricultural colonies have been remarkably successful in maintaining their identity and expanding their population. Yet they are far from capitalistic. All property within the Hutterite colony, except the most basic personal items, is owned in common. All income is shared equally within the colony, and no wages are paid for labor.

The Hutterites were able to establish their colonies without prior approval from anyone in society. No committee, government agency, or

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group of well-meaning citizens had to meet and decide if the Hutterite lifestyle should be allowed. The freedom to choose such alternatives is unique to a free-market society.

In contrast, a centrally planned society does not grant freedom to those who want to engage in market transactions. It limits voluntary trade in the interest of some other goal, and undoubtedly would constrain groups like the Hutterites if the people in power disliked the Hutterites' form of organization.

Cooperation vs. Conflict

A free-market, private-property system usually is labeled competitive. Yet one of the major advantages of the market system is that it encourages cooperation rather than mere competition. Competition does exist in a market-based system, but competition is prevalent in any society in which scarcity exists.

In the marketplace successful competitors cooperate with, or satisfy, others in the society. In order to succeed in a private property system, individuals must offer a "better deal" than their competitors. They cannot coerce people to buy their products or services. They must focus their creative impulses and energy on figuring out ways to satisfy others. The person who does this best is the one who succeeds in the market. Thus, participants in a market economy—buyers and sellers—continually look for areas of agreement where they can get along, rather than concentrating unproductively on the areas of disagreement.

In contrast, under a collective order, rewards frequently come from being as truculent and uncompromising as possible. With collective decision-making those in stronger political positions have little reason to look for areas of agreement; generally, they have a better chance to succeed by discrediting the opposition to justify their own position, compromising only when others are strong.

A good example of the dissension caused by collective decision-making is the controversy over teaching the origins of mankind. School boards—which must make collective decisions—generally have to decide to teach either that human beings were created or that they evolved. Such decisions are fraught with con-

flict. People who disagree with the board's decision march, write letters to the newspaper, lobby, hire lawyers, and, in general, become quite exercised. This is almost inevitable when highly emotional issues are involved since any collective decision, including one made by majority vote, is likely to be contrary to the wishes of a minority. Thus, the decision-makers are in a no-win situation. If the board allows creationism to be taught, evolutionists will be irate. If they decide to teach evolution, creationists will be outraged.

In contrast, consider the decision to be vegetarian or carnivorous. There are individuals who feel every bit as strongly about this issue as those involved in the origins-of-mankind debate. Nevertheless, there is little chance that a decision about diet will generate public controversy. Diet is not determined by a collective decision-making process, so people can interact rather peacefully about it. The person who believes that avoiding meat is healthier or morally correct can pursue such a diet without arguing with the meat eater. Advocates of a meat diet can find producers and grocery stores eager to satisfy their desires. In fact, vegetarians and the meat eaters can shop at the same stores, pushing their carts past each other with no conflict. It is the absence of collective decision-making that permits this peaceful proximity.

The social harmony that results from a market order should be of great interest to those concerned with moral issues. People of very different cultures, values, and world views can live together without rancor under a system of private rights and markets. A market order requires only minimal agreement on personal goals or social end-states.

In contrast, alternative institutional orders are more oriented toward centrally determined goals. The very existence of such orders requires a more general agreement on what is "good" for society. A centrally planned system not relying on willing exchange of work for pay must direct individuals to labor to achieve certain ends, and those ends are not necessarily the same as workers or consumers would choose freely. For instance, in the Soviet Union very little freedom is allowed in occupational choice, and once one has been assigned a job it is very difficult to move to a different one.

Another reason that a system based on private property rights encourages social harmony is that it holds people accountable for what they do to others. Under a private property regime, a person who injures another or damages another's property is responsible for the damages, and courts enforce this responsibility. The mere knowledge that damage must be paid for leads people to act carefully and responsibly. When people are accountable for their actions, individual freedom can be allowed.

In contrast, a centrally planned system holds individuals far less accountable. Although in theory the government is charged with enforcing people's rights, rights in such a system are ill-defined and the government can and does respond to the wishes of powerful people with little regard for the rights or wishes of the powerless. Even in democracies, if government has the power to grant favors, powerful groups try to use the government to take what they want. What they take may have been worth far more to those from whom it was taken.

Zero-Sum vs. Positive-Sum Views of the World

Many objections to private property hinge on income distribution. Well-intentioned people often think that it is unfair for some to live in luxury while others have very little. I am sympathetic to the view that the affluent are morally obligated to share their wealth with those who have less. But that doesn't mean that the state is the appropriate agency for such redistribution.

A significant number of people who object to the relative position of the wealthy do so because of a basic misapprehension about where wealth comes from. They believe that those who live in luxury do so at the expense of others who live in poverty. In general this is not true.

The world is not zero-sum. That is, the wealth of the world is not limited so that it has to be divided up among everybody, with some people getting more and others getting less. While wealth can be obtained by taking it from others, wealth also can be created by properly motivated human action. When that happens, wealth represents a net addition to the well-being of a society. The significant increases in per capita wealth since the Industrial Revolu-

tion have come about primarily through the creation of wealth, not by taking from others.

Under a set of well-defined and enforced property rights, the *only* transactions people engage in are "positive-sum" or wealth-creating transactions, those that occur because all parties to the transaction believe they will be better off as a result. In a society where people have secure rights to their property, they will exchange property only voluntarily, and they will do so only when they see the potential for improving their situation. The people they are dealing with will do the same—engage in transactions only when they expect to be better off as a result.

A zero-sum world, where one accumulates more wealth solely by decreasing the wealth of others, occurs only in the *absence* of property rights. In such a world people—either by themselves as brigands and thieves or through the use of governmental power—can obtain command over resources without obtaining the consent of the owners of the resources.

Some critics argue that many market transactions are not voluntary, that some people are forced by circumstances to enter into transactions they don't want. For instance, they argue that an employer is exploiting workers by hiring them at the lowest possible wage. Yet in a society in which people act voluntarily, without coercion, the acceptance of such an offer means that no better wages are available. Indeed, the employer is expanding the opportunities for the unfortunate. A law mandating a \$4.00 minimum wage, for example, actually decreases the opportunities for those whose work is worth only \$2.00.

The only way a government—as opposed to the private sector, which acts through voluntary giving—can help these people is to give them wealth that it takes from someone else. Yet the fact that wealth usually has been created by its owners, not taken from others, weakens the moral case for such redistribution. A person whose creative effort adds to the stock of wealth without decreasing the well-being of others would seem to have a moral claim to that new wealth.

Moreover, under a private property system that relies on the market process, net additions to wealth roughly reflect how much one has added to the wealth of *other* people. In a market

system, the only way to become wealthy is to please others, and the way to become *very* wealthy is to please the masses. Henry Ford catered to the masses with his automobile, satisfying their need for relatively cheap transportation, and he became immensely wealthy. In contrast, Henry Royce chose to serve only those with high incomes by producing an expensive automobile, and he did not become nearly as rich. To penalize people who carry out actions like Henry Ford's by forcibly taking large amounts of their income seems perverse.

Unfortunately, the mistaken zero-sum view of the world is quite prevalent. Many participants in discussions about Third World poverty believe that if only the wealthy nations weren't so well off, the poor nations would be richer. Although it certainly is possible that some of the wealth of some people has been taken from others, this is not usually the case. And if such takings occur, the solution is to move to a regime that protects people's rights to their property.

Ironically, the view that the world is zero-sum often makes conditions worse. Proponents of the zero-sum view usually favor large-scale political reallocation of rights. Such reallocation encourages, indeed requires, that everybody enter the fray. War is expensive whether it occurs on the battlefield or in the halls of Congress. When government has the ability to hand out numerous favors, many citizens compete for these favors, while others lobby vigorously to retain their assets. Typically, the net result is less wealth remaining after reallocation than before reallocation.

Power

The gravest injustices in the history of mankind have occurred when some people have had excessive power over others. This power sometimes has been economic and at other times political, but in either case the ability to control others' choices has caused enormous suffering. What sorts of institutions best fragment power and prevent some people from holding too much sway over the lives of others?

This question must be answered in the context of a realistic understanding of how the world operates. Whatever institutional arrange-

ments exist, some people will be more powerful than others. The relevant issue is not what set of rules keeps people from having *any* control over others, but rather what institutions best limit the accumulation of power.

History is replete with examples of the misuse of coercive power in the hands of the state. One should therefore be suspicious of institutional arrangements that rely upon massive concentrations of power in the hands of the state, even though the explicit goal is to correct for injustices in the private economy. Societies without private property rights concentrate large amounts of power in the hands of a few, and that power traditionally has been badly abused.

A strong case can be made for an institutional order under which the state enforces clearly defined rules that keep people from imposing costs on others without their consent, but one in which the state is also limited in terms of the costs it can impose on individuals. A society where the government is responsible for defining and enforcing property rights, but where its role is also constitutionally limited, represents a viable combination. Such a system fragments power and restrains people from imposing costs on others without their consent.

Conclusion

A private-property, market system has much to recommend it. A system is more moral if it holds individuals accountable for their actions and encourages them to help others than if it allows them to impose costs on others without their consent.

This is not to argue that a market system can serve as a replacement for a society in which people act on the basis of moral conscience. Individual morality certainly will enhance capitalism, as it would any system. Honesty, compassion, and empathy make our world more livable whatever the institutional arrangement. Capitalism is not inimical to these qualities. When alternative economic systems are evaluated within a moral framework, sound reasons emerge for favoring private property rights and markets. Markets and morality can serve as useful complements in maintaining a just society. □

Taxation Versus Efficiency

by Richard Jones

Adam Smith appreciated specialization. In *The Wealth of Nations* he cited the example of pinmakers. By Smith's estimate an eighteenth-century pinmaker could produce, working by himself, fewer than 20 pins a day. However, by dividing the tasks involved in pinmaking, and with the aid of some specialized tools, 10 pinmakers could turn out 48,000 pins a day—or about 4,800 per worker.

In our day a skilled plumber can assemble pipes more efficiently than a carpenter. Not only does he have more experience at his job, he has specialized tools. By the same token a carpenter can frame a house more efficiently than a surgeon. And that surgeon can perform a heart bypass operation better than a mechanic. And the mechanic can . . . well, you get the idea. Specialization increases efficiency. Efficiency increases productivity. Productivity increases abundance.

All this should be obvious to anyone.

Well, almost anyone. It doesn't seem so obvious to those who tax us.

Consider an example. Bob the Baker wants to build a new house. His plans call for a relatively modest structure costing \$60,000. Going by a rule of thumb, Bob knows that half of the \$60,000 will go for materials, the other half for labor. The \$30,000 for labor represents twelve months' work, say that of three framers for two

months each, a cabinet maker for two months, a plumber for a month, an electrician for a month, a painter for a month, and a roofer/floor mechanic for a month. Twelve months of labor for \$30,000.

As a hard-working baker, Bob earns \$30,000 a year. Over the past five years he has saved the \$30,000 to pay for the materials. Now you would suppose that since he earns \$30,000 a year, he can work a year, give the builders that \$30,000 and have his new house paid for.

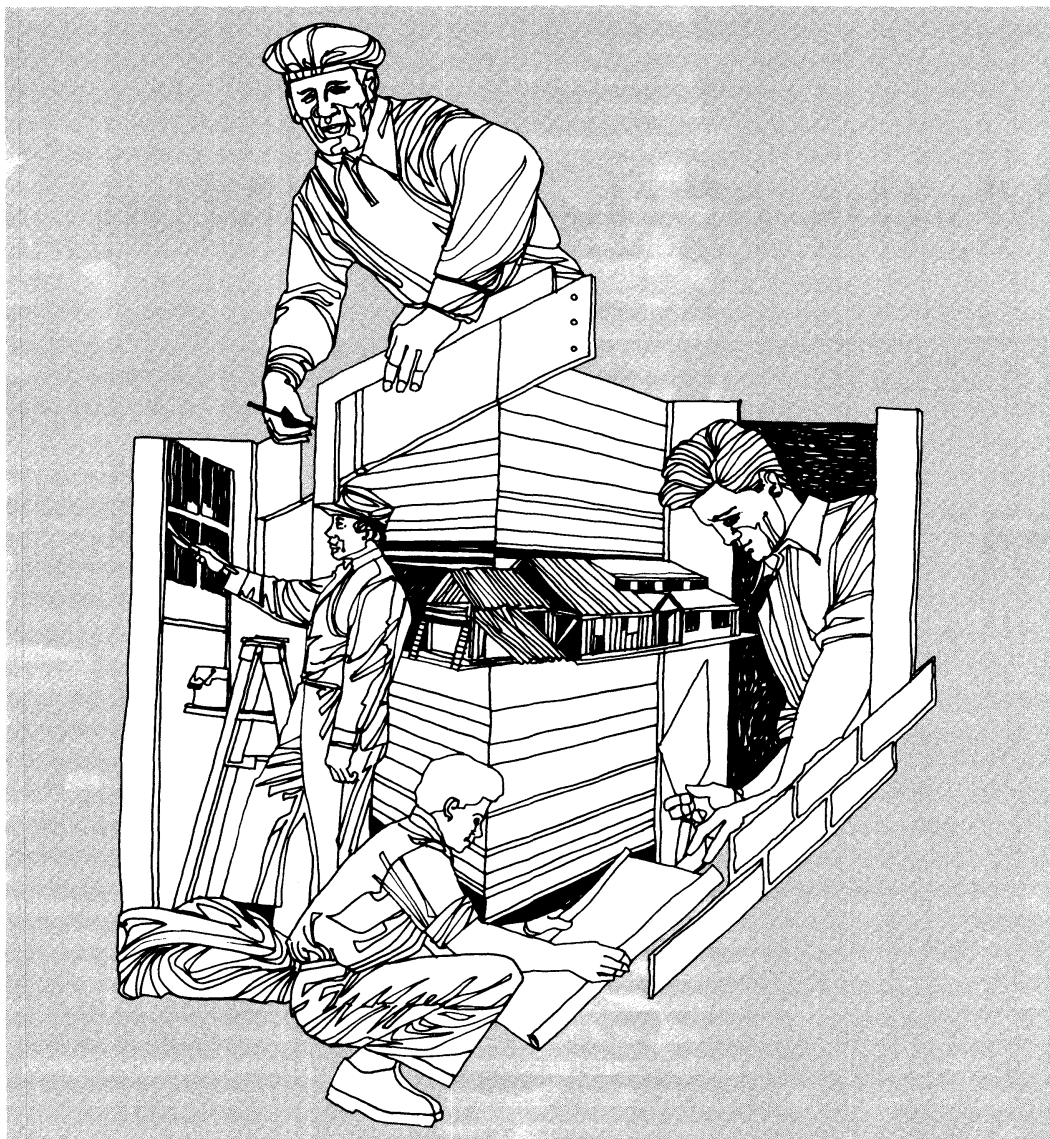
Right?

Wrong.

Of his \$30,000, Bob must turn over approximately half to Federal, state, and local governments in direct and hidden taxes. He faces sales taxes, property taxes, excise taxes, Social Security taxes, amusement taxes, state and Federal (and perhaps even city) income taxes—indeed taxes on virtually anything you can think of. By the time Bob finishes paying his direct and indirect taxes he has about \$15,000 of his \$30,000 left. Consequently, after taxes it will take him *two* years, not one, working as a baker to pay the workmen to build his house.

But suppose Bob is pretty handy with tools. He has learned a little bit about carpentry, plumbing, and wiring. The roofing and flooring he can figure out when he gets there. By his estimate Bob can build the house by himself in 18 months. That's six months more than the combined labor of his specialists. Bob figures

Richard Jones is a winemaker/writer who built his own house in Sapello, New Mexico.



that he can quit his job as a baker, spend 18 months building his house, then go back to work baking the last six months of the second year and come out \$7,500 ahead (after paying \$7,500 in taxes on his \$15,000 income).

Bob stashes his bread pans and shuts down his ovens. He saws and nails and plumbs and wires for 18 months. His house is finished.

Compared to hiring specialists to do the work, Bob not only has his new house, but an extra \$7,500, too. Everything's okay, right?

Well, it may be as far as Bob is concerned, but what about the economy as a whole? Eight-

teen months of work went into building a house which should have consumed only twelve months of labor. Six months of lost production means that fewer goods are produced. The economy suffers a net loss.

Whether taxation discourages the employment of carpenters or mechanics, of electricians or plumbers, the results will be the same. The more taxation discourages the advantages of specialization, the fewer goods will be produced. High taxes might appeal to some people, but they would seem plain foolish to the keen mind of Adam Smith. □

Myths of the Rich Man

by Joseph S. Fulda

When privatization is contemplated for such necessities as potable water or the streets, the discussion is often clouded by fear of what “the rich man” who provides the resources might or might not do. The rich man might acquire all the drinking water and let no one else drink, or all the streets and let no one emerge from his house. Or the rich man might charge a small fortune for a glass of water or an afternoon walk on the streets, with none to stop him, since he is the owner. The rich man, it is further feared, might provide no water and build no streets. If the state does not provide for us by marketing these resources, perhaps no one will, and society will perish.

These fears are little more than myths. After all, there are plenty of other things we need—food, clothing, shelter—and yet none of the fears people have of the rich have materialized in any free market system. Economics teaches us why these fears are fallacious, and since they are nevertheless so prominent in discussions of privatization among the general public, it is well to review those teachings here.

Society is not at the mercy of the malevolent rich man controlling its necessities. A man who holds vast reservoirs of water or large parcels of land and makes no economic use of it out of spite (and it is fear of spitefulness that is behind this myth) will soon find the management costs of his properties causing him to lose all. The

water will lose its potability, the pipes will become rusty, and the whole system will become worthless; the streets will fall into disrepair and require endless reconstruction. Certainly that is not how the rich man acquired his wealth!

But, still, what if? All that will happen is that large holdings of real estate will be converted to streets and reservoirs by others, rich or poor. As long as free entry—competition—is allowed, the rich man who has but will not market spites only himself and will lose his fortune. Someone else will see the need, convert his property to the now-more-marketable use and take the rich man’s erstwhile profits away.

Nor can the rich man buy up all the streets or reservoirs and charge arbitrarily large sums for these necessities. As he raises the price, conversion of other resources to these purposes becomes more attractive. Furthermore, substitutes, once far too expensive even to be contemplated let alone developed, begin to become attractive as well. All it takes is one person with a vision—be he rich or poor—and the consumer demand for a water-substitute or a street-substitute will be satisfied. As Julian Simon demonstrated in *The Ultimate Resource*, the human mind, throughout history, has been uniformly able to find alternatives which satisfy the very same need as some resource previously thought to be indispensable.

Finally, we must remark that the situation itself—a malevolent rich man monopolizing all but providing none, or providing only at impossibly steep prices—is most artificial. People are not like that. Besides, empirical studies have

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shown that as capitalist society progresses, the distribution of resources and funds for capital tends to become more diffuse and mobile. It is therefore doubtful on both psychological and economic grounds whether (without state grants of monopoly power or the equivalent) the scenarios that underlie the myths of the malevolent rich man could ever come to pass. But the freedom-lover may rest assured that even if such concentrations of wealth and malice somehow did befall society, all that would occur is adjustment—the redistribution and reallocation of natural resources, capital, labor, and entrepreneurial talent—nothing worse than a temporary inconvenience for the masses, coupled with special opportunities for those who would turn the situation to their advantage.

Nor does society, to consider the opposite fear, depend on the beneficence of the rich man to provide its necessities. Were none of the rich interested in providing water or streets, the poor aspiring to become rich would provide, although perhaps not in large quantities mediated through big corporations.

Perhaps water would be sold by local vendors. Perhaps streets would be owned by the

homeowners and shopkeepers on the block, in small lots. Or perhaps workers would acquire streets in their neighborhood with their union pension funds, an investment linked to the general economic performance of the area, much like stocks or bonds. I repeatedly say “perhaps,” for no one can know just how the market arrangements for, say, water and streets would work out.

But work out they would—the price system guarantees it. As water and streets become scarcer their prices will rise. As prices rise, the opportunities available for entrepreneurs will become increasingly irresistible. In a society with an economy in which everyone is free to take advantage of the available opportunities, one need not worry about the do-nothing rich any more than the spiteful rich.

Again, of course, the situation is artificial. Those with the most capital acquired their riches by taking advantage of opportunities, not by ignoring them. But even if somehow the rich will not provide, things will work out as new entrepreneurs replace the old rich and exercise their resolve to provide and thus be provided for. □

IDEAS ON LIBERTY



Promoting Competition

By competition, I refer to a situation that exists when the basic rules of the free society are observed — when everyone possesses the basic rights of private property and freedom of contract. Competition is not a mode of conduct that anyone has to promote institutionally. It develops naturally and necessarily among persons who are free to pursue their own interests. Whatever one's personal interest or objective may be — businessman, sculptor, or preacher — the consequence of pursuing it puts him in competition with all who share that objective. That being the case, preoccupation with promoting competition is at best a diversion of effort which could have been used to protect private property and freedom of contract.

—SYLVESTER PETRO

The Life of Herbert Hoover

by John Chamberlain

Food will win the war." So we were told in 1917 by Herbert Hoover, who was just home after a three-year period of feeding Belgian and French civilians who were trapped in back of the contending Allied and German armies. Accordingly I signed up to work on a school farm in Windsor, Connecticut, where I did my bit by shingling a hen house roof and chopping stumps out of a field destined for corn. At the age of fourteen I was sure that Hoover was a man for the ages.

I was not so certain at a later age, when Hoover, as President, couldn't contend with what he called "the Mississippi Bubble of 1927-29." We forget that Hoover, in the White House, pioneered many of Franklin Roosevelt's New Deal devices. His Reconstruction Finance Corporation tried to save weak banks, his Federal Reserve Board bought millions of government notes in the open market, his Farm Board tried to prop up wheat prices. His excuse was that he had to compete with Europe in a world that had lost touch with Adam Smith. Roosevelt beat him at the polls in 1932, partly by a promise to balance the budget. Then Roosevelt proceeded to double Hoover's New Dealism in spades.

George H. Nash, the able historian of American conservatism, is doing a multi-volumed life of Hoover. He will be wrestling with the

contradictory White House career of Hoover, the "chief," at some later date. We have already had a remarkable account from his pen of Hoover's pre-1914 days as a mining engineer all over the world, from the Australian "out back" to Burma, Siberia, and northern China at the time of the Boxer Rebellion. Hoover was a great competitor then. He made his million, dominating his ventures in silver and other metals from a London office, and was ready for public service when the outbreak of war came in August of 1914.

Nash's current installment of the Hoover saga is called *The Life of Herbert Hoover: The Humanitarian, 1914-1917* (New York: Norton, 497 pp., \$25.00). It is a wonderfully researched story of a venture in practical benevolence that belies Hoover's outward demeanor of cold-hearted efficiency.

In the beginning, when he was setting up his CRB, or Commission for Relief in Belgium, Hoover was threatened with competition from the Rockefeller Foundation. The Swiss also had ideas of getting into the act. But Hoover insisted on a monopoly. He couldn't quite have it all his own way. The Spanish diplomat Villalobar and the Belgian banker Emile Francqui dogged him for three years. There had to be an agency inside Belgium to help distribute food in German-occupied territory. But by February of 1915 the British Admiralty and the Germans, with French concurrence, agreed that only a Hoover could properly coordinate tens of thousands of people on several continents in saving 9,000,000 Belgians and a much smaller number of Frenchmen from starvation.

The tens of thousands in the Hoover organization included volunteer fund-raisers in America, Australia, Canada, Great Britain, Italy, and Spain; farmers, bankers, accountants, shippers, and grain merchants in the U.S.; the crews and owners of dozens of cargo ships crossing the oceans to British ports and Rotterdam in Holland; diplomats in Madrid and Berlin and Le Havre; stevedores operating 600 tugs and barges along canals from Rotterdam into Belgium, where 40,000 volunteers stored the food in regional warehouses for distribution to hungry people in more than 2,500 communes.

Hoover, says Nash, appeared to sense the epic actualities of his endeavor as early as

March of 1915. To a Belgian priest he wrote: "To beg, borrow and buy nearly \$1,800,000 worth of food every week; to ship it overseas from America, Australia, the Argentine and India; to traverse three belligerent lines; to transport it through a country with a wholly demoralized transportation service; to distribute it equitably to over 7,000,000 people; to see that it reaches the civilians only and that it is adapted to every condition from babyhood to old age . . . is a labour only rendered possible by the most steadfast teamwork on the part of all. . . . We are under daily zealous surveillance of all the governments involved; . . . we maintain an investigation department of our own . . . and we have the right to demand the absolute confidence and support of our fellow countrymen."

Hoover, if he had written to the Belgian priest again in 1917, would hardly have changed a word in his estimation of what he had done. But the difficulties of traversing belligerent lines were multiplied by the shifting attitude of the Germans in regard to submarine warfare. The sinking of the *Lusitania*, and the turn to unrestricted attacks on all shipping into British, Dutch, and French ports, forced Hoover to fight the Germans to obtain respect for the symbol CRB on the sides of his ships. The matter was never really settled.

Hoover's blunt ways of operating did not sit well with Brand Whitlock, the American ambassador to Belgium. Whitlock understood Hoover's virtues, but couldn't regard the eternal squabbling with Francqui over jurisdiction inside of Belgium with equanimity. He came almost literally to dislike Hoover. For his part, Hoover thought Whitlock was something of a weakling. He would have called him a wimp if he had known the word.

Hoover had to get along with the French and British governments to get regular subsidies for his "practical institution." But, although he aspired to play a big part in the Wilson administration once we were in the war, he regarded most governments as obstacles to be shunted aside. His way of dealing with governments involved him in undercover operations to plant stories in the press of two continents. He was a master of what we would now call media subversion. He ghostwrote articles for Ambassador

to Britain Walter Hines Page and for others in embassy headquarters; he "edited" materials for the Associated Press. With him, freedom of the press was freedom to manipulate the press.

He did not butter up the young men who worked selflessly for him. The most he would say was a cool "well done." But his youthful supporters loved him for his assumption that good men should make correct decisions as a matter of course.

The British had always to be reassured that the Germans weren't stealing neutral-intended food from the regional warehouses. There were "angry egos" involved in the disputes about possible thefts. The relief of Belgium depended on German forbearance. This forbearance was never total, but what there was of it sufficed.

Hoover's one great disappointment was the behavior of his good friend Lindon Bates, head of the New York office. Bates feared Hoover was guilty of infringing the Logan Act and making foreign policy. No doubt he was. But 9,000,000 people remained alive. □

EQUITY AND GENDER

by Ellen Frankel Paul

Transaction Books, Rutgers University, New Brunswick, NJ
08903 • 1988 • 192 pages • \$24.95 cloth, \$12.95 paper

Reviewed by Clint Bolick

Ellen Frankel Paul's new book may be greeted with skepticism: Why do we need another book on "comparable worth," when that theory is deadlier than a door-nail?

The answer is simple: rumors of comparable worth's well-deserved demise are greatly exaggerated. Though presently discredited as a viable discrimination theory in Federal litigation, comparable worth is very much alive in state legislatures and in the hearts and minds of radical feminist groups and their allies.

As Paul notes, ten states have implemented the results of comparable worth studies, and 20 have commissioned studies. Some states are considering proposals to extend comparable worth to the private sector. And Congress is considering imposing comparable worth at the

Federal level, at a potential cost of billions of dollars. In a new administration, comparable worth advocates may gain even greater momentum.

Of course, it's not called "comparable worth" anymore, but rather the more benign-sounding "pay equity." But scratch the veneer of pay equity and the same old beast emerges: a concept that, as Paul describes it, would destroy "the very foundation of our market-based economic system."

Paul, who is affiliated with the Social Philosophy and Policy Center at Bowling Green State University, has a superb ability both to take complex issues and translate them into English, and to take simplistic rhetoric and explain its serious ramifications. Since comparable worth is at once both deceptively simple and enormously complex, *Equity and Gender* provides a vital tool with which to effectively defend the market.

Paul begins with a dispassionate and comprehensive review of the arguments in favor of comparable worth. She observes at the outset that "'[e]qual pay for equal work' is not the objective of the comparable worth advocates, for that standard has been the law of the land since 1963." Rather, they believe the market "is corrupted by discrimination, for nothing else can sufficiently explain discrepancies between women's wages and men's."

This discriminating "wage gap" can be redressed, the theory holds, by a scientific assessment of the objective worth of jobs to employers, to which salaries would be calibrated. Thus, Paul explains, "comparable worth provides the hope of a quick and easy fix for the injustices foisted upon women by the marketplace."

Paul then presents the arguments of comparable worth opponents, which she observes are primarily economic. The wage gap, they argue, is created by the combined impact of women's job choices, expanding work-force options for women, and entry by women into the labor market in growing numbers. And, they add, the wage gap is diminishing as women gain more experience and enter traditionally male jobs. Moreover, they argue that comparable worth would be enormously expensive to implement, thereby reducing America's ability to compete.

Paul then turns to the progress of comparable worth in the courts and legislatures, and finds that while comparable worth has been dealt serious setbacks in the courts, it is winning the day in the legislative arena. The bulk of the book thus comprises a useful summary of the arguments pro and con and the future prospects for comparable worth.

Paul concludes with her own views on the issue, and comes down solidly in favor of the market as the arbiter of salaries. Jobs do not have inherent value apart from the market, she argues. She concludes that comparable worth "depend[s] upon some rather dubious assumptions" and "embrace[s] a view that is at odds with our American tradition, [is] unpersuasive as an ideal, and incapable of being put into practice without chaotic results."

But the bottom line for Paul is that comparable worth destroys the freedom of choice that the market provides. She observes that the "women's movement in the late 1960s and 70s emphasized women's capacity, women's ability to perform jobs traditionally monopolized by men. Comparable worth sets a different agenda, portraying women in an unflattering light that enshrines their incapacity. Instead of encouraging women to engage in new ventures, it concedes that they will be secretaries, nurses, and teachers for a long time to come and only asks that they be paid more."

Nonetheless, Paul does not claim the moral high ground for adversaries of comparable worth. At the outset, Paul agrees with comparable worth proponents that ultimately "justice and equity must triumph over efficiency." But she fails to make the point strongly enough that in bargaining over wages, these values go hand in hand. While Paul seems to acknowledge that purely utilitarian arguments are inadequate to resist comparable worth, she does not present a compelling moral argument in favor of the market.

What defenders of the market must do is to expose comparable worth as a paternalistic theory that assumes women are incapable of succeeding on the level playing field guaranteed by the present anti-discrimination laws. They must also show it to be an elitist concept, denigrating the value of blue-collar jobs. And they must raise the Orwellian specter of a commission of

"experts" determining wages in some mystical fashion and supplanting the will of individuals. Paul makes these points, but not graphically enough to recapture the terms of the debate.

These were the points I attempted to illustrate when I represented several female prison guards in opposing the American Nurses Association's unsuccessful comparable worth lawsuit against the State of Illinois in 1984-85. My clients were women who defied societal stereotypes and took on dangerous and unpleasant jobs in order to earn higher wages—only to have a board of experts conclude that entry-level secretaries were "worth" more than prison guards. Such a notion falls under the weight of its own absurdity.

Tactics like these betray comparable worth as not a "women's" issue at all, but as an issue of government control versus individual autonomy. The dignity and freedom of women requires the demise of comparable worth. Paul's book, thankfully, provides a wealth of ammunition to hasten that demise. □

(Clint Bolick is director of the Landmark Legal Foundation Center for Civil Rights in Washington, and author of *Changing Course: Civil Rights at the Crossroads* [New Brunswick, NJ: Transaction Books, 1988].)

THE THEORY OF FREE BANKING: MONEY SUPPLY UNDER COMPETITIVE NOTE ISSUE

by George A. Selgin

Rowman & Littlefield, 81 Adams Drive, Totowa, New Jersey
07512 • 1988 • 218 pages • \$33.50 cloth

Reviewed by Matthew B. Kibbe

Banks are in trouble. But an even greater crisis lurks beneath the political surface, on the university blackboards, and in the principles texts and academic journals. Consider the following argument, made recently by David Warsh in the May-June 1988 issue of the *Harvard Business Review*: "Money is funny stuff. Like language, it has meaning only insofar as people agree to share it. Unlike language, however, it requires supervision."

Here we have the "conventional wisdom," accepted by virtually every politician and the vast majority of professional economists. Money is different. Money cannot manage itself. End of story.

Enter, or should I say "re-enter," the Austrians. Standing firmly on the intellectual shoulders of Carl Menger, Ludwig von Mises, and F. A. Hayek, George Selgin has boldly challenged the status quo in monetary theory. In his recently published book, *The Theory of Free Banking*, Professor Selgin argues that money will, and *must*, manage itself.

Ever since Menger, the founder of the Austrian school, wrote his *Principles* in 1871, Austrian economists have been highly critical of government involvement in the business of money and banking. In Menger's view, money cannot be arbitrarily created by legislative fiat precisely because it came into being as the unintended consequence of individuals seeking to better satisfy their wants. Money, to be accepted widely, must be the product of voluntary exchange.

Ludwig von Mises refined and extended Menger's monetary theory in *The Theory of Money and Credit*, published in 1912. Employing his famous "regression theorem," Mises demonstrated that the value of money also evolves through a historical process of human interaction. According to Mises, the value of money today is linked to the "price" of money yesterday, and the expected value of money tomorrow will be based on the "price" of money today. When left alone by government, the value of money is both dynamic (responsive to ever-changing economic conditions) and stable (linked with the remembered past and an imagined future).

Because of its historical continuity, money provides a reliable "unit" for economic calculation, the means by which the millions of individuals within a society are able to coordinate their activities. This theoretical understanding of the nature of money provided the Austrians with a devastating critique of planning in general and of central banking in particular.

Unfortunately, this rich tradition in monetary theory was all but forgotten in the turmoil of the Keynesian revolution. Divorced from the plans and purposes of individuals, monetary theory

was pushed deeper and deeper into the mystical world of Keynesian "macro-economics." The intentions of individuals were replaced with functional relationships between imaginary aggregates—equations to be manipulated by government officials to serve government ends.

The appearance of *The Theory of Free Banking* signals a well-written, well-organized shift in intellectual currents. Professor Selgin's book will shock some. I am delighted.

Soon after opening the book, the reader will notice the quick precision of Selgin's prose. After a brief overview of a number of historical episodes of free banking, Selgin moves directly into a theoretical discussion of the evolution of money and banking. Here, Menger's influence is strong and obvious.

The second part of the book develops the notion of "monetary equilibrium," borrowed from economists such as J. G. Koopmans, Gottfried Haberler, Fritz Machlup, and Dennis Robertson. This is the idea that there is both a demand for and a supply of bank notes which must continually adjust toward a coordinated equilibrium.

Selgin fuses the theory of monetary equilibrium with the Austrian critique of central banking as developed by Mises and Hayek. Central banking, they argued, is neither responsive nor stable. Besides the obvious political incentives which discourage sound money management within a central banking system, central bankers simply cannot obtain the *relevant knowledge* required to match the supply of money with money demand.

Only market competition and competitive note issue, Selgin concludes, provide both the incentives and information necessary to maintain monetary equilibrium. Free banking is the only monetary system that can properly adjust to changes in the market demand for bank notes without flooding the market with unneeded, unbacked paper currency. Selgin reminds us that fractional banking, when disciplined by free competition, provides an altogether superior alternative to centralized control and supervision.

While Mises might have objected to the use

of such a mechanical metaphor, the insight of "monetary equilibrium" is clearly consistent with the Austrian understanding of money—even more so than Selgin is willing to admit. In *The Theory of Money and Credit*, Mises defined inflation as "an increase in the quantity of money . . . that is not offset by a corresponding increase in the need for money. . . ." Furthermore, "deflation . . . signifies a diminution of the quantity of money . . . which is not offset by a corresponding diminution of the demand for money. . . ."

The difference between Selgin and Mises appears to be one of emphasis. We can quibble over the proper interpretation of Mises on this point, but the fact remains that the real-world problem confronting Mises during the years he wrote was the rampant inflation generated by the central banks of both Europe and the United States. Naturally, Mises emphasized the distortive effects of an over-supply of money. But he also saw the solution, arguing in 1949 in *Human Action* that "free banking is the only method available for the prevention of the dangers inherent in credit expansion." According to Mises, there was "no reason whatever to abandon the principle of free enterprise in the field of banking."

Either way, the importance of Selgin's contribution should not be underrated. Mises did, in fact, tend to neglect the importance of "the demand side" of money. With the publication of *The Theory of Free Banking*, Selgin joins a small but growing number of economists who seek to revive and extend the forgotten Austrian tradition of free banking. I am thinking also of F. A. Hayek (*Denationalization of Money*), Hans Sennholz (*Money and Freedom*), and Lawrence White (*Free Banking in Britain*). With books such as Selgin's, there is hope for the future of ideas and our banking system. □

(Matthew Kibbe is a doctoral student in economics at George Mason University and a fellow at the Center for the Study of Market Processes.)

THE FREEMAN

IDEAS ON LIBERTY

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1989
VOL. 39
NO. 3

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Published by

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

President of
the Board: Bruce M. Evans

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The Freeman is the monthly publication of The Foundation for Economic Education, Inc., Irvington-on-Hudson, NY 10533 (914) 591-7230. FEE, founded in 1946 by Leonard E. Read, is a nonpolitical educational champion of private property, the free market, and limited government. FEE is classified as a 26 USC 501 (c) (3) tax-exempt organization. Other officers of FEE's Board of Trustees are: Thomas C. Stevens, chairman; Ridgway K. Foley, Jr., vice-chairman; Paul L. Poirot, secretary; H.F. Langenberg, treasurer.

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Bound volumes of *The Freeman* are available from The Foundation for calendar years 1969 to date. Earlier volumes as well as current issues are available on microfilm from University Microfilms, 300 North Zeeb Road, Ann Arbor, MI 48106.

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.

Cover illustration: © Geoffrey Moss,
Washington Post Syndicate.

PERSPECTIVE

Economics and Ecology

Only under certain institutional arrangements do we find complementarity between economic and ecologic goals. Specifically, only institutions that tightly link authority to act with responsibility for the outcome of the action foster both. Political management often weakens or eliminates the link between authority and responsibility.

One good way to produce these benefits is to design institutions that rely upon clear and enforceable property rights which can be freely exchanged. A free market promotes such exchange. For example, such a system holds people and firms accountable for the costs of pollution. It also permits them to capture the benefits of sound environmental management, as International Paper has done, by blending wildlife and timber management. In this way, the reforms advocated by "free market environmentalists" encourage entrepreneurship as individuals face incentives to seek more efficient and valuable outcomes.

—JOHN A. BADEN, Chairman
Foundation for Research on
Economics and the Environment

Automotive Genius

Who rules the marketplace? Consider this excerpt from "Charles Kettering: Automotive Genius," by Mark Bernstein, in the July 1988 issue of *Smithsonian*:

"When Kettering joined General Motors in 1920, the sales figures and efficiency of GM's array of vehicles badly trailed Henry Ford's single Model T. By 1927, the organizational brilliance of GM's celebrated president, Alfred P. Sloan Jr., coupled with a plethora of improvements from Kettering's busy lab, had helped drive the Model T into retirement. With a Ford, went the inevitable wisecrack, you could have any color you wanted, provided it was black. At GM, you could have all sorts of colors. And you could have higher horsepower for more zoom, and the new 'balloon' tires for a smoother ride, as well as all the other improve-

ments that made each year's model comfier than last year's.

"Americans loved it, turning the nation into the world's first automotive society. To the Boss [Kettering], this was the test that mattered; not results in the laboratory, but response in the marketplace, which Kettering unquestionably believed consumers ruled. Once the public saw something better, Kettering held, it would settle for nothing less. Henry Ford once told Kettering that the Model T would never adopt a self-starter. Kettering replied, 'Mr. Ford, that is something you yourself are not going to have anything to say about.' "

Man Alone

There is a qualitative distinction between the behavior of an individual and that of the human crowd in an extreme situation. A people, nation, class, party, or simply crowd cannot go beyond a certain limit in a crisis: the instinct of self-preservation proves too strong. They can sacrifice a part in the hope of saving the rest, they can break up into smaller groups and seek salvation that way. But this is their downfall.

To be alone is an enormous responsibility. With his back to the wall a man understands: "I am the people, I am the nation, I am the party, I am the class, and there is nothing else at all." He cannot sacrifice a part of himself, cannot split himself up or divide into parts and still live. There is nowhere for him to retreat to, and the instinct of self-preservation drives him to extremes—he prefers physical death to a spiritual one.

And an astonishing thing happens. In fighting to preserve his integrity, he is simultaneously fighting for his people, his class, or his party. It is such individuals who win the right for their communities to live—even, perhaps, if they are not thinking of it at the time.

"Why should I do it?" asks each man in the crowd. "I can do nothing alone."

And they are all lost.

"If I don't do it, who will?" asks the man with his back to the wall.

And everyone is saved.

—VLADIMIR BUKOVSKY

"The Soul of Man Under Socialism"

Soviet Agriculture

In a speech calling for farmers throughout the Soviet Union to be freed from the state-run system of collective agriculture, Mikhail Gorbachev remarked:

"Comrades, the most important thing today is to stop the process of depeasantization and to return the man back to the land as its real master."

—*The New York Times*,
October 14, 1988

Facing the Facts

At Phoenix House, the highly regarded drug-rehabilitation center in New York, a typical therapy group will start out by listening quietly to all the victim chatter of a recently arrived addict. Then someone will say something like: "It isn't your mother or society or even the pushers who put the needle in your arm. You did." And therapy starts from there.

—JOHN LEO, writing in the October 17, 1988 issue of *U.S. News & World Report*

A Vital Difference

American borrowing from abroad in the 19th century bore little relation to our rising indebtedness of the 1980s. When foreign investors in the 19th century bought stocks and bonds from our companies, the money generally was put to productive use. In many cases, the profits from those enterprises far exceeded the cost of the capital that was provided.

In contrast, in recent years the U.S. Treasury has been borrowing heavily abroad to finance deficits arising from rapid expansions in defense outlays, entitlements, farm subsidies, and interest payments. No matter how socially worthy or politically necessary those items of federal expenditure may be, they represent current consumption. These federal expenditures are not investments that generate a future return to repay or even cover the interest on the Treasury securities issued to help finance them.

—MURRAY WEIDENBAUM

Center for the Study of American Business

How Smart Is Big Brother?

by James L. Payne

One of the attractions of government as a problem-solver is its presumed advantage in information and technical expertise. We tend to assume that government will be better informed than anyone else, and therefore better able to deal with the complex problems of our age.

To some extent, this faith in government is just a blind, primitive trust. For centuries, men were conditioned to believe that the king was always right. He was supposed to be God's agent, and therefore he knew better than anyone else what was good for the country. We have done away with kings, but an aura of divine wisdom still surrounds the state and its officials. When you complain about a law, someone is likely to say, "But Congress wouldn't have approved it if it weren't right."

Another reason we attribute extraordinary powers to government is its size. We assume that the larger an organization, the more it knows. After all, aren't two heads better than one? By this logic, a government agency with thousands of employees must have enormous knowledge.

Normally, we don't get a chance to check this belief in governmental wisdom, since government agencies rarely put what they know into testable form. A recent General Accounting Office (GAO) study of the Department of Agriculture for the years 1972 through 1986, however, has uncovered a case where an agency

took, in effect, a quantitative test of its knowledge. The results are dismaying.

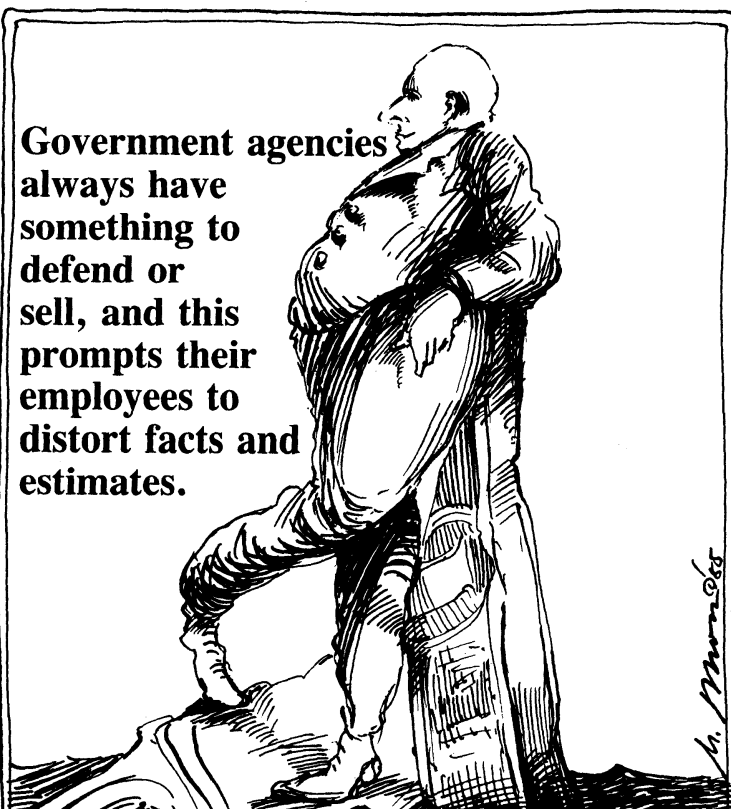
Each year, the Department of Agriculture attempts to estimate how much all the farm subsidy programs are going to cost, so that it can submit its budget requirements to Congress. To arrive at this figure, it employs an extensive procedure involving 18 sub-units within the Department. These different offices funnel information into the decision-making process: projected supply and demand for commodities, projected prices for commodities, farmer participation in various programs, and so on.

The expense of operating this system easily runs into the millions; depending on how you do the accounting, it may be as much as 100 million dollars each year. For example, one unit in the process is the Foreign Agricultural Service; its 1985 budget was \$86 million. A \$2 million World Agricultural Outlook Board also plays a role, as does the Agricultural Stabilization and Conservation Service (\$119 million) and the Agricultural Marketing Service (\$32 million), not to mention budget offices, undersecretaries, and assistant secretaries. Arriving at agricultural projections isn't the only function of these bodies, but it is one of their major responsibilities.

With all these resources, how well does the Department of Agriculture do in forecasting its commodity subsidy costs? The GAO found the Department's budget estimates were "substantially incorrect," with an average absolute error of 4.3 billion dollars. To put this figure in perspective, if you predicted that this year's costs would be the same as last year's, your error

*James L. Payne has taught political science at Yale, Wesleyan, Johns Hopkins, and Texas A&M. His latest book, *The Culture of Spending*, examines the popular arguments for big government.*

**Government agencies
always have
something to
defend or
sell, and this
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employees to
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estimates.**



would have been 4.1 billion. In other words, the most simple-minded extrapolation would have done a better job in predicting the Department of Agriculture's commodity expenditures than the Department's own multi-million dollar forecasting organization!

Government, it appears, may not be smart at all. If the experience at the Department of Agriculture is any indication, its intellectual competence rates below that of an ordinary citizen. Why should this be? The problem is not with the intelligence of the public officials themselves. Individually, they are as bright as the rest of us. It is the system in which they function that produces the feeble-mindedness.

First, government information systems are biased. Government agencies always have something to defend or sell, and this prompts their employees to distort facts and estimates. The cumulative result of these distortions can be whopping misconceptions about the world.

In the case of the Department of Agriculture, it wants Congress and the public to approve of its subsidy programs. It wants to make these programs seem less expensive, so people won't

be shocked by the high price. This bias encourages officials in the budget forecasting process to underestimate: over the years, the average net error in the commodity budget forecasts has been \$3.1 billion below the actual cost.

The second problem with government information systems is size. It is not true that more people means more knowledge. Useful knowledge about what will happen in the world doesn't come from just collecting more and more facts and opinions in one building or in one report. It involves rejecting points, too, leaving aside that which is unsound, misleading, or irrelevant. Large entities typically lack this ability to discriminate. Every cook is given a chance to spoil the broth. In the Department of Agriculture's forecasting system, the inputs from the different sub-agencies all go into the final estimate, yielding an unfocused blend of true, false, and irrelevant.

When it comes to knowing things, government agencies are inherently flawed. Those who are looking to the intelligence of government to solve our problems may be waiting a long time. □

Why Deny Health Care?

by Robert K. Oldham

Most Americans would agree that "Health care should be available equally to everyone." But now the thesis of equal availability of health care is beginning to translate into a sub-thesis of "If everyone can't have a health-care service, then no one should have it."

Recent medical advances have made available a variety of in-depth approaches to the treatment of serious disorders such as cancer, AIDS, and major organ failure that allow for correction, or a research-based attempt at correction, of the disorder. Transplantation brings forth a large number of potential recipients, a small number of donors, and huge costs for each kidney, heart, or liver transplant. These transplant stories are often in the news and may involve distressing reports of the need for a transplant in a child, a young mother, or a productive, breadwinner father.

The relative infrequency of the transplant dilemma has been a major saving grace. Our sympathies go to each patient, and many of us have contributed to help a specific patient. No effective system-wide solution to the limited availability of this expensive technology has come forth.

Robert K. Oldham, M.D. is Chairman and Scientific Director of Biotherapeutics Inc., based in Franklin, Tennessee, a firm which conducts cancer research for patients in the private sector.

Dr. Oldham is Director of the Biological Therapy Institute where he conducts clinical trials of new treatments for cancer patients. He was the first director of the National Cancer Institute's Biological Response Modifier Program. His articles have appeared in numerous publications, including The New England Journal of Medicine and The Wall Street Journal.

Individuals who can afford to pay for these transplants represent a major revenue stream for hospitals with transplant services. There is little discussion when the individual has the capability to pay for a transplant. Is it not a wonder that the issue of restricting availability to those who can afford the transplant hasn't been raised by ethicists? There has been broad negative reaction to the idea of "selling" organs, but transplant programs go forward when organs are available for individuals who can pay for the procedure.

More difficult is the issue of a new cancer treatment or a new approach to the devastating problem of AIDS. In both of these situations, there has been much discussion about access and opportunity, the cost of research and medical services, and the issue of availability. Government and university officials have often voiced the view that a certain number of research-based approaches should be available through their hospitals. Individuals should line up and wait for the opportunity to avail themselves of these research services.

Such a system resembles the National Health Service of Britain, except that in the United States, contacts, political pressure, and money often can abridge a system of equal opportunity for all. One is reminded of kidney dialysis in its early days—an expensive technology for which committees were created to judge the worthiness of individuals in need. In spite of such committees, patients with resources were generally able to avail themselves of dialysis.

Once rejected from such a system or once on a too-long waiting list with too little time, why

restrain an individual with resources from pursuing private options? It would seem obvious that an individual with resources should be able to use those resources as he or she sees fit, while alive and able to make rational decisions. Yet, there is an increasing call to restrain such individuals from pursuing private-sector opportunities to gain access to new medical technologies for the treatment of cancer or AIDS.

The arguments go something like this: "If a medical service isn't available for everyone, should it be available for a few? Isn't it unethical or morally repugnant for someone with assets to be able to pursue a new, research-based treatment approach when others, without these resources, cannot? Shouldn't there be restraints on the private sector in the delivery of medical services to those who wish to pay for them?"

This thought process would indeed be bizarre if it were applied to a vital product such as food. At the moment, no one is crying foul if someone with resources chooses to eat more than the minimum daily requirement. In a similar manner, there has been no call to restrict the availability of air conditioners for those who wish to purchase them in spite of the obvious health advantages of air conditioning to the sick and elderly who can't afford them. There has been no call to remove private rooms or executive suites from hospitals where they are available to patients with resources. There has been no call to restrain travel by those who wish to fly to

Switzerland or Italy or to a distant clinical facility within the United States for specialized medical care.

Different Standards of Ethics?

As a physician, I often receive calls from individuals who ask if I have access to a specialized technology, a research-based approach, for the treatment of a relative. I am struck by the fact that the individual, often a practicing physician, has not called me about his patients. I am struck that such individuals often work in government or universities. Some have been openly critical of private-sector systems of cancer research that might provide opportunities for those with the resources to afford them—until someone close needs access and opportunity. What are the ethics of one standard for a relative and a different approach for a patient? This curious schizophrenia between the idea that everyone should have equal access, but that if everyone can't have it, no one should, represents a dangerous thought process.

To translate that to a system where no one can have access to more health care beyond a set standard would be a grievous error. Such thinking outside of the health field is clearly anomalous. Let's not apply a unique standard to health-care services, but let's apply the same rules of logic to all basic services that individuals might use, given their resources. □

**IDEAS
ON
LIBERTY**



Arguments Against Socialized Medicine

It is a mistake for the government to consider the problems of the sick apart from those of society as a whole. . . . the broader problem is, in a moral sense, one of promoting respect for the individual and the furtherance of initiative and self-providence; in an economic sense, one of increasing production for the benefit of *all* citizens; and in a political sense, one of removing government as a battlefield for special favor and substituting cohesion and solidarity for division and disintegration.

—DARRYL W. JOHNSON, JR.

Socialized Medicine: The Canadian Experience

by Pierre Lemieux

The Canadian public health system is often put forward as an ideal for Americans to emulate. It provides all Canadians with free basic health care: free doctors visits, free hospital ward care, free surgery, free drugs and medicine while in the hospital—plus some free dental care for children as well as free prescription drugs and other services for the over-65 and welfare recipients. You just show your plastic medicare card and you never see a medical bill.

This extensive national health system was begun in the late 1950s with a system of publicly funded hospital insurance, and completed in the late 1960s and early 1970s when comprehensive health insurance was put into place. The federal government finances about 40 percent of the costs, provided the provinces set up a system satisfying federal norms. All provincial systems thus are very similar, and the Quebec case which we will examine is fairly typical.

One immediate problem with public health care is with the funding. Those usually attracted to such a “free” system are the poor and the sick—those least able to pay. A political solution is to force everybody to enroll in the system, which amounts to redistributing income towards participants with higher health risks or lower income. This is why the Canadian system is universal and compulsory.

Even if participation is compulsory in the sense that everyone has to pay a health insurance premium (through general or specific taxes), some individuals are willing to pay a

second time to purchase private insurance and obtain private care. If you want to avoid this double system, you do as in Canada: you legislate a monopoly for the public health insurance system.

This means that although complementary insurance (providing private or semi-private hospital rooms, ambulance services, etc.) is available on the market, sale of private insurance covering the basic insured services is forbidden by law. Even if a Canadian wants to purchase basic private insurance besides the public coverage, he cannot find a private company legally allowed to satisfy his demand.

In this respect, the Canadian system is more socialized than in many other countries. In the United Kingdom, for instance, one can buy private health insurance even if government insurance is compulsory.

In Canada, then, health care is basically a socialized industry. In the Province of Quebec, 79 percent of health expenditures are public. Private health expenditures go mainly for medicines, private or semi-private hospital rooms, and dental services. The question is: how does such a system perform?

The Costs of Free Care

The first thing to realize is that free public medicine isn't really free. What the consumer doesn't pay, the taxpayer does, and with a vengeance. Public health expenditures in Quebec amount to 29 percent of the provincial government budget. One-fifth of the revenues comes from a wage tax of 3.22 percent charged to

employers and the rest comes from general taxes at the provincial and federal levels. It costs \$1,200 per year in taxes for each Quebec citizen to have access to the public health system. This means that the average two-child family pays close to \$5,000 per year in public health insurance. This is much more expensive than the most comprehensive private health insurance plan.

Although participating doctors may not charge more than the rates reimbursed directly to them by the government, theoretically they may opt out of the system. But because private insurance for basic medical needs isn't available, there are few customers, and less than one percent of Quebec doctors work outside the public health system. The drafting of virtually all doctors into the public system is the first major consequence of legally forbidding private insurers from competing with public health insurance.

The second consequence is that a real private hospital industry cannot develop. Without insurance coverage, hospital care costs too much for most people. In Quebec, there is only one private for-profit hospital (an old survivor from the time when the government would issue a permit to that kind of institution), but it has to work within the public health insurance system and with government-allocated budgets.

The monopoly of basic health insurance has led to a single, homogeneous public system of health care delivery. In such a public monopoly, bureaucratic uniformity and lack of entrepreneurship add to the costs. The system is slow to adjust to changing demands and new technologies. For instance, day clinics and home care are underdeveloped as there exist basically only two types of general hospitals: the non-profit local hospital and the university hospital.

When Prices Are Zero

Aside from the problems inherent in all monopolies, the fact that health services are free leads to familiar economic consequences. Basic economics tells us that if a commodity is offered at zero price, demand will increase, supply will drop, and a shortage will develop.

During the first four years of hospitalization insurance in Quebec, government expenditures

on this program doubled. Since the introduction of comprehensive public health insurance in 1970, public expenditures for medical services per capita have grown at an annual rate of 9.4 percent. According to one study, 60 percent of this increase represented a real increase in consumption.¹

There has been much talk of people abusing the system, such as using hospitals as nursing homes. But then, on what basis can we talk of abusing something that carries no price?

As demand rises and expensive technology is introduced, health costs soar. But with taxes already at a breaking point, government has little recourse but to try to hold down costs. In Quebec, hospitals have been facing budget cuts both in operating expenses and in capital expenditures. Hospital equipment is often outdated, and the number of general hospital beds dropped by 21 percent from 1972 to 1980.

Since labor is the main component of health costs, incomes of health workers and professionals have been brought under tight government controls. In Quebec, professional fees and target incomes are negotiated between doctors' associations and the Department of Health and Social Services. Although in theory most doctors still are independent professionals, the government has put a ceiling on certain categories of income: for instance, any fees earned by a general practitioner in excess of \$164,108 (Canadian) a year are reimbursed at a rate of only 25 percent.

Not surprisingly, income controls have had a negative impact on work incentives. From 1972 to 1978, for instance, general practitioners reduced by 11 percent the average time they spent with their patients. In 1977, the first year of the income ceiling, they reduced their average work year by two-and-a-half weeks.²

Government controls also have caused misallocations of resources. While doctors are in short supply in remote regions, hospital beds are scarce mainly in urban centers. The government has reacted with more controls: young doctors are penalized if they start their practice in an urban center. And the president of the Professional Corporation of Physicians has proposed drafting young medical school graduates to work in remote regions for a period of time.

Nationalization of the health industry also



In Canada, sale of private insurance covering the basic insured services is forbidden by law. Even if a Canadian wants to purchase basic private insurance besides the public coverage, he cannot find a private company legally allowed to satisfy his demand.

has led to increased centralization and politicization. Work stoppages by nurses and hospital workers have occurred half a dozen times over the last 20 years, and this does not include a few one-day strikes by doctors. Ambulance services and dispatching have been centralized under government control. As this article was being written, ambulance drivers and paramedics were working in jeans, they had covered their vehicles with protest stickers, and they were dangerously disrupting operations. The reason: they want the government to finish nationalizing what remains under private control in their industry.

When possible, doctors and nurses have voted with their feet. A personal anecdote will illustrate this. When my youngest son was born in California in 1978, the obstetrician was from Ontario and the nurse came from Saskatchewan. The only American-born in the delivery room was the baby.

When prices are zero, demand exceeds supply, and queues form. For many Canadians, hospital emergency rooms have become their primary doctor—as is the case with Medicaid patients in the United States. Patients lie in temporary beds in emergency rooms, sometimes for days. At Sainte-Justine Hospital, a major Montreal pediatric hospital, children often wait many hours before they can see a doctor. Surgery candidates face long waiting lists—it can take six months to have a cataract removed. Heart surgeons report patients dying while on their waiting lists. But then, it's free.

Or is it? The busy executive, housewife, or laborer has more productive things to do be-

sides waiting in a hospital queue. For these people, waiting time carries a much higher cost than it does to the unemployed single person. So, if public health insurance reduces the costs of health services for some of the poor, it increases the costs for many other people. It discriminates against the productive.

The most visible consequence of socialized medicine in Canada is in the poor quality of services. Health care has become more and more impersonal. Patients often feel they are on an assembly line. Doctors and hospitals already have more patients than they can handle and no financial incentive to provide good service. Their customers are not the ones who write the checks anyway.

No wonder, then, that medicine in Quebec consumes only 9 percent of gross domestic product (7 percent if we consider only public expenditures) compared to some 11 percent in the United States. This does not indicate that health services are delivered efficiently at low cost. It reflects the fact that prices and remunerations in this industry are arbitrarily fixed, that services are rationed, and that individuals are forbidden to spend their medical-care dollars as they wish.

Is It Just?

Supporters of public health insurance reply that for all its inefficiencies, their system at least is more just. But even this isn't true.

Their conception of justice is based on the idea that certain goods like health (and education? and food? where do you stop?) should be

made available to all through coercive redistribution by the state. If, on the contrary, we define justice in terms of liberty, then justice forbids coercing some (taxpayers, doctors, and nurses) into providing health services to others. Providing voluntarily for your neighbor in need may be morally good. Forcing your neighbor to help you is morally wrong.

Even if access to health services is a desirable objective, it is by no means clear that a socialized system is the answer. Without market rationing, queues form. There are ways to jump the queue, but they are not equally available to everyone.

In Quebec, you can be relatively sure not to wait six hours with your sick child in an emergency room if you know how to talk to the hospital director, or if one of your old classmates is a doctor, or if your children attend the same exclusive private school as your pediatrician's children. You may get good services if you deal with a medical clinic in the business district. And, of course, you will get excellent services if you fly to the Mayo Clinic in Minnesota or to some private hospital in Europe. The point is that these ways to jump the queue are pretty expensive for the typical lower-middle-class housewife, not to talk of the poor.

An Enquiry Commission on Health and Social Services submitted a thick report in December 1987, after having met for 30 months and spent many millions of dollars. It complains that "important gaps persist in matters of health and welfare among different groups."³ Now, isn't this statement quite incredible after two decades of monopolistic socialized health care? Doesn't it show that equalizing conditions is an impossible task, at least when there is some individual liberty left?

One clear effect of a socialized health system is to increase the cost of getting above-average care (while the average is dropping). Some poor people, in fact, may obtain better care under socialized medicine. But many in the middle class will lose. It isn't clear where justice is to be found in such a redistribution.

There are two ways to answer the question: "What is the proper amount of medical care in different cases?" We may let private initiative and voluntary relations provide solutions. Or we may let politics decide. Health care has to be

rationed either by the market or by political and bureaucratic processes. The latter are no more just than the former. We often forget that people who have difficulty making money in the market are not necessarily better at jumping queues in a socialized system.

There is no way to supply all medical services to everybody, for the cost would be astronomical. What do you do for a six-year-old Montreal girl with a rare form of leukemia who can be cured only in a Wisconsin hospital at a cost of \$350,000—a real case? Paradoxically for a socialized health system, the family had to appeal to public charity, a more and more common occurrence. In the first two months, the family received more than \$100,000, including a single anonymous donation of \$40,000.

This is only one instance of health services that could have been covered by private health insurance but are being denied by hard-pressed public insurance. And the trend is getting worse. Imagine what will happen as the population ages.

There are private solutions to health costs. Insurance is one. Even in 1964, when insurance mechanisms were much less developed than today, 43 percent of the Quebec population carried private health insurance, and half of them had complete coverage. Today, most Americans not covered by Medicare or Medicaid carry some form of private health insurance. Private charity is another solution, so efficient that it has not been entirely replaced by the Canadian socialized system.

Can Trends Be Changed?

People in Quebec have grown so accustomed to socialized medicine that talks of privatization usually are limited to subcontracting hospital laundry or cafeteria services. The idea of subcontracting hospital management as a whole is deemed radical (although it is done on a limited scale elsewhere in Canada). There have been suggestions of allowing health maintenance organizations (HMO's) in Quebec, but the model would be that of Ontario, where HMO's are totally financed and controlled by the public health insurance system. The government of Quebec has repeatedly come out against for-profit HMO's.

Socialized medicine has had a telling effect on the public mind. In Quebec, 62 percent of the population now think that people should pay nothing to see a doctor; 82 percent want hospital care to remain free. People have come to believe that it is normal for the state to take care of their health.

Opponents of private health care do not necessarily quarrel with the efficiency of competition and private enterprise. They morally oppose the idea that some individuals may use money to purchase better health care. They prefer that everybody has less, provided it is equal. *The Gazette*, one of Montreal's English-speaking newspapers, ran an editorial arguing that gearing the quality of health care to the ability to pay "is morally and socially unacceptable."⁴

The idea that health care should be equally distributed is part of a wider egalitarian culture. Health is seen as one of the goods of life that need to be socialized. The Quebec Enquiry Commission on Health and Social Services was quite clear on this:

The Commission believes that the reduction of these inequalities and more generally the achievement of fairness in the fields of health and welfare must be one of the first goals of the system and direct all its interventions. It is clear that the health and social services system is not the only one concerned. This concern applies as strongly to labor, the environment, education and income security.⁵

A Few Lessons

Several lessons can be drawn from the Canadian experience with socialized medicine.

First of all, socialized medicine, although of

poor quality, is very expensive. Public health expenditures consume close to 7 percent of the Canadian gross domestic product, and account for much of the difference between the levels of public expenditure in Canada (47 percent of gross domestic product) and in the U.S. (37 percent of gross domestic product). So if you do not want a large public sector, do not nationalize health.

A second lesson is the danger of political compromise. One social policy tends to lead to another. Take, for example, the introduction of publicly funded hospital insurance in Canada. It encouraged doctors to send their patients to hospitals because it was cheaper to be treated there. The political solution was to nationalize the rest of the industry. Distortions from one government intervention often lead to more intervention.

A third lesson deals with the impact of egalitarianism. Socialized medicine is both a consequence and a great contributor to the idea that economic conditions should be equalized by coercion. If proponents of public health insurance are not challenged on this ground, they will win this war and many others. Showing that human inequality is both unavoidable and, within the context of equal formal rights, desirable, is a long-run project. But then, as Saint-Exupéry wrote, "Il est vain, si l'on plante un chêne, d'espérer s'abriter bientôt sous son feuillage."⁶ □

1. Report of the Enquiry Commission on Health and Social Services, Government of Quebec, 1988, pp. 148, 339.

2. Gérard Bélanger, "Les dépenses de santé par rapport à l'économie du Québec," *Le Médecin du Québec*, December 1981, p. 37.

3. Report of the Enquiry Commission on Health and Social Services, p. 446 (our translation).

4. "No Second Class Patients," editorial of *The Gazette*, May 21, 1988.

5. Report of the Enquiry Commission on Health and Social Services, p. 446 (our translation).

6. "It is a vain hope, when planting an oak tree, to hope to soon take shelter under it."

The British Way of Withholding Care

by Harry Schwartz

The problems associated with socialized medicine can be symbolized by the fate of two children, David Barber and Matthew Collier, who died in early 1988 in the British city of Birmingham.

Both children needed heart transplants to survive. Their parents became so desperate that they sued Britain's National Health Service to force the NHS to provide the necessary medical care. Their efforts were in vain: Neither child got the operation, and neither child is alive today.

The point is not that those who run socialized healthcare systems would rather see children die than give them the care they need to survive. Rather, the point is that all socialized systems lack one thing: enough money to provide quality medical care and to take full advantage of modern medical technology.

In other words, the propagandists are stretching the truth a long way when they insist that socialized medicine provides a bountiful distribution of all the medical care people could want or need. In reality, medical care is rationed in socialized systems. Managers must decide which patients will be sacrificed because the total amount of care provided is based on the total amount of money available.

J. Enoch Powell, a former British cabinet member who ran the NHS for three years, summed up the situation when he said that the

demand for free medical care is infinite and cannot be satisfied by a country's limited resources. David Barber and Matthew Collier are two depressing examples of what can happen when the demand for care outstrips the supply of money.

Britain is not the only country plagued by the pitfalls of socialized medicine. Until recently, the Soviet Union's medical system was praised to the skies by Soviet propaganda and by naive Americans who were taken in by that propaganda.

But now that the current Soviet ruler, Mikhail S. Gorbachev, has called for open and honest discussion of his country's problems, the truth has emerged: Russia's health-care system is—and has long been—a disaster. Basic medicines are in short supply, while equipment to treat serious illnesses such as kidney disease is virtually unavailable.

For instance, the Soviet media have revealed that the country's infant-mortality rate in recent years has been two-and-a-half to three times greater than that of the United States. The death rate for all Soviet citizens actually is rising, and many hospitals lack even basic supplies and equipment. These revelations explain why, for most of the past two decades, the Soviet Union hasn't bothered to report statistics on its infant mortality and death rates.

As more and more of American medicine is socialized through the Medicare program for senior citizens and the Medicaid program for the poor, rationing—the denial of care to save money for the government—is becoming evident here, too.

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Reprinted from Private Practice, May 1988.

For example, in Oregon, legislators recently decided that the state would not finance heart and liver transplants. Instead, they made more money available for preventive activities such as prenatal care. As a result, a number of Oregon citizens whose lives could have been saved by transplants were told, in effect, to go ahead and die because the Oregon Medicaid program would not help them.

Diagnosis Related Groups

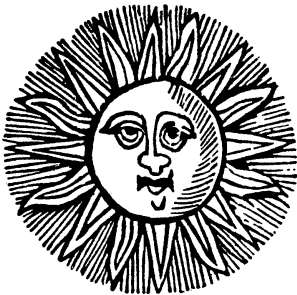
The chief method of rationing care in the Medicare program is the system of diagnosis related groups, under which hospitals are paid a fixed amount to treat beneficiaries. The reimbursements are based on each patient's initial diagnosis. As a result, hospitals try to discharge senior citizens as quickly as possible because the less time they stay in the hospital, the more profit the hospital makes.

Medicare managers already are trying to in-

troduce a much more radical method of rationing health care by getting as many senior citizens as they can to enroll in health maintenance organizations.

If this effort to boost HMO enrollment is successful, the government will save money because HMOs will receive a fixed amount annually for each member, regardless of how much medical care that member receives. This means that HMOs have an incentive to give as little care as possible. The less care provided, the more money HMOs will make.

One or two generations ago, many people dreamed that socialized medicine would provide every citizen with all the health care he needed or wanted. But history has proved irrefutably that socialized medicine is simply a means of imposing Procrustean rationing on the entire population. In other words, some citizens receive care and live, while others are denied care and are permitted to die as quickly as possible. □



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Moral Criticisms of the Market

by Ken S. Ewert

According to an author writing in a recent issue of *The Nation* magazine, "The religious Left is the only Left we've got." An overstatement? Perhaps. However, it points to an interesting fact, namely that while the opposition to free markets and less government control has declined in recent years among the "secular left," the political-economic views of the "Christian left" seem to remain stubbornly unchanged.

Why is this so? Why are the secular critics of the market mellowing while the Christian critics are not?

Perhaps one major reason is the different criteria by which these two ideological allies measure economic systems. The secular left, after more than half a century of failed experiments in anti-free market policies, has begrudgingly softened its hostility towards the market for predominantly pragmatic reasons. Within their camp the attitude seems to be that since it hasn't worked, let's get on with finding something that will. While this may be less than a heartfelt conversion to a philosophy of economic freedom, at least (for many) this recognition has meant taking a more sympathetic view of free markets.

However, within the Christian camp the leftist intellectuals seem to be much less influenced by the demonstrated failure of state-directed economic policies. They remain unimpressed with arguments pointing out the efficiency and

productivity of the free market, or statistics and examples showing the non-workability of traditional interventionist economic policies. Why? One likely reason is that the criteria by which these thinkers choose to measure capitalism are fundamentally moral in nature, so much so that socialism, despite its obvious shortcomings, is still preferred because of its perceived moral superiority. In their eyes, the justness and morality of an economic system are vastly more important than its efficiency.

If indeed the Christian critics of the market are insisting that an economic system must be ultimately judged by moral standards, we should agree and applaud them for their principled position. They are asking a crucially important question: is the free market a moral economic system?

Unfortunately, these thinkers have answered the question with a resounding "No!" They have examined the free market and found it morally wanting. Some of the most common reasons given for this indictment are that the market is based on an ethic of selfishness and it fosters materialism; it atomizes and dehumanizes society by placing too much emphasis on the individual; and it gives rise to tyrannical economic powers which subsequently are used to oppress the weaker and more defenseless members of society.

If these accusations are correct, the market is justly condemned. But have these critics correctly judged the morality of the free market? Let's re-examine their charges.

Mr. Ewert, a graduate of Grove City College, is working on a master's degree in public policy at CBN University.

I. SELFISHNESS

The market, it is suggested, is based on and encourages an ethic of selfishness. According to critics of the market, mere survival in this competitive economic system requires that we each "look after Number One." Individuals are encouraged to focus on the profit motive to the exclusion of higher goals and as a result selfishness becomes almost a virtue. And this, it is noted, is in stark contrast with the self-sacrificial love taught by the Scriptures. Instead of rewarding love, compassion, and kindness towards others, the free market seems to reward self-orientation and self-indulgence. Instead of encouraging us to be concerned about our neighbor, the free market seems to encourage us to be concerned about ourselves. Individuals who might otherwise be benevolent, according to this view, are corrupted by the demands of an economic system that forces them to put themselves first. In the thinking of these critics, the market is the logical precursor to the "me generation."

However, this charge is superficial and misleading in several respects. It is important to remember that while the free market does allow "self-directed" economic actions, it does not require "selfish" economic actions. There is an important distinction here. It should be obvious that all human action is self-directed. Each of us has been created with a mind, allowing us to set priorities and goals, and a will, which enables us to take steps to realize these goals. This is equally true for those who live in a market economy and those who live under a politically directed economy. The difference between the two systems is not between self-directed action versus non-self-directed action, but rather between a peaceful pursuit of goals (through voluntary exchange in a free economy) versus a coercive pursuit of goals (through wealth transferred via the state in a "planned" economy). In other words, the only question is how will self-directed action manifest itself: will it take place through mutually beneficial economic exchanges, or through predatory political actions?

Clearly the free market cannot be singled out and condemned for allowing self-directed actions to take place, since self-directed actions are an inescapable part of human life. But can it

be condemned for giving rise to selfishness? In other words, does the free market engender an attitude of selfishness in individuals? If we define selfishness as a devotion to one's own advantage or welfare without regard for the welfare of others, it is incontestable that selfishness does exist in the free economy; many individuals act with only themselves ultimately in mind. And it is true, that according to the clear teaching of Scripture, selfishness is wrong.

But we must bear in mind that although selfishness does exist in the free market, it also exists under other economic systems. Is the Soviet factory manager less selfish than the American capitalist? Is greed any less prevalent in the politically directed system which operates via perpetual bribes, theft from state enterprises, and political purges? There is no reason to think so. The reason for this is clear: selfishness is not an environmentally induced condition, i.e., a moral disease caused by the economic system, but rather a result of man's fallen nature. It is out of the heart, as Christ said, that a man is defiled. Moral failure is not spawned by the environment.

It is clear that not all self-directed action is necessarily selfish action. For example, when I enter the marketplace in order to earn wealth to feed, clothe, house, and provide education or medical care for my children, I am not acting selfishly. Likewise, if you or I want to extend charity to a needy neighbor or friend, we must first take "self-directed" action to create the wealth necessary to do so. Such action is hardly selfish.

The point is this: the free market allows individuals to peacefully pursue their chosen goals and priorities, but it doesn't dictate or determine those priorities. It does not force an individual to focus on his own needs and desires, but leaves him or her at liberty to be self-centered or benevolent. My ultimate goal may be self-indulgence, or I may make a high priority of looking after others—the choice is mine. As to which I should do, the market is silent. As an economic system, the market simply does not speak in favor of selfish or unselfish priorities.

However, the free market, while not touching the heart of a man or eliminating selfishness, does in fact restrain selfishness. It chan-

nels self-centered desires into actions that are beneficial to others. This is so because in order to "get ahead" in the free economy, we must first please other people by producing something which is of use and value to them. In other words, the market disciplines each of us to look outwards and serve others. Only by doing so can we persuade them to give us what we want in exchange.

We will return to this theme later, but for now the point is that in a very practical sense, the workings of the market persuade even the most self-indulgent among us to serve others and to be concerned about the needs and wants of his neighbor. True, the motivation for doing so is not necessarily pure or unselfish, but as the Bible so clearly teaches, it is only God who can change the hearts of men.

Furthermore, the free market, because of the incredible wealth it allows to be created, makes living beyond ourselves practicable. In order to show tangible love toward our neighbor (minister to his or her physical needs) we must first have the wealth to do so.

We sometimes need to be reminded that wealth is not the natural state of affairs. Throughout most of history the majority of people lived under some sort of centrally controlled economic system and were forced to devote most of their energies to mere survival. Often all but the wealthiest individuals lacked the economic means to look much beyond themselves and to aid others who were in need.

But the productivity spawned by economic freedom has radically changed this. In a free market, we are not only able to choose unselfish values and priorities, but we are also able to create the wealth necessary to fulfill them practically.

II. MATERIALISM

Another moral indictment of the market, closely related to the charge of selfishness, is the belief that the market fosters materialism. The example most often used to demonstrate the market's guilt in this area is the perceived evil effect of advertising. It is contended that advertising creates a sort of "lust" in the hearts of consumers by persuading them that mere material possessions will bring joy and fulfillment.

In this sense, the market is condemned for creating a spirit of materialism and fostering an ethic of acquisitiveness. The market in general, and advertising specifically, is a persistent temptress encouraging each of us to concentrate on the lowest level of life, mere material goods.

This charge can be answered in much the same manner as the charge of selfishness. Just as allowing free exchange doesn't require selfishness, neither does it require materialism. It is true that when people are economically free, materialism is possible, and certainly there are materialistic people in market economies. But this hardly warrants a condemnation of the market. Materialism, like selfishness, can and will occur under any economic system. It is obvious that a desire for material goods is far from being unique to capitalism. Witness, for example, the response of shoppers as a store puts out a new rack of genuine cotton shirts in Moscow or a shipment of fresh meat arrives in a Krakow shop.

Although the role of advertising has been much maligned, it in fact provides a vital service to consumers. Advertising conveys information. It tells consumers what products are available, how these products can meet their needs, and what important differences exist among competing products. The fact that this is a valuable function becomes apparent if you imagine trying to buy a used car in a world without advertising. Either your choice of cars would be severely limited (to those cars you happen to stumble upon, i.e., gain knowledge of) or you would have to pay more (in the form of time and resources used in seeking out and comparing cars). In either case, without the "free" knowledge provided by advertising, you would be much worse off.

But the economic role of advertising aside, does advertising actually "create" a desire for goods? If it does, why do businesses in market-oriented economics spend billions of dollars each year on consumer research to find out what customers want? Why do some advertised products not sell (for example, the Edsel) or cease to sell well (for example the hula hoop)? In the market economy consumers are the ultimate sovereigns of production. Their wants and priorities dictate what is produced; what is produced doesn't determine their wants and prior-

ities. Many bankrupt businessmen, left with unsalable (at a profitable price) products wistfully wish that the reverse were true.

Moreover, the Bible consistently rejects any attempt by man to ascribe his sinful tendencies to his environment. If I am filled with avarice when I see an advertisement for a new Mercedes, I cannot place the blame on the advertisement. Rather I must recognize that I am responsible for my thoughts and desires, and that the problem lies within myself. After all, I could feel equally acquisitive if I just saw the Mercedes on the street rather than in an advertisement. Is it wrong for the owner of the Mercedes to incite my desires by driving his car where I might see it? Hardly.

Just as God did not allow Adam to blame Satan (the advertiser—and a blatantly false advertiser at that) or the fruit (the appealing material good) for his sin in the Garden, we cannot lay the blame for materialism on the free market or on advertising. The materialist's problem is the sin within his heart, not his environment.

If we follow the environmental explanation of materialism to its logical conclusion, the only solution would appear to be doing away with all wealth (i.e., eliminate all possible temptation). If this were the appropriate solution to the moral problem of materialism, perhaps the moral high ground must be conceded to the state-run economies of the world after all. They have been overwhelmingly successful at destroying wealth and wealth-creating capital!

III. IMPERSONALISM AND INDIVIDUALISM

Another common criticism of the market economy is its supposed impersonal nature and what some have called "individualistic anarchy." According to many Christian critics, the market encourages self-centered behavior and discourages relational ties in society. The non-personal market allocation of goods and services is seen to be antithetical to the seemingly higher and more noble goal of a loving and interdependent community. Because of the economic independence that the market affords, the individual is cut off from meaningful relationships with his fellow human beings and divorced from any purpose beyond his own inter-

ests. In short, the free market is accused of breeding a pathetic and inhumane isolation.

But does the market encourage impersonal behavior? Certainly not. It is important to understand that the presence of economic freedom does not require that all transactions and relationships take place on an impersonal level. For example, many people have good friendships with their customers, suppliers, employees, or employers. While these relationships are economic, they are not merely economic and they are not impersonal.

Furthermore, while the market leaves us free to deal with other people solely on the basis of economic motives, we are not required nor even necessarily encouraged to do so. We are completely free to deal on a non-economic basis. Suppose that I am in the business of selling food, and I find that someone is so poor that he has nothing to trade for the food that I am offering for sale. In the free market I am completely free to act apart from economic motives and make a charitable gift of the food. I have in no way lost my ability to act in a personal and non-economic way.

Community Relationships

So the market is not an inherently impersonal economic system. Nor is it hostile to the formation of community relationships.

An excellent example of a community which exists within the market system is the family. Obviously I deal with my wife and children in a non-market manner. I give them food, shelter, clothing, and so on, and I certainly don't expect any economic gain in return. I do so joyfully, because I love my family and I value my relationship with them far above the economic benefits I forgo. Another example is the church. I have a non-economic and very personal relationship with people in my church. And there are countless teams, clubs, organizations, and associations which I can join, if I choose. If I want, I can even become part of a commune. The market economy doesn't stand in the way of, or discourage, any of these expressions of community.

But now we come to the heart of this objection against the market: what if people will not voluntarily choose to relate to each other in per-

sonal or community-type relationships? What if they choose not to look beyond their own interests and work for some purpose larger than themselves? The answer to this is the rather obvious question: Who should decide what is the appropriate degree of relationship and community?

True community, I submit, is something which must be consensual, meaning it must be voluntarily established. Think of a marriage or a church. If people do not choose to enter into these relationships when they are free to do so, we may judge their action to be a mistake, but by what standard can we try to coerce them into such relationships? Even if there were some objective standard of "optimum community," it is not at all clear that we would create it by robbing people of their economic freedom. There is no reason to believe that individuals living under a system of economic "planning" are less isolated or have more community by virtue of their system. The fact that individuals are forced into a collective group hardly means that a loving and caring community will result. Love and care are things which cannot be coercively extracted, but must be freely given.

Moreover, the free market actually encourages the formation and maintenance of the most basic human community—the family. As the utopian socialists of past centuries—including Marx and Engels—recognized, there is a vital connection between private property and the integrity of the family. Destroy the one, they reasoned, and the other will soon disintegrate.

Their motives were suspect but their analysis was correct. When the state fails to protect private property and instead takes over the functions traditionally provided by the family (such as education, day care, health care, sickness and old-age support), the family unit is inevitably weakened. Family bonds are undermined as the economic resources which formerly allowed the family to "care for its own" are transferred to the state. There is little doubt that the disintegration of the family in our country is in large part due to state intervention. Instead of turning toward and receiving personal care from within the family, individuals have been encouraged to turn toward the impersonal state. The result has been the disintegration of family bonds. It is state economic intervention—not the free mar-

ket system—which is inherently impersonal and antithetical to true human community.

IV. ECONOMIC POWER

The objection to the market on the grounds of impersonalism is based on the same fallacy as were the previously discussed charges of selfishness and materialism. Each of these claims indicts the market for ills which in fact are common to all mankind—faults that would exist under any economic system. Impersonalism, selfishness, and materialism are the consequence of the fall of man, not the fruit of an economic system which allows freedom. If these sinful tendencies are an inescapable reality, the question that must be asked is: "What economic system best restrains sin?"

This brings us to a fourth moral objection to the market which is often espoused by the Christians of the left: that the market, which is often pictured as a "dog-eat-dog" or "survival of the fittest" system, leaves men free to oppress each other. It allows the economically powerful to arbitrarily oppress the economically weak, the wealthy to tread upon and exploit the poor. According to this view, wealth is power, and those with wealth will not necessarily use their power wisely and justly. Because the nature of man is what it is, this "economic power" must be checked by the state and restrained for the public good.

But does the market in fact allow individuals to exploit others? To begin with, there is a great deal of misunderstanding about this thing called "economic power." The term is in fact somewhat of a misnomer. When we speak of power, we normally refer to the ability to force or coerce something or someone to do what we desire. The motor in your car has the power to move the car down the road; this is mechanical power. The police officer has the power to arrest and jail a lawbreaker; this is civil power. But what of economic power? If I possess a great deal of wealth, what unique ability does this wealth confer?

In reality what the critics of the market call economic power is only the ability to please others, and thus "economic power" is not power in the true sense of the word. Regardless of a person's wealth, in the free market he can

get what he wants only by pleasing another person through offering to exchange something which the other deems more valuable. Wealth (assuming it is not used to buy political power) doesn't bestow the ability to apply force to or dominate another individual.

Take for example the employer of labor, an individual who is often considered to be the embodiment of economic power and an exploiter of those less powerful than himself. It is often forgotten that an employer can get what he wants—employees for his business—only by offering something which pleases them, namely a wage which they consider better than not working, or better than working for someone else. He has no power to force them to come and work for him, but only the power to offer them a better alternative.

What ensures that he will want to make them a pleasing offer? The fact that doing so is the only way to get what he is interested in, namely their labor, provides a very strong incentive. But suppose the prospective employee is in very desperate straits and almost any wage, even one which seems pitifully low, will please him enough to work for the employer. In this situation, it seems as if the employer can get away with paying "slave wages" and exploiting the economically weaker employee.

This scenario, however, ignores the effects of the competition among employers for employees. In the market economy, employers are in constant competition with other employers for the services of employees. They are "disciplined" by this competition to offer top wages to attract workers. Because of competition, wages are "bid up" to the level at which the last employee hired will be paid a wage which is very nearly equivalent to the value of what he produces. As long as wages are less than this level, it pays an employer to hire another employee, since doing so will add to his profits. Economists call this the marginal productivity theory of wages.

But what if there were no competing employers? For example, what about a "one-company town"? Without competition, wouldn't the employer be able to exploit the employees and pay "unfair" wages?

First of all, it is important to remember that in

the free market, an economic exchange occurs only because the two trading parties believe that they will be better off after the exchange. In other words, all exchanges are "positive sum" in that both parties benefit. Thus if an employee in this one-company town is willing to work for low wages, it is only because he or she places a higher value on remaining in the town and working for a lower wage than moving to another place and finding a higher paying job. The "power" that the employer wields is still only the ability to offer a superior alternative to the employee. In choosing to remain and work for a lower wage, the employee is likely considering other costs such as those of relocating, finding another job, and retraining, as well as non-monetary costs, such as the sacrifice of local friendships or the sacrifice of leaving a beautiful and pleasant town.

Moreover, this situation cannot last for long. If the employer can pay wages that are significantly lower than elsewhere, he will reap above-average profits and this in turn will attract other employers to move in and take advantage of the "cheap labor." In so doing, these new employers become competitors for employees. They must offer higher wages in order to persuade employees to come and work for them, and as a result wages eventually will be bid up to the level prevailing elsewhere.

Economic Ability to Please

What is true for the employer in relation to the employee is true for all economic relationships in the free market. Each individual, though he may be a tyrant at heart, can succeed only by first benefiting others—by providing them with an economic service. Regardless of the amount of wealth he possesses, he is never freed from this requirement. Economic "power" is only the economic ability to please, and as such it is not something to be feared. Far from allowing men to oppress each other, the free market takes this sinful drive for power and channels it into tangible service for others.

It is also important to consider that the only alternative to the free market is the political direction of economic exchanges. As the Public Choice theorists have so convincingly pointed

out in recent years, there is no good reason to suppose that people become less self-interested when they enter the political sphere. In other words, to paraphrase Paul Craig Roberts, there is not necessarily a "Saul to Paul conversion" when an individual enters government. If he was power-hungry while he was a private-market participant, he likely will be power-hungry after he becomes a "public servant."

But there is an important difference. In contrast with economic power, political power is truly something to be feared because of its coercive aspect. The power-seeking individual in government has power in the true sense of the word. While in the market he has to please those he deals with in order to be economically successful, the same is not true, or is true to a far lesser degree, in the political sphere. In the political sphere he can actually abuse one group of people but still succeed by gaining the favor of other groups of people.

A classic example is a tariff. This economic intervention benefits a small group of producers (and those who work for or sell to the producers) at the expense of consumers who have to pay higher prices for the good in question. The politician gains in power (and perhaps wealth) because of the significant support he can receive from the small but well-organized group of producers. Other examples of the use of political power that clearly benefit some individuals at the expense of others are government bail-outs, subsidies, price supports, and licensing monopolies. The fact that these types of legislation continue despite the fact that they harm people (usually the least wealthy and most poorly organized) demonstrates the tendency of mankind to abuse political power.

In fact, virtually every state intervention into the economy is for the purpose of benefiting one party at the expense of another. In each of the cases mentioned above, some are exploited by

others via the medium of the state. Therefore, if we are concerned about the powerful oppressing the weak, we should focus our attention on the abuse of political power. It, and not the so-called "economic power" of individuals acting within the free market, is the true source of tyranny and oppression. Our concern for the downtrodden should not lead us to denigrate economic freedom but rather to restrain the sphere of civil authority.

V. CONCLUSION

The free market is innocent of the charges leveled at it by its Christian critics. Its alleged moral shortcomings turn out to be things which are common to mankind under both free and command economic systems. While it is true that the free market restrains human sin, it makes no pretense of purging people of their selfishness, materialism, individualism, and drive for power. And this, perhaps, is the true sin in the eyes of the market's critics.

The market is explicitly non-utopian. It doesn't promise to recreate man in a new and more perfect state, but rather it acknowledges the moral reality of man and works to restrain the outward manifestations of sin. In this sense the free market is in complete accord with Biblical teachings. According to Scripture, man cannot be morally changed through any human system, be it religious, political, or economic, but moral regeneration comes solely through the grace of God.

If the Christian critics of the market expect an economic system to change the moral character of people, they are sadly mistaken. Such a task is clearly beyond the ability of any human institution or authority. We must be content to restrain the outward expression of sin, and this is something which the free market does admirably. □

Governments and Men

GOVERNMENTS, like clocks, go from the motion men give them; and as governments are made and moved by men, so by them they are ruined, too.

— WILLIAM PENN

IDEAS
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Scandal at the Welfare State

by Tibor R. Machan

There is much talk these days about government corruption. Scandals abound and usually involve special benefits obtained by organizations from local, state, or federal governments. Government officials are accused of playing favorites as they carry out their duties. They are charged with accepting gifts or campaign contributions in return for giving supporters special treatment.

But there is reason to believe that the more obvious improprieties are merely routine behavior carried out somewhat ineptly. In other words, it is very doubtful that politics in our society involves anything more noble than playing favorites, serving special interests—and neglecting what could be reasonably construed as the true public interest.

Although the distinction between the public and the private interest is quite meaningful, the democratic welfare state totally obscures it. Such a system favors majority rule regarding any concern that some member of the public might have (if it can be brought to public attention). It treats everyone's project as a candidate for public support. And, of course, most every person or group has different objectives. Thus, so long as these objectives can be advanced by political means, they can gain the honorific status of "the public interest."

It is noteworthy that this may be the result of what Professor Benjamin Barber of Rutgers

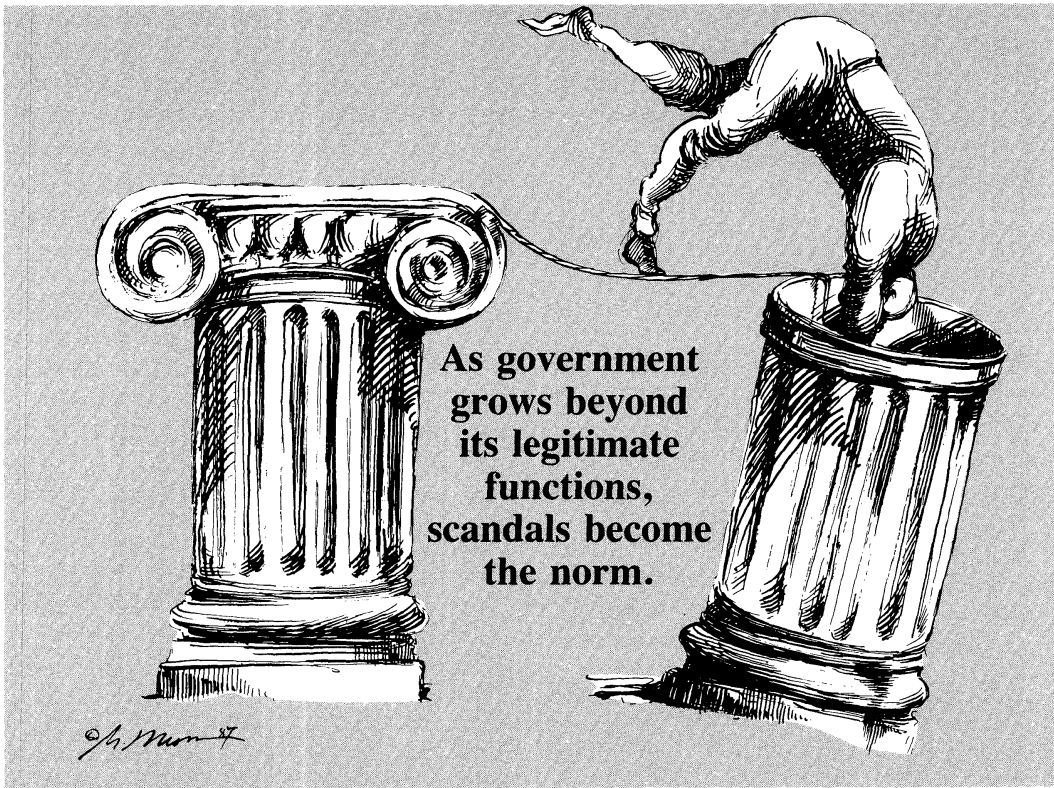
University has called a strong democracy—a political system that subjects all issues of public concern to a referendum. This approximation of strong democracy—where, for example, just wanting to add a porch to one's home must be cleared with the representatives of the electorate—has produced our enormous "welfare" state. Yet it was just this prospect that the framers of the U.S. Constitution wanted to avoid. That in part accounted for their insistence on a Bill of Rights, namely, on denying to government—democratic, monarchical, or whatever—the kind of powers that strong democracy entails.

To see how confusing things have become in this kind of strong democracy/welfare state, consider a few current topics of "public concern." Take, for example, wilderness preservation, an issue that appeals to many and cannot be considered a bad example—environmentalists who favor interventionist policies certainly believe that government preservation of wilderness areas is in the public interest.

Yet it is not unreasonable to suppose that many people do not have the wilderness as their top priority. Sure, they might like and even benefit from some of it. But in the main, they might prefer having at least part of the wilderness given up in favor of, say, housing development which might better suit their needs.

Or take all those Ralph Nader-type crusades for absolutely safe automobiles, risk-free medical research, and the banning of genetic experiments. Mr. Nader is the paragon of the so-called public-minded citizen, presumably

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without a self-interested bone in his body. Whatever his motives, however, his concerns quite legitimately are not shared by many citizens—e.g., those who would prefer more powerful, maneuverable automobiles that can quickly get out of tight spots. These people might well lead better lives without all this worry about safety—they might be good drivers for whom Nader's concern about safety is superfluous.

Jeremy Rifkin, a Nader type who would ban all genetic experimentation, is another of those who bill themselves as public interest advocates, presumably without a tinge of self- or vested interest to their names. But such persons in fact serve quite particular interests. These and similar-minded individuals clearly do not favor the general public. They favor, instead, some members of it. The rest can fend for themselves when Mr. Rifkin and others gain the political upper hand.

The point is that when government does so much—in behalf of virtually anyone who can gain political power or savvy—it is difficult to tell when it is serving the true public interest.

Everyone is pushing an agenda on the government in support of this or that special interest group.

There is under such a system hardly any *bona fide* public service at all. In this case, laws often serve a private or special purpose—e.g., smoking bans in restaurants, prohibition of gambling, mandatory school attendance, business regulations that serve the goals of some but not of others. Such a bloated conception of the “public” realm even undermines the integrity of our judicial system. Courts adjudicating infractions of such special interest laws become arms of a private crusade, not servants of the public.

An Erosion of Confidence

One consequence of this is that confidence in the integrity of government officials at every level, even those engaged in the essential functions of government, is becoming seriously eroded. The police, defense, and judicial functions all are suffering because government has become over-extended.

As government grows beyond its legitimate functions, scandals become the norm. They certainly should not be surprising. They merely represent the more obviously inept ways of trying to get the government to do your own private, special bidding.

It is all just a matter of getting your part of the pie out of Washington—whether it be day care for your children, a monument to your favorite subjects, help to unwed mothers, support of faltering corporations, or protection of the textile industry from foreign competition. Everyone wants to get the government on his side. Some people do this in ways that make it all appear on the up and up. They hire the necessary legal help to navigate the complicated catacombs of the welfare state. Others aren't so adept.

In such a climate it is actually quite surprising that not more scandals erupt. Probably that is due to even more corruption—in this case cover-ups.

Were government doing something more nearly within its range of expertise—protecting individual rights from domestic and foreign threats—some measure of ethical behavior could be expected from it. But when, despite all the failures and mismanagement of government, people continue to go to it to ask for bailouts, why be surprised when some do it more directly, without finesse? And why wonder at their claim, when caught seeking favors openly and blatantly, that they are innocent?

In light of this, an old adage gains renewed support: the majority of people get just the kind of government they deserve. It is they who clamor for state favors by dishonestly calling their objectives the “public” interest. Notice

how many look to political candidates for future favors, how many support this or that politician because they expect something in return once the political office has been gained. Unfortunately, many of us who choose not to play the political game have the results imposed on us in the form of higher taxes and more burdensome regulations.

It may be surprising, after all this, that there are certain matters which are of genuine public interest—the Founding Fathers had a clear idea of the public interest, as have most classical liberals. The public interest amounts to what is in everyone's best interest *as a member of the community*—the defense of individual rights from domestic and foreign aggression. Here is where our individual human rights unite us into a cohesive public, with a common interest. We are justified in establishing a government, with its massive powers, only if this is our goal—to protect and maintain the public interest so understood.

Once we expand the scope of the *public*—in effect make the concept “public” quite meaningless—the powers of the state get involved in tasks that serve only some of the people, and often at the expense of other people. And that simply breeds bad government—whether hidden, by phony legislation and regulation, or by means of out-and-out corruption and subsequent scandal.

It is therefore not surprising that the welfare state is so susceptible to misconduct. The lesson we ought to take away is that the scope of government should be reduced to proper proportions—the defense of individual rights. □

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Why History Repeats Itself

Some modern zealots appear to have no better knowledge of truth, nor better manner of judging it, than by counting noses.

—JONATHAN SWIFT

Private Cities

by J. Brian Phillips

In recent years, the benefits of the free market have been demonstrated as governments around the world have turned to the private sector to provide services more efficiently. However, critics of the free market argue that these benefits are isolated cases—that a truly free society is unworkable and impractical. Government, the argument goes, is far better equipped to provide the services and public facilities individuals need and desire.

However, a growing number of American homeowners are unknowingly demonstrating just how far privatization can go. Planned unit developments (PUD's) are privately developed, and primarily privately operated, communities.

PUD's first became popular in the mid-1960s after Congress passed the 1961 Housing Act permitting the Federal Housing Administration to insure condominium mortgages. Today, nearly 30 million Americans live in approximately 100,000 planned communities, consisting of single-family homes, townhouses, condominiums, shopping centers, office buildings, and facilities to house light industry. These communities range in size from a single condominium building to huge complexes of more than 50,000 acres. PUD's include retirement communities in the sunbelt states, all-adult communities, and communities catering to families with children.

Whatever the particulars of a given community, PUD's have three common traits: building and land use restrictions, shared amenities, and community associations to which all property owners belong.

The Economist (April 5, 1986) reports that “within their enclaves these associations perform all the functions of a small government.” The associations, according to one development company, “work to assure that the communities’ amenities, public facilities and other areas are supported and maintained.” (*New Home Journal*, May/June 1987) In essence, they are a combination public works/parks and recreation department. Funding usually comes from maintenance fees assessed on each property owner.

Perhaps the most important function of the community association is enforcing deed restrictions. Deed restrictions are a form of private “zoning,” in which developers establish certain rules to prevent undesirable buildings and land use. Like zoning, deed restrictions provide continuity within a given area; unlike zoning, deed restrictions are governed by market considerations.

“When you are developing a master-planned community you are essentially trying to make it so the [homeowner] doesn’t have to leave the area to get what he wants,” explains Dennis Guerra, a project manager for the First Colony master-planned community near Houston. This requires a careful marketing study to determine the amenities homeowners want. Retail shops, grocery and convenience stores, doctors, dentists, animal clinics, and other frequently visited businesses are often located within the community.

Most PUD's consist of a number of villages—subdivisions within the PUD—separated by the community's major roads. Business areas are located along these thoroughfares, which helps “keep cars essentially

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One of the homes in Houston's First Colony.

out of the residential areas," says Guerra. In planning a community, the developer must work closely with the business community to construct a plan which benefits businesses and future homeowners.

This does not mean that businesses dictate a community's plan. For many years, Guerra says, First Colony resisted attempts by various fast-food chains to build restaurants in the community. The locations sought by the chains would have drawn excessive traffic and disrupted the developer's master plan. Because developers must be concerned with the long-term economic success of their projects, such considerations are essential. Conversely, zoning boards are generally motivated by short-term political expediency. More significantly, deed restrictions eliminate zoning bureaucracies and the accompanying taxes.

While separating commercial and residential areas is a common justification for zoning, developers have found that many homeowners prefer to be close to shopping centers and their jobs. Indeed, many communities seek businesses for this very reason. For example, Windward, a community north of Atlanta which caters to relocated executives, encourages corporations to locate facilities within the community. Dearborn Park, just south of Chicago's Loop, is within walking distance of work for many of its young, professional residents. Many communities locate light industries along their perimeters. These mixed-use communities are becoming increasingly popular, as the free market seeks to meet the demands of homeowners. This type of flexible land use is nearly always prohibited by government zoning boards.

The extensive planning required by PUD's offers a private alternative to another activity traditionally undertaken by government: protection of the environment. Parks, greenbelts, jogging trails, and wooded areas can be found in nearly every planned community. According to one development company, this is how it "enhances the values of a master-planned community by working with, not against, nature." (*New Home Journal*, May/June 1987) Some developers go so far as to operate tree farms within their communities.

In Washington State, timber industry giant Weyerhaeuser Company is planning a \$1 billion residential community abutting Puget Sound. Up to 30 percent of the community will be open space—golf course, parks, trails, and forests. At Boca Pointe, a 1,019-acre community in Boca Raton, Florida, nearly 40 percent of the development consists of parks, greenbelts, lakes, and fairways. Kingwood, a community near Houston also called The Livable Forest, has more than 30 miles of wooded trails for walking, jogging, and bike riding.

Golf courses are popular amenities in master-planned communities, as builders seek to create a resort-like atmosphere for homeowners. "Equestrian communities"—developments with horseback-riding facilities—have been built or are planned in Arizona, Illinois, Utah, and California. The Palm Beach Polo and Country Club in Florida offers ten polo fields, 45 holes of golf, and two croquet lawns for residents. Swimming pools, health clubs, tennis courts, saunas, and other recreational facilities are also common in PUD's.

While these facilities are generally built by the developer, the homeowners association eventually assumes control and maintenance responsibilities. Some facilities, such as golf courses and health clubs, are operated by private businesses, and require membership fees. But all of these recreational facilities are provided by the private sector, replacing the parks and recreation departments found in most cities.

Just as city governments organize sports leagues to use municipal parks, homeowners associations sponsor activities to utilize the community's facilities. Basketball, softball, and volleyball leagues are popular among adults. "Dads' clubs" organize and operate

baseball, swimming, and other sports teams for community children.

Community activism is hardly limited to athletics. The homeowners associations encourage "grass-roots" democracy, and give property owners an opportunity to influence decisions regarding their community. Civic associations also provide support groups, and sponsor art shows, theater groups, and scouting programs for children. A civic group in Kingwood, near Houston, opened a 60,000-volume library in 1983. Fun runs, parades, and holiday celebrations are also common activities within PUD's.

A High Level of Services

To homeowners, one of the most attractive features of master-planned communities is their security. At Las Colinas, near Dallas, a computer-controlled security system provides immediate aid from police, firemen, or medical professionals. The Towers of Quayside in Miami is a virtual fortress, with closed-circuit television surveillance, an electronic anti-intrusion beam, and strolling security guards keeping out unwanted visitors.

While such sophistication is rare, even less affluent neighborhoods often have some form of private security protection. Shared costs make this affordable. Most developers construct gates at the entrances to their communities. When residents are willing to pay for it, these gates are manned by security personnel. Other communities establish volunteer security patrols, consisting of community residents.

Fire protection—particularly in unincorporated areas—is usually provided by either private companies or volunteer fire departments. Independent water districts provide water and sewage treatment. Private companies collect garbage, and are contracted by the homeowners association. Catering to families, Centura Parc in Florida and Lake Valley Ranch in Texas offer day care for children. Other developers are also planning to include child care facilities.

Because of the high density of homes in most PUD's, they make attractive targets for cities seeking to expand their tax bases through annexation. Generally, when a PUD is annexed, most services—water, fire protection, garbage

pick-up, etc.—are then provided by the municipality. In the process, homeowners lose autonomy and the accompanying benefits.

Some services, such as schools, are provided by the public sector in nearly all PUD's. Many communities in unincorporated areas rely on the county sheriff's department for security. And road maintenance, after certain requirements are met, generally becomes the responsibility of county road crews. But this does not detract from the broader lesson to be learned from master-planned communities; the private sector can and does provide nearly all services traditionally assigned to city governments. While opponents of privatization are arguing that only government can provide certain services—parks and recreation facilities, land use controls, trash pick-up, fire protection—private developers are busily proving otherwise.

Like every human enterprise, PUD's have their critics. Deed restrictions, critics argue, are often excessive. Planned communities aren't planned well enough. Streets are often haphazard. Retail shops are too inconvenient to reach. Such criticisms are generally intended to justify some form of government planning, either direct or indirect.

However, no community, regardless of who plans it, will appeal to everyone. Our tastes in neighborhoods, like our tastes in movies, clothes, and food, vary as widely as individuals themselves. And this is precisely why the free market is vastly superior to government planning—freedom allows individuals to choose and pursue their own values without interference from others. The free market operates on voluntary, contractual agreements; government policies and programs operate by means of coercion.

In a free, competitive market, developers must compete to attract customers. Excessive regulations or inefficient land use will discourage potential buyers, and detract from the developer's long-term economic self-interest. Protecting property values through deed restrictions and providing high-quality, low-cost services make master-planned communities an attractive housing alternative. Thirty million Americans call them home; advocates of freedom call them a step in the right direction. □

1992: Which Vision for Europe?

by Nick Elliott

Should we look forward to 1992 or view it with trepidation? This is the question in the minds of the many onlookers, inside and outside of Europe, who are waiting nervously to see what form the new Europe will take.

Nineteen ninety-two is the year that the Single European Act comes into force. This Act was agreed to by the member countries of the European Community. The aim of it is to dissolve the barriers which divide countries within Europe, to allow more communication and integration.

Everybody is talking about 1992 because it is the opportunity for a change of direction. It is a chance to turn the Community into something more useful than it has been. At the moment the problem is that the European leaders have differing visions. Some would like to use the Community as a framework for freer trade and less regulation. On the other side are those who have always hankered after a federal European government.

The European Economic Community (EEC) was formed by the Treaties of Rome, signed in 1957 by representatives from Belgium, France, West Germany, Italy, Luxembourg, and the Netherlands. The intention was to do away with tariffs between members, set uniform external

tariffs, and permit free movement of labor and capital.

European "government" became a reality in 1967 with the establishment of a European Parliament, Council of Ministers, European Commission, and European Court of Justice with headquarters in Brussels. The collective name given to these bodies and the EEC was the "European Community." Britain joined the Community in 1973, and there are now twelve members: Belgium, Denmark, France, West Germany, Greece, Ireland, Italy, Luxembourg, the Netherlands, Portugal, Spain, and Britain.

Many of the politicians who originally planned the European Community envisaged genuine European government, with legislative powers gradually relinquished by member governments and vested in the European state machinery. Little has been achieved in this direction. European government has failed to establish authority. It has intervened quite rarely in the affairs of sovereign parliaments, and Commission rulings have often been disregarded. Italy, for example, has been summoned to the European Court of Justice over 100 times for failure to comply with Commission directives, and in 36 of these cases it has continued to break the rules after being found guilty.

More important than the attempts made at sovereign European government have been Community economic policies. The largest part of Community activity has been agricultural subsidization. Around two-thirds of the Community budget every year is spent on the Common Agricultural Policy (CAP) which is largely a system of production subsidies for the farmers of member countries. CAP has added almost \$20 a week to the food bill of the average family, and has sponsored massive overproduction. For the layman, this is what the European Community amounts to—butter mountains and wine lakes, and overpaid bureaucrats in Brussels to administer them.

When the Community was originally formed, the consensus of principles was very different to what it is today. The Rome Treaties were written in the spirit of the age. They embodied the corporatist economic and political ethos that prevailed at the time. Output of coal and steel and supplies of wheat and milk were to be determined by a single "supranational authority."

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The assumptions were that production decisions shouldn't be left to uncoordinated individual markets, but instead should be managed by government overseers who could better identify the best interests of the entire Community.

The whole design of the Community was framed by the same interventionist preconceptions. It is unfortunate that the Community government superstructure has remained largely untouched by the changes in the foundations of political thinking since. Although the ideas of the 1950s have almost been relegated from discourse, the dead shell remains. The Community, in its old form, has not been popular in Britain and the same is true, I suspect, among the silent majorities of the other European member countries. Contrary to the aim of fostering unity, the Community has been the source of endless nationalistic antagonisms over agricultural quotas and price supports.

Community membership has been a burden to endure. Free marketeers identify 1992 as a chance to redefine the Community, to make Europe a free trade zone under its auspices. Margaret Thatcher sees 1992 as the opening for greater economic integration; she views it as the chance to remove regulations and trade barriers which hinder trade links between European countries.

A different vision is held by Jacques Delors, who is President of the European Commission, the executive body of the Community. He is at least equally concerned to use 1992 to elevate continental government. He said recently that he expects 80 percent of future legislation to come from Brussels.

What Will 1992 Bring?

Nineteen ninety-two remains a year in search of an identity. No one can be quite sure of what it will bring. Recent debates, however adversarial, are essential as part of the political process of pinning down some points of compromise and agreement. Over the next few years the consequences of this debate will clarify, and what exactly is going to happen in 1992 will become much clearer too.

What is needed is to update the Community in keeping with the complexion of the 1980s and 1990s. A good start toward this is the pro-

posal of a Single European Market, a scheme for removing trade barriers which interrupt the flow of goods and services between member countries. The Single European Market is exactly the kind of innovation that the Community needs. It can bring the Community up to date with the new consensus for freer markets. It might also improve the disposition of the English to be "European" by delivering some tangible benefits.

The Single European Market is potentially a herald of momentous changes. It will lead to many new specializations as free competition traces out the patterns of comparative advantage. Over the last decade British people have adjusted themselves to living in a more dynamic and mobile society. Thatcherism has encouraged people to assume the outlook of entrepreneurship; people are much more ready to look for their own niche in the market.

This will accelerate with the European market. There are likely to be many challenges to traditional patterns of life; a coal pit in Wales might find it impossible to compete with European rivals. But just as there will be many more shocks to the ossified Britain of old, so people will learn to accept it and to thrive.

With the new choices provided by a European market for consumers to shop around in, government-run enterprises will lose their monopoly power. One example is the British Broadcasting Corporation (BBC). With deregulation of broadcasting on the agenda, and with the rapid spread of satellite TV, it will soon be possible in Britain to tune into a multitude of stations. The BBC will be forced to reform its snooty attitude toward providing television that people want to watch. Otherwise it will lose out to foreign stations which give a better service.

The same stiff wind of competition will be brought to bear on the archaic practices of banks, probably to the cosseted profession of lawyers, and, with the completion of the Channel tunnel, to ferry services. The National Union of Seamen will lose its stranglehold on cross-channel services. Deregulation will snowball as releasing one set of controls renders others less easy to enforce.

Most of the moves toward the Single European Market have been very positive. At the European summit meeting last June, it was

agreed that all controls on capital movements will go, this being preparation for European competition in financial services. It was decided that all quota and licensing controls on road haulage will be scrapped. The European Commission announced in August that there will be free competition in European air travel after 1992.

One other trend which is being encouraged is for Europeans to be much more mobile in work. There is to be a mutual recognition of university degrees and diplomas, to allow firms easier access to skilled people. This is another wholly good idea—to encourage firms and individuals to look beyond their own frontiers. In Britain, it will help to relieve the labor shortages that are being encountered by some companies now that unemployment is falling.

Will It Be a Fortress?

Countries outside of Europe, especially Japan and the United States, are watching Europe, suspicious that the free trade ideas of 1992 will be kept within boundaries, behind a wall of protectionism to exclude everybody else. The EEC does have a poor record of protectionism, one that is hard to escape. Onlookers are also disturbed by talk of a "reciprocity clause," proposed by the European Commission as a control on competition for 1992. This clause would make admittance of a foreign competitor depend upon mutual openness: before an American bank would be allowed to open a branch in Europe, the Community members would have to be satisfied that a European bank would have the same access to the U.S. banking market.

Some recent precedents have been worrying. The European Court of Justice recently upheld a fine on American, Canadian, and Finnish wood producers who had been convicted of attempting to fix prices. This sounds like protection in disguise. Early last summer there were several cases brought against Japanese firms accused of "dumping." Duties were imposed on computer printers which had Japanese components but were assembled inside the EEC.

Photocopiers made by Matsushita, Konica, and Toshiba were charged a duty of \$280 because they failed to meet Community requirements that at least 40 percent of components be

of EEC origin. The French government attempted to block imports of the British-assembled Nissan Bluebird on the grounds that less than 80 percent of the materials are European. The European Commission is expected to tell the French to admit the Bluebird, and to fix the local content level at 60 percent.

It is unfortunate that at the very time Washington is in a protectionist stance, the Community is making hostile noises toward the United States. What threatens is tit-for-tat trade barriers, the first choice for no one. The truth is that free trade is best and that trade protectionism harms both the barred and the barrier-builder.

Trade barriers have added \$280 to the prices Europeans must pay for Japanese photocopiers. The French ban on the Nissan Bluebird has denied the French the opportunity to buy an inexpensive car, and is a threat to jobs. The Nissan plant in England is in Sunderland, a high unemployment area. Ironically, the ban is also a threat to French jobs because the cassette players, high tension leads, sun visors, and door casings used in the Bluebird are made in France. Here is clear evidence that trade barriers always backfire.

The case against free trade has been debunked time and again, and there are few who will defend subsidies in theory. The problem is that trade policies aren't being decided with regard to the general well-being, but are backed by vociferous producer interest groups. Farm subsidies don't persist because legislators are too stupid to see the grain mountains, but because farmers are organized well enough to block any change. The French did not ban the Bluebird out of malign intentions, but because of pressure from domestic car producers.

Looking at the optimistic side, European trade barriers could be loosened when article 115 in the Community statutes is abolished as part of the preparation for freer markets in 1992. This is the clause which permits barriers against foreign goods entering through another member country, like Nissan cars assembled in Britain. It is certain, however, that some protection will continue. There will still be open subsidies, as well as more covert forms such as the cheap loans given out by the German government.

In the past there have been plenty of rebel-

lions by members against Community policies. It seems likely that, in the case of trade after 1992, members will put individual interpretations on Community policy. As is now the case, some will be more open than others. The Eurocrats probably realize that it is best to avoid making enemies of America and Japan by erecting a fortress. We must try to keep the European market from becoming autarkic, and ensure that it remains the worthy enterprise that it can be.

Britain As the Awkward Member

It is apt that Margaret Thatcher, as the symbolic leader of the world movement away from the pretenses of the omnipotent state, has injected some realism into debate over the future course of Europe. The two issues on which Britain was recalcitrant last year were tax harmonization and passport controls. The stand on taxes was admirably sensible, but the caution over freeing border controls was pointlessly timid.

As part of the preparations for the Single European Market, the Commission ordered that member states harmonize their rates of indirect taxation. The idea was that, if there is to be free competition across frontiers, then all competitors should begin from the same point. If tax rates vary, the theory goes, then some producers will be penalized by the handicap of high taxes, while those in low tax countries will start from an unfair advantage.

For Britain this would mean the imposition of the VAT (value-added tax—a sales tax) for the first time on food, fuel, and children's clothing. For some other members the adjustments required would be far more drastic. Denmark would have to slash its punitive taxes on alcohol, while Greece would have to endure a large tax hike in order to find parity with other members. The extension of VAT in Britain would meet with great resistance, and none of the changes appeal to the politicians who would have to foist them on the electorate. European politicians are often critical of Thatcher's intransigence, but in this they probably welcome the lead she has set.

The British Chancellor of the Exchequer, Nigel Lawson, has put the case for an alternative

“market-based” strategy. This would involve deregulating first and then letting countries worry about their own tax rates. High tax countries, he says, would be encouraged to bring taxes down to compete better in the European market. Low tax countries would attract the productive capital and the entrepreneurs. This scheme has the great merit that it would tend to make tax rates gravitate downwards. The leveling approach of the Commission, in contrast, entails leveling some rates down and some up. Another attribute of Lawson's proposal is that it doesn't require any large, drastic, and politically unpalatable changes. It is the most realistic proposal, and the most likely to succeed.

According to the Single European Act, agreed to by all member countries in 1986, Europe will become “an area without internal frontiers” in 1992. On this issue the British government has become cautiously jealous of island status, and has decided that to allow foreigners to visit with the utmost ease is no longer a good idea. The reason given is that it would also ease access for terrorists, illicit drugs, and for animals with rabies.

Before 1914 only Russia and Turkey required passports for entry, with movement free between all the other European countries. During the First World War, passport controls were introduced as a wartime expedient, one of the many that have fettered us ever since.

The terrorist excuse is weak. The terrorist organization which afflicts Britain the most is the IRA, based in the Republic of Ireland, which is the only European country whose nationals require no passport for entry to Britain. Identifying terrorists has never been the problem. We know who they are, but we need to catch them at it. Nor is it beyond the means of professional terrorist organizations to buy false identities or to use unknown new recruits.

Without passport controls the import of narcotics would still be an offense, and animals would still be subject to quarantine restrictions. Stopping people from buying and selling drugs has become something of a blind crusade, pursued without regard for civil liberties. When innocent people can be forcibly strip-searched on their way home from holiday, then the law is surely amiss. Our priority should be the well-being of the many people who would visit Brit-

ain to do business or just to take photographs of the Tower of London. If we make it more inconvenient for them to come, then they will go and spend their money in Paris or Rome instead.

On the issue of passport controls, the Commission is right and the British government is being reactionary. But what is more important than winning this argument is resisting the clamor for compulsory identity cards. In September a Home Office civil servant argued that 1992 may necessitate identity cards to keep track of foreigners who will come and go from Britain. Identity cards have also been called for recently as a method of controlling crime in Britain. The idea is a thoroughly pernicious one, open to many abuses. If we must choose between the two, then passports are the lesser of two evils.

What is likely to happen is that the influx of visitors will be far more than anyone anticipated. The French already are claiming that British Rail has underestimated the volume of traffic it will have to carry to and from the Channel ports and tunnel in the 1990s. Whenever I have traveled in and out through Dover, it has seemed that the passport controls are little more than a token pretense, with no serious attempt at the impossible task of monitoring masses of travelers. It is likely that, come 1992, the frontier controls simply will be swamped and that in virtually everything but name, we will have free movement. The biggest cost will be the \$18 million customs and immigration facility being built at Waterloo station in London, designed to control the flow of incoming Europeans.

The Ideological Quarrel

It is not a good thing for European unity that Jacques Delors is President of the European Commission, the organizing body for 1992. He is both an abrasive personality and a tout for old-style socialism. Delors' vision for Europe is a political one. He wants to construct a central European government that will rule all of Europe as a federation.

Put bluntly, Delors has horrified Thatcher and shocked her into rejection. Nothing could be more depressing for her than the thought of

absolute rule by the Eurocrats of Brussels. This is what she said in her speech in Bruges in September: "We have not successfully rolled back the frontiers of the state in Britain, only to see them reimposed at a European level, with a European superstate exercising a new dominance from Brussels."

The quarrel is not only about the form of European government, because Delors is also clearly unhappy about some of the implications of the Single European Market. He warned that "too much freedom can be repressive," meaning that he wants a European government which interferes and regulates. In the same speech he called for a new Keynes or Beveridge to remedy unemployment. Both of these intellectuals were British, and it is in Britain that their ideas were applied in their purest forms. Both of them, unlike Delors, were liberals who did not desire the monster state that they helped create. It has been part of the battle of the last ten years to rid Britain of their legacy. If the European Community is to prosper, it must discard the nostrums of that era. When Delors looks back with misty eyes to that mythical golden age, he shows once again that he is not suitable to lead Europe to 1992.

Imposition Is Not the Way

The countries of the European Community have developed over history as separate nations. They have each evolved their own individual customs and practices to suit their national needs and predispositions. As any American who has traveled on a Eurail ticket will testify, English behavior is distinct from French, as is German from Italian.

These nations also have developed along separate political traditions. English politics developed consistently with a social tradition of individualism, Italian politics must incorporate the diverse historical developments of different regions, and so on. Europe has never been a state. The political system of each European country is uniquely suited to the evolved necessities of that country.

Given this, a sovereign European government would be alien, it would create conflicts, and it would be unstable. It would be a government that has never been endowed with any

authority by subject Europeans. And there is no record to recommend it. The danger is that it would assume all the worst faults of the old Brussels European Community administration. It would be distant, bureaucratic, interfering, and wasteful. But in the new version, it would be a superstate with much greater funds and powers.

Imposed uniformity will never succeed in Europe. Nations will cooperate and find points of common reference spontaneously, where they need to. One of the early costs of British membership in the Community was the imposition of currency decimalization—counting in tens. The aim of this was to achieve harmony in accounting units across the continent, not at all a bad idea. However, “imperial” money (pounds, shillings, and pence, with 240 pence to the pound) had endured in Britain for many centuries, people knew how to use it without a second thought, and it had a comfortable fit in the economy. When decimalization came, it had its costs. For a few weeks it threw Britain into turmoil. While the end result of comparability was useful, it would have been less disruptive to have let the British people adopt the new money where they needed it.

As part of 1992, Britain is going to be forced into using kilos and grams rather than pounds and ounces. Once again, this will throw the country into confusion for weeks; it is a needless and pedantic change because both imperial and metric weights have been displayed on goods since 1974. Of course, over the past 15 years very few people have taken any notice of metric weights, preferring to stick with what they have tried and tested.

The weights and measures that we use in Britain have lasted, refined by the testing of time. By contrast, metric weights originate in the rationalist tradition of France; they are the creation of designing minds. An interesting test of their alternative merits came when the French attempted a cardboard egg box that would hold ten eggs. This was all very rational and consistent no doubt, but the eggs fell out. The apparently irrational British box of six may be an unwieldy number for balance sheets, but at least it holds eggs. This may seem a trivial example, but it shows the clash of principles very clearly.

To take a more serious example, suppose the European Commission decreed that, for the sake of completing the pattern, everyone in the Community should drive on the right. In Britain this would create enormous costs. Steering wheels would have to be converted; British car manufacturers would have to alter their machinery; and drivers would have to relearn the habits of a lifetime. There undoubtedly would be a surge in the number of accidents.

For the most part, even after 1992, English people still will live in England, the French will live in France, Danes will live in Denmark. It is obviously sensible that the rules and customs of each country should be suited to the convenience of the people who live there.

Pursuing Uniformity

More serious still is the needless pursuit of uniformity in politics and economics. However imperfect, the democracies of Europe do reflect at least some of the requirements of the people who live under them. European government threatens to replace that with something more distant and less responsive. In the economies of Europe we have the chance to free ourselves from the stifling controls of the old Community. Each country and region should be left to develop naturally, to find specialties.

In another way, we should be grateful to Jacques Delors for waking up the rest of Europe to the wayward ideas which some of the architects of 1992 are entertaining. He is unlikely to succeed because he is a man after his time. Those leaders of Europe, like Prime Minister Thatcher, Premier Schluter in Denmark, and Prime Minister Silva in Portugal, who have used the market to solve local and national problems, will not want it suffocated from abroad.

The political constitution of the European Community is controversial among member nations. There is unlikely to be a workable consensus that involves anything but nominal rule from Brussels. For this we should be glad, and it gives grounds for being quite optimistic about the results of 1992. If it has the right ideas behind it, the European Community could be the best opportunity for free trade and economic liberalism in this century. □

My Son and the Guatemalan Indians

by C. F. Fischer, III

Several years ago my youngest son, Ted, visited Honduras with a small group of Episcopalians from south Alabama and northwest Florida, to repair and paint mission and clinic buildings in the rural areas. He paid his own way, and with exception of his first and last nights there, all of his nights were spent in a sleeping bag.

It was quite an adventure and experience for a teenager—a blond, blue-eyed “gringo” if ever there was one—whom most would have considered quite privileged at home. It was also a time of considerable concern and suspense for his parents. (Is he sick? Is he safe? Can he get a doctor? Can he get to a phone?)

In 1987 he visited Guatemala with a similar group of six, including the bishop and his wife. The bishop soon became sick and returned home. This only added to our worries. (Was it the food or water? What if Ted became sick in a remote village? Who was the new leader?)

The group completed its mission and returned safely to the United States. All, that is, except my son. It seems that he had to do a little more exploring on his own, and: “Pray tell me, just when would it ever be cheaper and more convenient to do what one must do?” For the first time—the very moment I learned that he did not return with the group—I knew that he was much safer there than here.

Since then he has returned to Guatemala “solo” several times to explore volcanos and Indian ruins, visit the most remote villages, take Spanish courses, and just learn more about the country and its people in general.

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Soon he came to realize that he could visit Central American countries the rest of his life, giving of his time, energy, and what little money he could come up with. But, the results would be extremely temporary and barely noticeable at very best.

Recently, he concluded that a venture in free enterprise would likely produce the best, quickest, and most lasting benefit for the people of Central America—and most especially for the poor Indians in Guatemala.

Accordingly, he went to the most remote Indian villages and purchased samples of colorful woven cloth handcrafts, mainly bracelets and belts. These he brought back to Birmingham, Alabama, where he attends school. Every boutique, shop, and store in the major malls in Birmingham that saw the samples immediately placed orders. Soon other merchandisers in New York, Baltimore, Chicago, Los Angeles, and elsewhere saw or heard about these items, became interested, and began placing orders.

This was all the excuse my son needed to return to Guatemala personally to get more supplies and set up a dependable network for future orders. Although he had been assured by two U.S. Customs offices and the Caribbean Basin Initiative office that these products were exempt from customs under the Caribbean Basin Initiative, Houston Customs seemed unaware of this. The customs people in Houston could not figure out how to classify a few dozen woven cloth bracelets, so the goods were held.

After missing a couple of flights, and facing an early Monday class, my son had no choice but to leave his precious little cargo and get on the next flight out of Houston.

“Welcome to the real world, son. Did you not know that you should engage the services of a customs broker? Oh, I know that a broker isn’t required by law. But, I also know that a broker is required by the facts, conditions, and circumstances. Don’t get one and you can wait for clearance until your merchandise rots.

“But, not to worry. On a few hundred dollars worth of bracelets (at origin) your brokerage fee probably won’t exceed \$200.

“Among other things, you see, your customs broker must prepare and file the ‘Consumption Entry’ form (probably \$60 minimum), then post the ‘Bond Fee’ (probably \$20 minimum), then the ‘Immediate Delivery Permit’ (\$10 or more), ‘Appraisalment & Liquidation Service’ (\$5 or more), ‘Estimated U.S. Customs Duty’ (who knows?), ‘Messenger Service’ (\$10 minimum), and so on, possibly including delivery orders, additional entry classifications, and the like.

“Like it or not you will have to engage the services of a broker. U.S. Customs will see to that!”

My son reacted simply and forthrightly. He acknowledged that the “system” is extremely boring, time-consuming, and frustrating. But, he was determined to proceed within it.

He has since contacted other U.S. Customs Offices. Fortunately, the number of different answers he received did not exceed the number of government offices contacted. With a little experience under his belt, he moved forward.

Meanwhile, we—this is my first official involvement—have contacted our Senator and Representative to see if they can determine if these imports are exempt or not. If not, what’s the deal? If we’re lucky we at least will have a clue soon.

Meanwhile, back at the Indian villages in Guatemala, the natives are weaving colorful bracelets of the most intricate designs which they are happy to sell to my son’s group for four cents each. It is, to be sure, tedious, back-breaking work. There are no printed patterns or computer printouts. Designs come from the head, and execution comes from the fingers and toes. Typically an Indian sits on a rock, ties the structural yarn around his or her toe, and begins weaving the bracelet.

Four cents per bracelet seems like a pitifully

low price. And in some respects that may be true. On the other hand, however, less than two months ago the same bracelets were being bought by a “city native” for only two cents each. And the “city native” also sold staples to the Indians at 20 times the going prices in Antigua or Guatemala City.

The Indians are very happy to get four cents per bracelet. That’s twice as much as they received less than two months ago. More important, the men who pick up the bracelets deliver staples at cost. These workers likewise earn four cents per bracelet. They too are pleased to earn so much.

Thus the first large order—8,000 cloth bracelets—arrived by air. U.S. Customs in Birmingham yielded to U.S. Customs in Mobile, which in turn insisted upon a customs broker.

The customs broker’s fee and charges equalled the cost of 3,375 bracelets, and the duty was equivalent to the price of 1,120 bracelets at the point of purchase. Broken down and stated somewhat differently, “Preparation and Filing of the Consumption Entry Form” cost 1,500 bracelets. “Postage”—buying, licking, and affixing one 25-cent stamp—cost 250 bracelets; “Messenger Service” cost 250 bracelets; “Bond Fee” cost 500 bracelets; and so on.

In the final analysis, 50 Indians work more than a week producing something you can see, touch, wear, and enjoy—and earn less than the broker’s charges for shuffling government papers for an hour. Something is terribly wrong, and I don’t feel that it is with the poor, hard-working Indians.

Fortunately—or unfortunately—my son has yet to learn about state and Federal unemployment taxes, Workers’ Compensation, F.I.C.A., city license fees, state franchise taxes, state and Federal personal and corporate income taxes, sales and use taxes, wage and hour laws, and so on. He doesn’t even yet realize that he must now retain a lawyer and an accountant to advise him about insurance, product liability, state laws and taxes, and fair employment practices.

But, he is working through the market to improve the lot of the Indians, while trying to better himself in the process. I admire and love him even more for his effort. □

The Velvet Prison

by John Chamberlain

From Hungary, in a sometimes difficult prose text, there comes an enigmatic book about the fate of literature under totalitarian governments. It is called *The Velvet Prison: Artists Under State Socialism*, and is by Miklos Haraszti, a dissident who is introduced to us by a fellow dissident, George Konrad, and translated from the Hungarian by Katalin and Stephen Landesmann with the help of Steve Wasserman (New York: Basic Books, 165 pp., \$14.95).

One calls the book enigmatic because Haraszti skips from sections in which he mocks himself to more serious passages in which he seems to be saying it is quite normal for an artist to work within the confines of any culture that is his national inheritance. The excuse has a sometimes unnecessarily forgiving tone.

Haraszti's thesis is that socialist writing comes in two forms, depending on the state of affairs pertaining to any given moment in a totalitarian society. If one is under a Stalin, Communist pictorial art will be poster work, and literature will follow a propagandist line. There will be strict censorship exercised from a central point. Under a Khrushchev or a Gorbachev, however, things might differ. In periods of relaxation, artists under socialism may be permitted a wide degree of self-censorship. The ones that seem to be good socialist citizens will be rewarded by ample funds and good working conditions—hence the term “velvet prison.”

What Haraszti says may very well be true for Hungary. He doesn't talk much about specific Hungarian authors, so it is difficult to see where “soft aesthetics” may take over. In medieval times the architects of Chartres Cathedral would

have endorsed everything Haraszti might have had to say about working in a culture. But in Soviet Russia the Haraszti thesis doesn't check out.

True enough, there was plenty of poster work under Stalin. But the writers who were permitted latitudes under Khrushchev did not ask for velvet prison cells. *Doctor Zhivago* and various books by Solzhenitsyn were uncompromising. Indeed, Solzhenitsyn's *Gulag Archipelago* still awaits a Soviet publication under the so-called relaxed Gorbachev.

The Haraszti book does not check with Max Eastman's excellent *Artists in Uniform*, written many years ago and unfortunately now out of print. Max dealt with Soviet writers both in the pre-Stalin period, when Lenin and Trotsky were permissive about art, and in the gloomy night when the totalitarian “inquisition” took over. In Leningrad, in the first days of Bolshevism, poets were permitted their lyricism. They could sing to the moon if they pleased. But the story of Yesenin, who married the American dancer, Isadora Duncan, is symptomatic. Yesenin had hoped to travel about Russia with Isadora, singing while she danced. But when Lenin and Trotsky ceased to have a direct influence on Yesenin, he took to reading texts he couldn't understand. Says Eastman, “It was the two-fold misfortune of Yesenin's lyric nature to be born into an age of gigantic concentration upon a practical undertaking, and into a company of engineers whose blueprints took the form of metaphysical demonstrations that the universe itself, or man and all society and all history, is that undertaking.”

In short, Yesenin was convinced there was

no room for poets under either militant or a more relaxed socialism. "My poems," he wrote, "are no longer needed here." So his suicide followed.

In Eastman's story of what happened after Stalin grabbed the power and the printing presses, there were more suicides. Maiakovsky, after announcing his surrender to the politicians, offered a "thunderous manifesto of defeat" and shot himself. There was an epidemic of suicides of poets of lesser importance. An exception, Eugene Zamyatin, author of the beautiful novel *We*, did not make any great effort to keep himself from being framed. Panteleimon Romanov recanted his "mistake" of writing *Three Pairs of Silk Stockings*, which called attention to evils that had already been attacked by government. Isaac Babyel, author of *Horse Army and Odessa Stories*, refused to behave "like a recruiting sergeant" (he wouldn't write "ballyhoo" for the Red Army), and he shut up voluntarily. Boris Pilnyak, a great talent, rewrote a novel in order to get a visa to America. Says Eastman, "Probably no work of art in the world's history was ever completed in more direct violation of the artist's conscience, or with a more unadulterated motive of self-preservation than Pilnyak's *The Volga Falls to the Caspian Sea*."

In Hungary, apparently, there were fewer suicides in Stalinist times. Says Haraszti, "although the tradition of 'productive, revolutionary, and national themes' survived into the post-Stalin era, it was discovered that aesthetic regulation alone would do the trick." No such discovery was made in Russia when Khrushchev denounced Stalin. Solzhenitsyn welcomed the denunciation for what it did to get a few of his books into print, but he now lives in Vermont and refuses to change his style to conform to any "aesthetic regulation" that Gorbachev might want.

Where are the fairly decent works of art or literature that have emerged from Hungary under self-censorship? No doubt there are some. But Ben Shahn, the perceptive painter who wrote *The Shape of Content* (New York: Vintage Books) is dubious of the value of any system of conforming. "Nonconformity," he says, "is not only a desirable thing, it is a factual thing. One need only remark that all art is

based upon nonconformity, has been bought either with the blood or with the reputation of nonconformists. Without nonconformity we would have had no Bill of Rights or Magna Carta, no public education system, no nation upon this continent, no science at all, no philosophy, and considerable fewer religions. All that is pretty obvious."

The good artist, says Shahn, has no really vested interest in the status quo. Hitler, a bad architect who wanted to kill expressionism, tried to establish a Nordic status quo, "a cloying art of *kirche*, *küche*, and *kinder* . . . [it was] stillborn and unremembered." German expressionism hasn't come back, but there will be other rebels.

In Hungary, according to *The Christian Science Monitor*, they are "taking a giant, if little-noticed leap toward letting capitalism out of the closet." If a nonconforming art is to go with this leap, Haraszti is the man to discover it. But he has been too concerned with maintaining his sardonic pose. □

WHEN GOVERNMENT GOES PRIVATE: SUCCESSFUL ALTERNATIVES TO PUBLIC SERVICES

by Randall Fitzgerald

Universe Books, 381 Park Avenue South, New York, NY 10016
1988 • 330 pages • \$24.95 cloth

Reviewed by Robert W. McGee

By the time I got halfway through the introduction to this book, I wanted to send a copy to the mayor of the town where I live. Randall Fitzgerald documents literally hundreds of ways that local and national governments can cut costs without cutting services by turning over government functions to the private sector. Nearly every line contains useful information for anyone interested in learning ways to shrink the size of government. Fitzgerald shows that there is a third alternative to either cutting back on services or raising taxes—privatize.

The "bottom line" of this book is that the private sector can do just about anything better and cheaper than government. The reason? In-

centives, which are unleashed by breaking the government monopoly and opening up the service in question to the competitive forces of the marketplace. A secondary theme of the book is that privatization is an idea whose time has come. Numerous municipalities are turning to privatization to reduce costs and provide better service. Some cities have been able to completely eliminate property taxes by privatizing everything. More than 50 countries have also been bitten by the privatization bug and have started turning over functions previously provided by government to the private sector.

Privatization has many faces—at least 22 have been documented so far. Government can sell or give away state-owned enterprises, as Britain has been doing. Services can be contracted out to one or more private companies. Enterprises can be turned over to employees and allowed to sink or swim. State monopolies can be repealed, thus opening up the way to competition. User fees can replace taxes. Numerous methods have been tried and they all result in reduced cost and/or better service. Here are some examples:

When Central Park's Wollman Skating Rink was closed in 1980, New York City officials estimated it would take two years and cost \$4.9 million to repair. Six years and nearly \$13 million later they estimated it would take another \$3 million and two years to complete the renovation. Businessman Donald Trump made a deal with City Hall and did the job in 3½ months for slightly over \$2 million. Trump was able to circumvent New York State's Wicks Law, which requires the use of separate contractors for construction, plumbing, electrical, and ventilation work. Mayor Koch was so shocked at the result that he ordered a study to determine how Trump could beat City Hall so badly.

North of Boston, a privately owned and operated incinerator turns garbage into energy for 20 towns having a combined population of over a half million. The towns now pay only \$22 per ton to have their garbage taken away, compared to \$100 a ton that is charged by the government-operated landfill.

A study prepared for the U.S. Department of Housing and Urban Development examined eight municipal services, comparing the cost of

having government provide the service to the cost of having the service contracted out. It found that asphalt paving cost 95 percent more when done by municipal workers, janitorial services cost 73 percent more, and 5 of the other services cost at least 37 percent more when performed by government workers. Payroll preparation costs were about the same regardless of who performed the service. The study also showed that the savings were not due to lower wage rates in the private sector—the private sector employees earned an average of \$106 a month more than the government workers. Savings were made possible because of the inherently more efficient structure of private, competitive enterprise.

Prisons are also being privatized. A prison in Florida was turned over to a private company when the company offered to provide the service for \$24 a day per prisoner, compared to the \$37 a day offered by the sheriff. Shortly after taking over, the private company raised guards' salaries from \$8,100 to \$13,500. California contracts out to the private sector for more than a dozen detention facilities. Prisoners who were temporarily housed in a private Pennsylvania jail did not want to return to the state-owned facility they came from because the conditions at the privately run prison were much more humane.

Even streets are being privatized. At least 1,000 streets in St. Louis and adjoining areas have been privatized. The result has been skyrocketing property values, as deteriorating neighborhoods reversed the trend toward decay. Neighborhoods became stabilized and safer, and community pride increased. Houston sold some of its streets to homeowners to raise money and experienced similar results.

There seems to be almost no limit to what can be privatized. The U.S. military could save billions by contracting out numerous functions now performed by military personnel such as lawn-mowing, cooking, and selling groceries. Selling the post office and privatizing social security could save taxpayers and consumers billions more. Selling off surplus government assets would enable the federal government to make the social security system solvent and could provide enough funds to wipe out the deficit, were it not for the fact that Congress sets up

road blocks to prevent such sales from happening.

If you have time to read only one book on privatization, this book would be a good choice. It summarizes what has been happening in the privatization revolution and cites numerous books and articles that can be referred to for further investigation. The index is also quite thorough. □

(Professor McGee holds a law degree and teaches accounting at Seton Hall University.)

SEARCHING FOR SAFETY

by Aaron Wildavsky

Transaction Books, Rutgers University, New Brunswick, New Jersey 08903 • 1988 • 253 pages • \$32.95 cloth; \$16.95 paperback

Reviewed by John Semmens

What is safe? While the purveyors of government safety regulations think they know, the odds are they are wrong. Since all action is designed to deal with the future, and the future is unknown, all action is inherently speculative. Though the advocates of statutory and regulatory approaches to coping with the hazards of an uncertain future believe they are ensuring safety, the reality is that the only thing likely to be ensured is stagnation.

This book is premised on the idea that safety is not a known, utopian condition, but rather a changing relative improvement over a previous more precarious condition. The question of how better to achieve safety is aptly posed by the so-called "jogger's dilemma." The dilemma consists of confronting two interrelated facts about the effects of jogging on a person's health. In general, over the long run, exercise tends to improve physical health and increase longevity. However, the process of strenuous exercise places the body under stress. One's chances of dying due to stress are, thus, greater during an hour of exercise than an hour of repose.

Should one incur the short-run risk of jogging with its attendant stress in order to obtain the long-run benefit of better health? The most in-

telligent response to such a question is that it depends. Not every individual faces the same risk-reward ratio. Not every circumstance is well suited to the contemplated exercise (as I write this, it is 110 degrees outside). The variety of contingencies that can affect the decision to take or avoid the short-run risk argue in favor of a flexible, decentralized process for decision-making.

Safety regulation and legislation, though, are the opposite of flexible and decentralized. Government-imposed rules must be stable and standardized. "Flexibility" in the hands of government can too easily degenerate into arbitrary abuse of authority. No matter how hard government tries to decentralize, it will always fall short of matching its rules to the unique circumstances of each individual. Only freedom and the marketplace hold forth the prospect for adequately coping with the changing needs of unique individuals.

The current politicization of safety, by inflicting the force of government on more and more areas of our lives, threatens the safety it purports to be protecting. Banning or severely restricting "dangerous" research and experiments may prevent the improbable disasters the regulators fear. Unfortunately, progress may also be obstructed. Insisting that expensive safety equipment be mandated to guard against the tiniest hazards has a retarding effect on economic growth. Safety demagogues are quick to assert their superior virtue for placing the saving of even one life ahead of economics.

Professor Wildavsky effectively refutes this fallacy by pointing out that economic growth also saves lives. The improved living conditions made possible by economic growth actually contribute to longer, healthier lives. By way of illustration, he offers an interesting statistic: for a 45-year-old working man, a 15 percent increase in take-home pay has the same statistical impact on his longevity as would the elimination of all workplace hazards. Thus, even if government programs to remove work hazards actually eliminated all risk, it is likely that the net result in most instances still would be negative. Sacrificing economic growth in pursuit of expensive safety rules, therefore, may well cost more lives than are saved.

The progress that has yielded our current,

relatively safe mode of living involved the intentional taking of risks. Daring to venture into the unknown is an unavoidable step in developing new and better ways of living. Purposefully accepting risk is a necessary part of attaining greater safety in the long run.

The interconnectedness of risk and safety invalidates the simplistic strategy of outlawing hazards. If we are to improve rather than atrophy we must move ahead by taking chances. The discovery of safer ways of doing things can be conducted most expeditiously by individuals free to act and to bear responsibility for the consequences. The social mechanism most adept at facilitating the process of rational risk-taking is freedom.

Professor Wildavsky's book is not always easy reading, but it is full of sound logic and useful illustrations. It will be especially helpful for those free market partisans who, for want of a firm scientific foundation, have conceded safety regulation to government. Not only can we rely upon the market to take care of safety, but if we value life and limb we will insist upon a market approach. □

(John Semmens is an economist with the Laissez Faire Institute, a free-market research organization headquartered in Tempe, Arizona.)

THE ART OF REASONING

by David Kelley

W. W. Norton & Company, 500 Fifth Avenue, New York, NY 10110 • 1988 • 412 pages • \$19.95 cloth

Reviewed by David M. Brown

David Kelley's new logic text, *The Art of Reasoning*, is "must" reading for those dedicated to advancing liberty.

Of course, logic supports freedom over statism no matter what text one relies on. But Kelley seems to understand the relationship between first principles and final policy conclusions somewhat better than many other philos-

ophy professors. His exposition thus tends to be more informative than the usual textbook treatment, even while avoiding technical issues not really relevant to the needs of the typical student. (There's nothing in here about truth tables, for instance, or about exactly how statisticians calculate probability variances.)

This is not to imply that the book, with one of its more gratifying exercises pitting F. A. Hayek against J. K. Galbraith, was written with a primarily political purpose in mind. As the author comments, "The value of these logical skills is not limited to political arguments. . . . In a philosophy class, the issue might be free will versus determinism; in literature, it might be different interpretations of *Hamlet*. Discussing these ideas means presenting reasons for or against them. . . . In our own personal lives, finally, we all have choices to make, major ones or minor, and here too we need to weigh the reasons on each side and to consider all the relevant issues."

The reader who studies this text and absorbs its lessons will be admirably equipped. Kelley begins by sketching the nature of concepts, the building blocks of premises. Then he takes on many of the usual topics, including the nature of propositions and syllogisms, inductive reasoning, etc. His chapter on dissecting and diagramming arguments is particularly interesting and helpful. Here the reader learns to detect implicit, unspoken premises, and to analyze the criss-crossing arguments and counter-arguments of debates.

Chapters are interspersed with practice quizzes for which answers reside in the back of the book. For more detailed exercises there are no answers to turn to; the student gets practice in thinking entirely on his own. That's fine, especially since the meaty sample arguments are drawn from a wide variety of intriguing contemporary and classical sources. Logic, it turns out, can be fun as well as relevant. □

(Mr. Brown is a free-lance writer in Trenton, New Jersey.)

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APRIL

1989

VOL. 39

NO. 4

Published by

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

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the Board: Bruce M. Evans

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The Freeman is the monthly publication of The Foundation for Economic Education, Inc., Irvington-on-Hudson, NY 10533 (914) 591-7230. FEE, founded in 1946 by Leonard E. Read, is a nonpolitical educational champion of private property, the free market, and limited government. FEE is classified as a 26 USC 501 (c) (3) tax-exempt organization. Other officers of FEE's Board of Trustees are: Thomas C. Stevens, chairman; Ridgway K. Foley, Jr., vice-chairman; Paul L. Poirot, secretary; H.F. Langenberg, treasurer.

The costs of Foundation projects and services are met through donations. Donations are invited in any amount. Subscriptions to *The Freeman* are available to any interested person in the United States for the asking. Additional single copies \$1.00; 10 or more, 50 cents each. For foreign delivery, a donation of \$15.00 a year is required to cover direct mailing costs.

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Bound volumes of *The Freeman* are available from The Foundation for calendar years 1969 to date. Earlier volumes as well as current issues are available on microfilm from University Microfilms, 300 North Zeeb Road, Ann Arbor, MI 48106.

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.

Cover illustration: © Geoffrey Moss,
Washington Post Syndicate.

PERSPECTIVE

Look Around

Look around the world today and ask: where are the victories against poverty most dramatic? Where is the race to the future being won? Where is peace most secure?

Again and again, the answer can be found in that small group of nations where men and women have freedom: freedom to pray and to speak, freedom to vote, assemble and dissent, and freedom to seek their fortune without fear or without favor, and where freedom is coupled with moral responsibility: responsibility to one's community, responsibility to one's countrymen, and ultimately and inescapably responsibility to the God who rules us all. For the abiding hope and the unlimited possibilities of freedom rest in the strength of freedom's moral foundations as well as in that crucial link between our economic and our personal and political freedom.

—WILLIAM E. SIMON

Speaking at Templeton College, Oxford

Protecting the Irresponsible

Most people agree that government should punish irresponsible conduct which infringes, in a direct way, on the rights of others. Thus, there is common agreement on the legitimacy of laws against such conduct as murder, assault, rape, and theft.

However, there is also a wide range of conduct which many people consider irresponsible but which does not directly impact against others. Examples include the denying of God, refusing to care for others, viewing pornography, listening to rock and roll, believing in communism, ingesting drugs, and attempting suicide.

Should government punish individuals for pursuing actions which are harmful only to themselves? The answer is unequivocally *no*! Individuals have the absolute right to engage in this type of conduct and it is the sovereign duty of government to protect the exercise of this right.

The essence of freedom is the right to choose

between alternative courses of action. If an individual is not permitted to choose an irresponsible course of action that harms only himself, then he cannot truly be considered free. Does this mean that advocates of liberty necessarily approve of the choices which others make with respect to their own lives? Of course not. But we view liberty as so crucially important to human life that we are willing not only to tolerate these choices but also to affirm the right of others to make them.

Why is freedom of choice so vitally important? There are three reasons. First, freedom of choice is a God-given right and, therefore, cannot legitimately be taken away by man. God wants us to choose good over bad, and virtue over vice, but under no circumstances does He force us to do so. He leaves us free to choose our own way, recognizing that each individual must ultimately bear the consequences of his own choices. Since God permits man to sin against himself, government has no legitimate authority to prevent him from doing so.

Second, freedom of choice is necessary for individual growth. In order to improve and perfect himself, an individual must be provided the widest possible latitude to choose between good and evil. The ultimate conquest over self can take place only through a continuous process of choosing between good and bad, moral and immoral. It is this process of choosing that enables an individual to move forward in his aim of constantly refining himself.

Third, freedom of choice makes the pursuit of correct conduct meaningful. If a person is coerced into doing good, or prevented from doing bad, then his actions mean nothing. It is only when the individual voluntarily and deliberately pursues good for its own sake, rather than as a result of coercion or manipulation, that his conduct has positive meaning for both himself and his God.

The true test of a free society, then, is the extent to which laws protect, rather than punish, the pursuit of irresponsible conduct which does not directly harm others. Not only is freedom of choice a divine right, it is the only method for individuals to reform themselves in meaningful ways.

—JACOB G. HORNBERGER

Where Your Mail Went

The Postal Service may soon have to file environmental impact statements for all the mail it is dumping in America's trash boxes and dumpsters. For example, a Rhode Island carrier was arrested after 94,000 letters were found buried in his backyard. A 1987 survey by Doubleday and Company found that up to 14 percent of bulk business mail was either thrown away or lost. One Arlington, Virginia, postal clerk told a customer, "We don't have room for the junk mail—so we've been throwing it out." In 1987, 1,315 postal workers were fired for theft and/or mistreatment of mail. A Postal Inspection Service audit found properly addressed mail dumped in the trash at 76 percent of the post offices it visited. A survey by Doubleday found that up to 14 percent of properly addressed third-class mail vanished in the postal labyrinth. The throwing away of mail has become so pervasive that postal inspectors have notified employees that it is bad for the Postal Service's business.

—JAMES BOVARD

"The Slow Death of the U.S. Postal Service," published by the Cato Institute

Regulatory Chaos

At first blush, the regulatory system seems reasonably orderly. Administrative agencies provide oversight before products go on the market, while the courts supervise matters farther down the line. But the structure beneath is much more chaotic. The hierarchy of regulatory powers is so fragmented that the system can never say "yes," only "maybe." One agency's approval may be trumped by a second's disapproval. Approvals by two agencies may be refuted shortly afterward by a federal court. And approvals of all three may be rejected by a liability court following an accident decades later. . . .

Any endeavor can tolerate only so much uncertainty. Compounding scientific doubt with unnecessary layers of regulatory unknowns will sink many undertakings regardless of their scientific and economic merits.

—PETER HUBER, writing in
Technology Review

The Real Meaning of Tax Loopholes

by James L. Payne

Tax loopholes are one of the great mysteries of modern politics. They are wrong, everyone seems to say, and crusades are mounted against them time and again. Yet the evil never gets stamped out, for loopholes keep creeping back into the tax code. What causes this curious inconsistency?

The root of the problem is a misunderstanding about taxpayers. At first glance, taxpayers seem to be selfish individuals who spend their income on their own pleasures. Being preoccupied with their private needs, they ignore the needs of the community. Therefore, government is brought in to reflect those needs. It takes away some of the citizen's money in taxes and spends it on worthy public purposes.

This all seems logical until you notice one thing: it is based on a distinction between personal and public spending that is largely fictitious, especially today. In the past, when most public spending funded truly public goods like police protection and the judicial system, there was some validity in saying that taxes supported community functions not funded privately. But today, most government spending goes for private goods—things citizens can and do buy for themselves. In other words, government wants for us what we already want for ourselves.

*James L. Payne is a political scientist specializing in Congress and economic policy. His latest book, *The Culture of Spending*, sponsored by the Cato Institute, examines congressional confusions about the budget.*

Take housing. The need for a nice home is a personal desire. Yet nice homes for people are also a social good. Hence politicians have set up numerous subsidy programs to help people get decent housing, from government-backed loans to public housing projects.

It's the same with most other spending programs. Citizen desires for education, opera tickets, quality medical care, or comfortable retirement are private needs. But from the public (governmental) point of view, it is also good for citizens to have these things. Hence the government has programs to purchase them: loan programs to pay for college, subsidies for the arts, payments for medical care, and government retirement programs.

In the business world, we see the same overlap between public and private spending. Take research and development. Companies want to discover new products for a self-oriented reason—to improve sales and profits. But the development of new products is also a public good, since these mean more jobs, more exports, and benefits to consumers. Hence, government has programs to subsidize private corporate research.

Normally, legislators miss the connection between private and public spending. They take money from people who would have purchased housing, and (after losses in the taxing and spending process) give it back to people who want housing. They take funds from college-

Every so often, politicians notice that people are privately spending money on exactly the same thing that the politicians want them to have. Then they create a tax loophole.



bound students and their parents, and (again, with waste) funnel it back to them in loan programs and other subsidies. They take money from firms that would have used it for research, and (again, minus overhead costs) channel it back to research through government grants and subsidies.

Every so often, however, politicians notice that people are privately spending money on exactly the same thing that the politicians want them to have. Then they create a tax loophole, now called by its prettier name, a “tax deduction.” They declare that the income spent on the worthy purpose is exempt from taxation. The money you put aside for your retirement—a worthy purpose—is exempt from taxation. The money you donate to charity—a worthy purpose—is exempt from taxation. The money you spend on home ownership (interest) is exempt from taxation. The money a business spends on research is exempt from taxation.

This is not to say that the deductions are al-

ways taken in the spirit intended. This is where the negative connotation of “loophole” comes in. As happens with any government regulation, some people extend the interpretation of the law. They get the lower taxes without really doing the socially desired thing. For example, a company might send its scientists for a vacation in Hawaii, calling it a “research conference” in order to take the research tax deduction. As Congress finds out about such abuses, it moves to abolish the deduction. But then it hears about the useful, non-abusive spending of the same kind, and moves to re-establish the deduction. And so we go round and round.

How can we promote socially useful private spending without adding a lot of red tape? The solution is so simple most politicians rush right past it: cut government spending. Stop trying to give people things through government programs that they can buy for themselves. With less spending you can have lower taxes, and people will have the money to buy them! □

The Invisible Hand at Work

by Jane S. Shaw

A friend of mine recently received an inheritance that appeared large enough to let her quit work. She was then employed as a part-time English teacher and wanted to spend more time with her 11-year-old daughter and pursue intellectual interests such as history and German literature.

My friend, whom I'll call Ellen, is a gentle person who lives simply, loves humanity, and has a great interest in culture. The last thing she would ever think of is hurting people or depriving them of something valued. Yet she was about to deprive students of an excellent teacher.

In considering whether to continue teaching or not, Ellen looked at her job—as most of us do—in terms of what it did for her. Did it pay well? Did it provide meaning in her life? Was it emotionally rewarding or mostly tedious? Much lower on the list, or completely forgotten in the calculation, was whether or not her students might lose a good teacher.

Most jobs exist because they provide a product or service that someone wants. Yet, like Ellen, we rarely think about them this way.

We read “how to” books that tell us how to improve job satisfaction through higher pay and better relationships with the boss. We never read about how our job benefits our customers.

In the press, it's the jobholder, not the customer, who gets our attention. High unemployment dismays us because it means people are left without jobs and income—rather than because people lose the opportunity to buy goods

or services, even though their losses, too, may be substantial.

Our focus on the jobholder is so intense that we tend to suppose that those who work with little or no pay, such as Peace Corps volunteers, are doing more for society than, say, Sears Roebuck & Co. employees in the same country. Yet however admirable it may be, personal sacrifice doesn't make a person more effective.

Our emphasis on job satisfaction is really an example of Adam Smith's “invisible hand” at work. By pursuing our own desires we inadvertently satisfy those of others. That is because the only way we can earn income is by providing what other people want. Their wishes create our jobs.

So, paradoxically, a hardhearted and selfish entrepreneur who builds a great business selling clothes or canning soup may improve the lives of millions of people while a Peace Corps volunteer may help only a few. This entrepreneur may care nothing personally about his customers, and his character may not deserve our praise, but in order to succeed he has to consider what other people want—convenience, economy, good taste, for example,—and provide it at a reasonable cost.

It is sad but indisputable that without this desire for material gain, most people would be unlikely to give as careful consideration to the desires of others. Even tender-hearted Ellen weighed income and job satisfaction against the trial and tribulation of teaching high school students. What made her different was that her desire for material gain was so very modest. Yet by wanting little, she gave little as well.

If income meant more to Ellen—if she were more greedy—she would have tailored her talents to provide services that people want. Ironically, without such greed and with a little income, she could pretty much do what she pleased.

In the end, it didn't turn out that way. Ellen soon found that the property she had inherited doesn't provide enough income for her to live comfortably. So, she is back at work again, this time teaching German to college students, and she is earning extra income working at a retail store. I don't think she realizes it, but her need for income has had a positive result—it has led her to help others. □

Jane S. Shaw is a Senior Associate of the Political Economy Research Center in Bozeman, Montana.

The Tide in the Affairs of Men

by Milton Friedman and Rose D. Friedman

*There is a tide in the affairs of men,
Which, taken at the flood, leads on to fortune;
Omitted, all the voyage of their life
Is bound in shallows and in miseries.*

SHAKESPEARE, *Julius Caesar*

Shakespeare's image is an apt text for our essay. There are powerful tides in the affairs of men, interpreted as the collective entity we call society, just as in the affairs of individuals. The tides in the affairs of society are slow to become apparent, as one tide begins to overrun its predecessor. Each tide lasts a long time—decades, not hours—once it begins to flood and leaves its mark on its successor even after it recedes.

How tides begin in the minds of men, spread to the conduct of public policy, often generate their own reversal, and are succeeded by another tide—all this is a vast topic insufficiently explored by historians, economists, and other social scientists.¹

The aim of this brief essay is modest: to

Milton Friedman and Rose D. Friedman, both economists, are the authors of Capitalism and Freedom and Free to Choose. Milton Friedman, recipient of the Nobel prize for economics in 1976, is senior research fellow at the Hoover Institution and Paul Snowden Russell Distinguished Service Professor of Economics, Emeritus, at the University of Chicago.

This essay originally appeared as a chapter in Thinking About America: The United States in the 1990s, edited by Annelise Anderson and Dennis L. Bark. It is reprinted here with permission of the publishers, Hoover Institution Press, Stanford, California.

present a hypothesis that has become increasingly plausible to us over the years, to illustrate it with experience over the past three centuries, and to discuss some of its implications. The hypothesis is that a major change in social and economic policy is preceded by a shift in the climate of intellectual *opinion*, itself generated, at least in part, by contemporaneous social, political, and economic circumstances. This shift may begin in one country but, if it proves lasting, ultimately spreads worldwide. At first it will have little effect on social and economic policy. After a lag, sometimes of decades, an intellectual tide “taken at its flood” will spread at first gradually, then more rapidly, to the public at large and through the public's pressure on government will affect the course of economic, social, and political policy. As the tide in *events* reaches its flood, the intellectual tide starts to ebb, offset by what A. V. Dicey calls counter-currents of opinion. The counter-currents typically represent a reaction to the practical consequences attributed to the earlier intellectual tide. Promise tends to be utopian. Performance never is and therefore disappoints. The initial protagonists of the intellectual tide die out and the intellectual quality of their followers and

supporters inevitably declines. It takes intellectual independence and courage to start a counter-current to dominant opinion. It takes far less of either to climb on a bandwagon. The venturesome, independent, and courageous young seek new fields to conquer and that calls for exploring the new and untried. The counter-currents that gather force set in motion the next tidal wave, and the process is repeated.

Needless to say, this sketch is oversimplified and excessively formalized. In particular it omits any discussion of the subtle mutual interaction between intellectual opinion, public opinion, and the course of events. Gradual changes in policy and institutional arrangements are always going on. Major changes seldom occur, however, except at times of crisis, when, to use Richard Weaver's evocative phrase, "ideas have consequences." The intellectual tide is spread to the public by all manner of intellectual retailers—teachers and preachers, journalists in print and on television, pundits and politicians. The public begins to react to the crisis according to the options that intellectuals have explored, options that effectively limit the alternatives open to the powers that be. In almost every tide a crisis can be identified as the catalyst for a major change in the direction of policy.

We shall illustrate the relevance of our hypothesis with the two latest completed tides as well as the tide that, as we put it in the title of the final chapter of *Free to Choose*, is turning.²

The Rise of Laissez-Faire: The Adam Smith Tide

The first tide we discuss begins in the eighteenth century in Scotland with a reaction against mercantilism expressed in the writings of David Hume, Adam Smith's *Theory of Moral Sentiments* (1759), and above all Smith's *The Wealth of Nations* (1776).

The Wealth of Nations is widely and correctly regarded as the foundation stone of modern scientific economics. Its normative thrust and its influence on the wider intellectual world are of greater interest for our present purpose. Its rapid success in influencing the intellectual community doubtless reflected the seeds planted by Hume and others—the intellectual

counter-currents to the mercantilist tide—as well as the early stages of the Industrial Revolution.

On the other side of the Atlantic 1776 also saw the proclamation of the Declaration of Independence—in many ways the political twin of Smith's economics. Smith's work quickly became common currency to the Founding Fathers. Alexander Hamilton documented that phenomenon in a backhanded way in his 1791 *Report on Manufactures*. He quoted Smith extensively and praised him profusely while at the same time devoting the substance of his report to arguing that Smith's doctrines did not apply to the United States, which needed not free international trade but the protection of infant industries by tariffs—an example of the homage that vice, even intellectual vice, pays to virtue.

Smith had no illusions about the impact of his intellectual ideas on public policy: "To expect that the freedom of trade should ever be entirely restored in Great Britain, is as absurd as to expect that an Oceana or Utopia should ever be established in it. Not only the prejudices of the public, but what is much more unconquerable, the private interests of many individuals, irresistibly oppose it."³

His prediction proved false. By the early nineteenth century the ideas of laissez-faire, of the operation of the invisible hand, of the undesirability of government intervention into economic matters, had swept first the intellectual world and then public policy. Bentham, Ricardo, James Mill, and John Stuart Mill were actively engaged in spreading these ideas and promoting them politically. Maria Edgeworth was writing novels based on Ricardian economics. Cobden and Bright were campaigning for the repeal of the corn laws. Reinforced by pressures arising out of the Industrial Revolution, these ideas were beginning to affect public policy, though the process was delayed by the Napoleonic Wars with the accompanying high government spending and restrictions on international trade. Yet the wars also furnished the needed catalytic crisis.

The repeal of the corn laws in 1846 is generally regarded as the final triumph of Smith after a 70-year delay. In fact some reductions in trade barriers had started much earlier, and many nonagricultural items continued to be pro-



Rose and Milton Friedman

tected by tariffs until 1874. Thereafter only revenue tariffs remained on such items as spirits, wine, beer, and tobacco, countervailed by excise duties on competing domestic products. So it took nearly a century for the completing of one response to Adam Smith.

U.S. Experience

The other countries of Europe and the United States did not follow the British lead by establishing complete free trade in goods. During most of the nineteenth century, however, U.S. duties on imports were primarily for revenue, though protection did play a significant role, as rancorous political debates, particularly between the North and the South, testify. Except for a few years after the War of 1812, customs provided between 90 and 100 percent of total Federal revenues up to the Civil War. And except for a few years during and after that war, customs provided half or more of Federal revenues until the Spanish-American War at the end of the century.

Nontariff barriers such as quotas were nonexistent. Movement of people and capital was hardly impeded at all. The United States in particular had completely free immigration. In Europe before World War I "the inhabitant of London," in John Maynard Keynes's eloquent words, "could secure . . . cheap and comfortable means of transit to any country or climate

without passport or other formality . . . and could . . . proceed abroad to foreign quarters, without knowledge of the religion, language, or customs . . . and would consider himself greatly aggrieved and much surprised at the least interference."⁴

Hamilton's success in achieving protectionist legislation in the United States reflects the absence of effective ideological commitment by policy makers to avoiding intervention by government into economic activity, despite the intellectual tide set in motion by Adam Smith, the French physiocrats, and their later followers. However, strong belief in states' rights meant that states, not the federal government, played the major role. Many states established state banks, built canals, and engaged in other commercial enterprises. The catalytic crisis that produced a drastic change was the panic of 1837, in the course of which many, perhaps most, government enterprises went bankrupt. That panic served the same role in discrediting government enterprise as the Great Depression did nearly a century later in discrediting private enterprise.

In the aftermath the ideas of Adam Smith offered both an explanation and an obvious alternative option; tariffs aside, near complete laissez-faire and nonintervention reigned into the next century.

Measuring the role of government in the economy is not easy. One readily available, though admittedly imperfect, measure is the ratio of government spending to national income. At the height of laissez-faire, peacetime government spending was less than 10 percent of national income in both the United States and Great Britain. Two-thirds of U.S. spending was by state and local governments, with about half for education; Federal spending was generally less than 3 percent of national income, with half of that for the military.

A striking example of the worldwide impact of the Adam Smith tide—this time in practice, not in ideas—is provided by post-Meiji Japan. For centuries prior to the Meiji Restoration in 1867, Japan had been almost completely isolated from the Western world. The new rulers had no ideological understanding, let alone commitment, to laissez-faire. On the contrary, they attached little value to individual freedom,

either political or economic. Their overriding objective was simply to strengthen the power and glory of their country. Nevertheless, when the Meiji rulers burst into a Western world in which laissez-faire Britain was the dominant economy, they simply took for granted that Britain's policy was the one to emulate. They did not by any means extend complete economic and political freedom to their citizens, but they did go a long way, with dramatic and highly favorable results.⁵

The absence of a widespread ideological underpinning for these policies helps explain their lack of robustness. After World War I Japan succumbed to centralized control by a military dictatorship—a policy that led to economic stagnation, military adventurism, and finally Japan's entry into World War II on the side of the Nazis.

On the broader scale the tide that swept the nineteenth century brought greater political as well as economic freedom: widening rights and a higher standard of living for individuals accompanied increased international trade and human contact. It was heralded as a century of peace—but that is somewhat overstated. The tide did not prevent the U.S. Civil War, the Crimean War, the Franco-Prussian War, or other local conflicts. But there was no major widespread conflict between 1815 and 1914 comparable either to the Napoleonic Wars of the preceding years or to the world wars of the later years.

Despite occasional financial panics and crises, Britain and the United States experienced remarkable economic growth during the nineteenth century. The United States in particular became a mecca for the poor of all lands. All this was associated with—and many, including us, would say it was a result of—the increasing adoption of laissez-faire as the guiding principle of government policy.

The Rise of the Welfare State: The Fabian Tide

This remarkable progress did not prevent the intellectual tide from turning away from individualism and toward collectivism. Indeed, it doubtless contributed to that result. According to Dicey, "from 1848 onwards an alteration

becomes perceptible in the intellectual and moral atmosphere of England."⁶ The flood stage, when collectivism began to dominate intellectual opinion, came some decades later. The founding of the Fabian Society, dedicated to the gradual establishment of socialism, by George Bernard Shaw, Sidney Webb, and others in 1883 is perhaps as good a dividing date as any for Britain. A comparable date for the United States is 1885, when the American Economic Association was founded by a group of young economists who had returned from study in Germany imbued with socialist ideas, which they hoped to spread through the association—a hope that was largely frustrated when the association shortly adopted a policy of "non-partisanship and avoidance of official commitments on practical economic questions and political issues."⁷ Confirming evidence is provided by the publication in 1888 of Edward Bellamy's socialist utopian romance, *Looking Backwards*, which sold over a million copies.

How can we explain this shift in the intellectual tide when the growing pains of laissez-faire policies had long been overcome and impressive positive gains had been achieved? Dicey gives one indirect answer:

The beneficial effect of State intervention, especially in the form of legislation, is direct, immediate, and so to speak, visible, whilst its evil effects are gradual and indirect, and lie out of sight . . . few are those who realize the undeniable truth that State help kills self-help. Hence the majority of mankind must almost of necessity look with undue favor upon governmental intervention. This natural bias can be counteracted only by the existence . . . , as in England between 1830 and 1860, of a presumption or prejudice in favor of individual liberty—that is, of *laissez-faire*. The mere decline, therefore, of faith in self-help . . . is of itself sufficient to account for the growth of legislation tending toward socialism.⁸

A more direct answer is that two effects of the success of laissez-faire fostered a reaction. First, success made residual evils stand out all the more sharply, both encouraging reformers to press for governmental solutions and making the public more sympathetic to their appeals.

Second, it became more reasonable to anticipate that government would be effective in attacking the residual evils. A severely limited government has few favors to give; hence there is little incentive to corrupt government officials, and government service has few attractions for persons concerned primarily with personal enrichment. Government was engaged primarily in enforcing laws against murder, theft, and the like and in providing municipal services such as local police and fire protection—activities that engendered almost unanimous citizen support. For these and other reasons, Britain, which went furthest toward complete *laissez-faire*, became legendary in the late nineteenth and early twentieth centuries for its incorruptible civil service and law-abiding citizenry—precisely the reverse of its reputation a century earlier. In the United States neither the quality of the civil service nor respect for the law ever reached the heights they did in Britain, but both improved over the course of the century.

Fabian Socialism Triumphs

Whatever the reasons, Fabian socialism became the dominant intellectual current in Britain, driving out, at the one extreme, radical Marxism, and at the other, *laissez-faire*. Gradually that intellectual current came to dominate first public opinion and then government policy. World War I hastened the process, but it was already well under way before the war, as is demonstrated by Dicey's prescient remarks in his 1914 preface to the second edition of *Law and Public Opinion*:

By 1900, the doctrine of *laissez-faire*, in spite of the large element of truth which it contains, had more or less lost its hold upon the English people . . . It also was in 1900 apparent to any impartial observer that the feelings or the opinions which had given strength to collectivism would continue to tell as strongly upon the legislation of the twentieth century as they already told upon the later legislation of the nineteenth century . . . and this conclusion would naturally have been confirmed by the fact that in the sphere of finance there had occurred a revival of

belief in protective tariffs, then known by the name of a demand for "fair trade" [echoes of 1987!].

Dicey lists "the laws which most directly illustrate the progress of collectivism," from the beginning of the twentieth century, starting with the Old Age Pension Act of 1908. In respect of a later act (the Mental Deficiency Act, 1913), he remarks that it "is the first step along a path on which no sane man can decline to enter, but which, if too far pursued, will bring statesmen across difficulties hard to meet without considerable interference with individual liberty."⁹

Clearly the seeds had been sown from which Britain's full-fledged welfare state grew, at first slowly in the interwar period and then with a final burst after World War II, marked perhaps by the adoption of the National Health Service and the panoply of measures recommended in the Beveridge report.

In the United States the development was similar, though somewhat delayed. After the popular success of Bellamy's utopian fantasy came the era of the muckrakers, led by Lincoln Steffens, Ray Stannard Baker, and Ida M. Tarbell, with their exposures of alleged corruption and malfeasance in municipal government, labor, and trusts. Upton Sinclair used the novel to promote socialist ideas, his most successful being *The Jungle* (1906), which resulted from an assignment by a socialist newspaper to investigate conditions in the Chicago stockyards. Sinclair wrote the novel to create sympathy for the workers, but it did far more to arouse indignation at the unsanitary conditions under which meat was processed. On a different level Louis Dembitz Brandeis criticized the financial community. His volume of essays, *Other People's Money and How the Bankers Use It* (1914), has been described as "a frontal assault on monopoly and interlocking directorates."¹⁰

"The Populist party, through which William Jennings Bryan rose to" the nomination for the presidency on the Democratic ticket in 1896, "called not merely for regulation of the railroads but for outright government ownership and operation."¹¹ The Interstate Commerce Commission, created in 1887, was shortly followed by the 1890 Sherman Antitrust Act and

later by the 1906 Food and Drug Act, for which Sinclair's novel served as the catalyst. The modern welfare state was well on its way. World War I greatly expanded the role of government, notably by the takeover of the railroads. The postwar period brought something of a reaction, with the major exception of Prohibition.

As late as 1929 Federal spending amounted to only 3.2 percent of the national income; one-third of this was spent on the military, including veterans' benefits, and one-half on the military plus interest on the public debt. State and local spending was nearly three times as large—9 percent of national income—with more than half on education and highways. Spending by federal, state, and local governments on what today is described as income support, Social Security, and welfare totaled less than 1 percent of national income.

The world of ideas was different. By 1929 socialism was the dominant ideology on the nation's campuses. The *New Republic* and *The Nation* were the intellectuals' favorite journals of opinion and Norman Thomas their political hero. The impact of opinion on the world of practice, however, had so far been modest. The critical catalyst for a major change was, of course, the Great Depression, which rightly or wrongly shattered the public's confidence in private enterprise, leading it to regard government involvement as the only effective recourse in time of trouble and to treat government as a potential benefactor rather than simply a policeman and umpire.

The effect was dramatic. Federal government spending grew to roughly 30 percent of national income by the 1980s, or to nearly tenfold its 1929 level. State and local spending also grew, though far less dramatically, so that by the 1980s total government spending was over 40 percent of national income. And spending understates the role government came to play. Many intrusions into people's lives involve little or no spending: tariffs and quotas, price and wage controls, ceilings on interest rates, local ceilings on rents, zoning requirements, building codes, and so on.

The delayed impact of the intellectual climate of the 1920s illustrates one aspect of the influence of intellectual opinion—producing options

for adoption when the time is ripe. Despite Norman Thomas's popularity on the campus, he received less than 1 percent of the popular vote for president in 1928 and only 2 percent in 1932. Nonetheless, we concluded that "the Socialist party was the most influential political party in the United States in the first decades of the twentieth century . . . [A]lmost every economic plank in its 1928 presidential platform has by now [1980] been enacted into law."¹²

Like the earlier tide, the Fabian tide was worldwide. It contributed no less to the success of the Russian and Chinese communist revolutions than to the welfare state in Britain and the New Deal in the United States. And it largely explains the adoption of centralized planning in India and other British and European former colonies when they achieved independence. A major exception was Hong Kong, one of the few British colonial possessions that remained under the control of the Colonial Office. It never departed from the Adam Smith tide and as a result was a precursor to the next tide.

The Resurgence of Free Markets: The Hayek Tide

As in the preceding wave, the world of ideas started to change direction just as the tide in the world of practice was cresting.¹³ Throughout the ascendancy of socialist ideas there had, of course, been counter-currents—kept alive in Britain by G. K. Chesterton, Lionel Robbins, Friedrich Hayek, and some of their colleagues at the London School of Economics; in Austria by Ludwig von Mises and his disciples; and in the United States by Albert Jay Nock, H. L. Mencken, and other popular writers; Henry Simons, Frank Knight, and Jacob Viner at the University of Chicago; and Gottfried Haberler and Joseph Schumpeter at Harvard—to mention only a few.

Hayek's *Road to Serfdom*, a surprise best-seller in Britain and in the United States in 1944, was probably the first real inroad in the dominant intellectual view. Yet the impact of the free-market counter-current on the dominant tide of intellectual opinion, though perceptible to those directly involved, was at first minute. Even for those of us who were actively promoting free markets in the 1950s and 1960s it is

difficult to recall how strong and pervasive was the intellectual climate of the times.

The tale of two books by the present authors, both directed at the general public and both promoting the same policies, provides striking evidence of the change in the climate of opinion. The first, *Capitalism and Freedom*, published in 1962 and destined to sell more than 400,000 copies in the next eighteen years, was not reviewed at the time in a single popular American periodical—not in the *New York Times*, the *Chicago Tribune*, *Newsweek*, *Time*, you name it. The second, *Free to Choose*, published in 1980, was reviewed by every major publication (by some more than once), became the year's best-selling nonfiction book in the United States, and received worldwide attention.

Further evidence of the change in the intellectual climate is the proliferation of think tanks promoting the ideas of limited government and reliance on free markets. In a recent talk Ed Feulner, president of the Heritage Foundation, could mention only four that existed three decades ago: the Hoover Institution, still here today; the Intercollegiate Society of Individualists, which has changed its name but kept the initials; an embryonic American Enterprise Institute; and the Center for Strategic and International Studies. He should also have included Leonard Read's Foundation for Economic Education (FEE).

Translating Ideas into Action

By contrast, Feulner noted a long list of additional institutions currently devoted to developing and spreading the idea of limited government and free markets, plus a host of others trying to translate ideas into action. The same contrast is true of publications. FEE's *Freeman* was the only one he or we can think of that was promoting the ideas of freedom 30 to 40 years ago. Today numerous publications promote these ideas, though with great differences in specific areas: *The Freeman*, *National Review*, *Human Events*, *The American Spectator*, *Policy Review*, and *Reason*. Even the *New Republic* and *The Nation* are no longer the undeviating proponents of socialist orthodoxy that they were three decades ago.

Why this great shift in public attitudes? The

persuasive power of such books as Friedrich Hayek's *Road to Serfdom*, Ayn Rand's *Foundationhead* and *Atlas Shrugged*, our own *Capitalism and Freedom*, and numerous others led people to think about the problem in a different way and to become aware that government failure was as real as market failure. Nevertheless, we conjecture that the extraordinary force of experience was the major reason for the change.

Experience turned the great hopes that the collectivists and socialists had placed in Russia and China to ashes. Indeed, the only hope in those countries comes from recent moves toward the free market. Similarly experience dampened, to put it mildly, the extravagant hopes placed in Fabian socialism and the welfare state in Britain and in the New Deal in the United States. One major government program after another, each started with the best of intentions, resulted in more problems than solutions.

Few today still regard nationalization of enterprises as a way to promote more efficient production. Few still believe that every social problem can be solved by throwing government (that is, taxpayer) money at it. In these areas liberal ideas—in the original nineteenth-century meaning of liberal—have won the battle. The neoconservatives are correct in defining themselves as (modern) liberals mugged by reality. They still retain many of their earlier values but have been driven to recognize that they cannot achieve them through government.

In this country the Vietnam War helped to undermine belief in the beneficence of government. And most of all, as Dicey predicted nearly 75 years ago, the rising burden of taxation caused the general public to react against the growth of government and its spreading influence.¹⁴

In both the United States and Britain respect for the law declined in the twentieth century under the impact of the widening scope of government, strongly reinforced in the United States by Prohibition. The growing range of favors governments could give led to a steady increase in what economists have come to call rent-seeking and what the public refers to as special-interest lobbying.

Worldwide the contrast between the stagnation of those poorer countries that engaged in

central planning (India, the former African colonies, Central American countries) and the rapid progress of the few that followed a largely free-market policy (notably the Four Tigers of the Far East: Hong Kong, Singapore, Taiwan, and South Korea) strongly reinforced the experience of the advanced countries of the West.

Ideas played a significant part, as in earlier episodes, less by persuading the public than by keeping options open, providing alternative policies to adopt when changes had to be made.

As in the two earlier waves, practice has lagged far behind ideas, so that both Britain and the United States are further from the ideal of a free society than they were 30 to 40 years ago in almost every dimension. In 1950 spending by U.S. federal, state, and local governments was 25 percent of national income; in 1985 it was 44 percent. In the past 30 years a host of new government agencies has been created: a Department of Education, a National Endowment for the Arts and another for the humanities, EPA, OSHA, and so on. Civil servants in these and many additional agencies decide for us what is in our best interest.

Nonetheless, practice has started to change. The catalytic crisis sparking the change was, we believe, the worldwide wave of inflation during the 1970s, originating in excessively expansive monetary growth in the United States in the 1960s. The episode was catalytic in two respects: first, stagflation destroyed the credibility of Keynesian monetary and fiscal policy and hence of the government's capacity to fine-tune the economy; second, it brought into play Dicey's "weight of taxation" through bracket creep and the implicit repudiation of government debt.

Already in the 1970s military conscription was terminated, airlines deregulated, and regulation Q, which limited the interest rates that banks could pay on deposits, eliminated. In 1982 the Civil Aeronautics Board that regulated the airlines was eliminated. Though government spending as a fraction of national income has continued to rise, the rate of increase has slowed. No major new spending programs have been passed since 1981. The increase in non-military government spending has been predominantly the effect of earlier programs.

The Tides Sweep Worldwide

As in earlier waves, the tides of both opinion and practice have swept worldwide. Britain went further in the direction of collectivism than the United States and still remains more collectivist—with both a higher ratio of government spending to national income and far more extensive nationalization of industry. Yet Britain has made more progress under Margaret Thatcher than the United States has under Ronald Reagan.

Equally impressive are changes in the communist world. Even there it was impossible to repress all counter-currents, as Solzhenitsyn, Sakharov, and many other brave men and women so eloquently testify. But beyond the counter-currents, the economic reforms in Hungary, Solidarity in Poland, the widened resort to markets in China, the current reformist talk in the Soviet Union—these owe as much to the force of events and the options kept open by intellectual ideas as do the election of Margaret Thatcher and Ronald Reagan in the West. True, it is doubtful that such reforms will be permitted to go far enough to threaten the power of the current political elite. But that does not lessen their value as testimony to the power of ideas.

One interesting and instructive phenomenon is that freeing the market has been equally or more vigorously pursued under ostensibly left-wing governments as under ostensibly right-wing governments. Communist countries aside, one striking example is the U-turn in French policy effected by Mitterrand, a lifelong socialist. In Australia a Labour government replaced a conservative government and then moved sharply to widen the role of the market. New Zealand, under a Labour government headed by David Lange, first elected in 1984 and re-elected in 1987, has gone further than any other country in dismantling government controls and economic intervention.

By contrast, Germany, though it owed its dramatic post-World War II recovery to the free-market policies of Ludwig Erhard, has steadily moved away from those policies first under a Social Democratic government and, more recently, under conservative governments. Can the explanation for this aberration

be that the dramatic move to free-market policies was primarily the result of one man's (Erhard's) actions and not of a change in public opinion?

All in all the force of ideas, propelled by the pressure of events, is clearly no respecter of geography or ideology or party label.

Conclusion

We have surveyed briefly two completed pairs of tides in the climate of opinion and the "affairs of men" and one pair still in progress. Each tide lasted between 50 and 100 years. First came the tide in the climate of public opinion: toward free markets and laissez-faire from, say, 1776 to 1883 in Britain, 1776 to 1885 in the United States; toward collectivism from 1883 to 1950 in Britain, from 1885 to 1970 in the United States. Some decades later came the tide in the "affairs of men": toward laissez-faire from, say, 1820 to 1900 in Britain, 1840 to 1930 in the United States; toward collectivism from, say, 1900 to 1978 in Britain, 1930 to 1980 in the United States. Needless to say, these are only the roughest of dates. They could easily be set a decade or so earlier or later.

Two new pairs of tides are now in their rising phases: in public opinion, toward renewed reliance on markets and more limited government, beginning in about 1950 in Britain and 1970 in the United States; in public policy, beginning in 1978 in Britain and 1980 in the United States, and even more recently in other countries.

If the completed tides are any guide, the current wave in opinion is approaching middle age and in public policy is still in its infancy. Both are therefore still rising and the flood stage, certainly in affairs, is yet to come.

For those who believe in a free society and a narrowly limited role for government, that is reason for optimism, but it is not a reason for complacency. Nothing is inevitable about the course of history—however it may appear in retrospect. "Because we live in a largely free society, we tend to forget how limited is the span of time and the part of the globe for which

there has ever been anything like political freedom: the typical state of mankind is tyranny, servitude, and misery."¹⁵

The encouraging tide in affairs that is in its infancy can still be aborted, can be overwhelmed by a renewed tide of collectivism. The expanded role of government even in Western societies that pride themselves in being part of the free world has created many vested interests that will strongly resist the loss of privileges that they have come to regard as their right. Everyone is capable of believing that what is good for oneself is good for the country and therefore of justifying a special exception to a general rule that we all profess to favor.

Yet the lesson of the two earlier waves is clear: once a tide in opinion or in affairs is strongly set, it tends to overwhelm counter-currents and to keep going for a long time in the same direction. The tides are capable of ignoring geography, political labels, and other hindrances to their continuance. Yet it is also worth recalling that their very success tends to create conditions that may ultimately reverse them. □

1. A British constitutional-law scholar has written the most insightful book on the subject: A. V. Dicey, *Lectures on the Relation Between Law and Public Opinion in England During the Nineteenth Century*, 2d ed. (London: Macmillan, 1914).

2. Milton Friedman and Rose D. Friedman, *Free to Choose* (New York and London: Harcourt Brace Jovanovich, 1980), p. 283.

3. Adam Smith, *The Wealth of Nations*, Cannan 5th ed. (London: Methuen, 1930), bk. 4, chap. 2, p. 435.

4. J. M. Keynes, *Economic Consequences of the Peace* (London: Macmillan, 1919), pp. 6, 7, 9.

5. See Friedman and Friedman, *Free to Choose*, pp. 59, 61–62.

6. Dicey, *Law and Public Opinion*, p. 245.

7. A. W. Coats, "The American Economics Association and the Economics Profession," *Journal of Economic Literature* 23 (December 1985): 1702.

8. Dicey, *Law and Public Opinion*, pp. 257–58.

9. *Ibid.*, pp. xxxi, xxxii, xxxiii, li.

10. *Encyclopaedia Britannica*, 1970 ed., s.v. "Brandeis, Louis Dembitz."

11. Friedman and Friedman, *Free to Choose*, p. 196.

12. *Ibid.*, pp. 286, 287.

13. This section is based partly on Milton Friedman, "Where Are We on the Road to Liberty?" *Reason* 19, no. 2 (June 1987): pp. 31–33.

14. "[I]f the progress of socialistic legislation be arrested, the check will be due, not so much to the influence of any thinker as to some patent fact which shall command public attention; such, for instance, as that increase in the weight of taxation which is apparently the usual, if not the invariable, concomitant of a socialistic policy" (Dicey, *Law and Public Opinion*, p. 302n).

15. Milton Friedman, with the assistance of Rose D. Friedman, *Capitalism and Freedom* (Chicago: University of Chicago Press, 1962), p. 9.

Everyone Can Win in a Truly Competitive Market

by Alan W. Bock

Advocates of a free and open economy in a free and open society often find themselves hampered—and sometimes hamper themselves—because of a widespread misunderstanding of the word “competition.” Where friends of freedom simply mean an absence of arbitrary restriction, opponents and neutral observers often think they are endorsing and promoting a vicious, dog-eat-dog-cut-throat-you-have-to-be-No.-1 process that many find distasteful and unhealthy.

The word “competition” means something drastically different in the context of economics than it does in the context of sports, war, or national hegemony. In economics the meaning is limited. It simply means that access to markets is open—or at least available to all comers on a nondiscriminatory basis. If anybody who wants to can offer goods or services without being subject to a veto by government or those already in that business (assuming they can raise the capital to do so and attract customers), then the market is said to be competitive. Nobody can keep competitors out by force of law.

This meaning of competition is often subsumed by or identified with another meaning derived roughly from sports and more pervasive in our culture. This meaning was described in a recent article in *The New Age Journal* by Alfie

Kohn as “mutually exclusive goal attainment—my success requires your failure; our fates are negatively linked.” Only one person can win the race, or one team win the game; everybody else is defined as a “loser.” You have to be No. 1 or nothing.

There is little question that this understanding of competition can be personally and psychologically destructive and socially disruptive. If only one person in a race can be the winner, a lot of others may have their self-esteem damaged—or decide not to participate in advance. If winning is the only thing, then cheating and humiliation are likely to be common. A society that assumes that this is what competition is all about is likely to be characterized by a high level of stress, anxiety, or burnout.

That said, it should be noted that many critics of competition erect a straw man to knock down. Even in sports, which furnishes the paradigm, few believe, or act as if they believe, that winning is really everything. Even coaches who say things like “winning isn’t everything; it’s the only thing,” providing easy targets for critics of destructive competition, often turn out in practice to be advocates of sportsmanship, cooperation, teamwork, and losing well when you lose rather than one-dimensional, win-at-all-costs fanatics.

But even if the straw man of the destructively competitive mindset were entirely accurate, it

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would have nothing to do with competition as it is understood by an economist.

In a competitive—i.e., open—marketplace, it is decidedly not the case that you're nothing if you're not No. 1. Although some businessmen get caught up in the rhetoric of being No. 1, or of beating the competition as in a footrace or football game, in most markets you can make a respectable—even lavish—living as No. 2, No. 6, or No. 17.

In the market that came closest to resembling a monopolistic model for a while—the computer industry, dominated for decades by IBM—several other companies survived, prospered, and even became large by most standards. The latest revolution—personal computers—was pioneered and dominated for a while by upstarts—because access to the market was open. For all its market power, IBM couldn't keep competitors out by law or force.

Values Important to Economic Competition

For all the gamelike rhetoric, economic competition places a premium on the values of cooperation, loyalty, openness to new ideas, and flexibility that critics say are subverted by the destructive kind of competition. In economic competition in an open marketplace, you win by pleasing customers, not by destroying rivals.

In economic competition, success comes to

those who are constructive rather than destructive in their approach. An open marketplace based on truly voluntary exchanges produces untold opportunities for mutually beneficial “win-win” relationships. It is theoretically possible (though perhaps unlikely in practice, given human frailty) for economic competition to produce a situation where there are no losers, where nobody needs to feel inadequate.

Note also that economic competition does not require people to enter the rat-race. If markets are truly open, people are quite free to be laid-back or unconventional, even to drop out of the system or twist the system to fit their particular preferences. Back in the '60s a number of people who claimed to hate capitalism made a pretty good living running head shops or making tie-dyed earth shoes and the like.

The rule for the entrepreneur in a competitive marketplace is: “Find a need and fill it.” Since people are so diverse, their perceived needs are diverse. An open market provides more interstices where people can break away from a stifling corporate lifestyle and do well than does a more controlled economy.

Ironically, an open or competitive economy provides more scope for expression of the values of those who are concerned about the destructive aspects of gotta-be-No.-1 competitiveness than does a controlled economy. It's a shame that a semantic hangup seems to prevent many from understanding this. □

In the May Freeman:

- “Old Banking Myths” by Hans F. Sennholz
- “The Levelers: Libertarian Revolutionaries” by Nick Elliott
- “The Cambodian Experiment in Retrospect”
by Morgan O. Reynolds

Coping with Smoking

by Tibor R. Machan

Various legislative bodies are enacting laws forbidding business proprietors from permitting smoking on their private property—in offices, cinemas, aircraft, stores, and other places. Such policies are touted as a means to combat a harmful habit and to foster public health. But there are serious problems with this approach to the problems of smoking.

Owners of private establishments are being prevented—mostly by city ordinances—from deciding who will be permitted to smoke on their premises. But such government-mandated prohibitions ignore the rights of those who don't mind smoking as well as those who wish to live in a tolerant society. Since smokers now are in the minority, some believe this is the time to descend on them in full force. Their critics are willing to ignore individual rights to freedom of association and private property.

Of course, the issue often is presented in a way that makes it appear that smokers are the ones who violate individual rights. They are said to be assaulting the rest of us with their smoking. But is this really the case? And are the laws really designed to protect the rights of individuals against the intrusions of smokers?

No doubt, smokers can be annoying. Their smoke even may be harmful to those around them. One need not dispute these contentions still to be concerned with their rights.

In most cases, anti-smoking ordinances aren't limited to public places such as municipal

courts. If the government confined itself to protecting the rights of nonsmokers in bona fide public areas, there would be nothing wrong with the current trend in legislation.

Instead of such a limited approach, however, government has embarked upon the full regimentation of people's choices concerning smoking. The government, under the leadership of public health officials, has decided to bully smokers, regardless of whether they violate anyone's rights or merely indulge with the consent of others. This is where government-mandated smoking bans have reached a dangerous phase.

There are many risks that people suffer willingly. And in a society that respects individual rights this has to be accepted. Boxers, football players, nurses, doctors, and many other people expose themselves to risks of harm that come from others' behavior. What is central, however, is that when this exposure is voluntary, in a free society it may not be interfered with. The sovereignty of persons may not be sacrificed even for the sake of their physical health.

Respecting Individual Rights

Individuals' property rights are supposed to be protected by the Fifth Amendment. Not unless property is taken for public use—for the sake of a legitimate state activity—is it properly subject to government seizure. By treating the offices, work spaces, and lobbies of private firms as if they were public property, a grave injustice is done to the owners.

When private property comes under government control, practices may be prohibited simply because those who engage in them are in the minority or waver from preferred government policy. Members of minority groups can easily lose their sphere of autonomy.

There is no need, however, to resort to government intervention to manage the public problems engendered by smoking. There are many cases of annoying and even harmful practices that can be isolated and kept from intruding on others. And they do not involve violating anyone's right to freedom of association and private property.

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no different from the well-respected view that the state shouldn't get on the side of a particular religion or even a scientific theory.

It is important to note that for many people, smoking is not categorically, universally bad. For some people it may be O.K. to smoke, just as it could be O.K. to have a couple of drinks or to run five miles a day. For others, smoking is clearly harmful to their health. In either case, health may not be the highest good for many people. All things considered, even those whose health suffers may wish to smoke. In a free society, people are free to do what is wrong, so long as they don't violate the rights of others.

But, some will cry out, here's the rub: smoking can adversely affect others, and there is reason for those who could be harmed to stay away from smokers.

But this doesn't mean that we should force someone who doesn't mind smoking to stay away from smokers. If I own a restaurant and choose to permit smoking, you have no right to come in and force someone not to smoke. You must deal with me first and I might accommodate you or I might not, depending on my values and choices. In a free society this should be the general policy. If you believe that I subject you to harm that you were not warned of, you can sue me. But this is a private dispute, not a matter for public policy.

Some want no smoking near them and ought to be free to associate with others who do not smoke. They should eat in restaurants, work in businesses, and play in clubs where smoking isn't allowed. Others like to smoke and should be free to join the like-minded to carry on their various activities. And some who don't smoke may not mind others smoking nearby. They, too, should be free to seek the appropriate company in the appropriate settings.

A free, pluralistic society can accommodate all these people. It isn't necessary to appoint the government as the caretaker of our health and the overseer of our interpersonal negotiations concerning how we best get along with each other. Only when there are decisive grounds for deeming an action as violating someone's rights should government enter the picture and prohibit it. □

The smoking issue can be handled quite simply. In my house, shop, or factory, I should be the one who decides whether there will be smoking. This is what it means to respect my individual rights. Just as I may print anything I want on my printing press, or allow anyone to say whatever he or she wants in my lecture hall, so I should be free to decide whether people may smoke in my facilities.

Those displeased by my decision need not come to my facilities to work, play, or whatever. If the concern is great and the opportunity to work in a given place is highly valued, negotiations or contract talks can ensue in behalf of separating smokers from nonsmokers. In many cases all that's needed is to bring the problem to light. Maybe the firm's insurance costs will be high where there is smoking, or maybe a change in policy will come about because customers and workers are gradually leaving.

In some cases it may go so far as to involve tort litigation. Exposing employees to serious dangers that are not part of the job description and of which they were not warned may be actionable. But what the company does initially at least must be its decision. And the onus of proof in these cases must be on those who claim to have suffered unjustified harm. Government legislation and regulation often subvert this carefully conceived process, just because some people are impatient with how others run their own lives and properties.

Consider the somewhat analogous case of freedom of religion. If I own and run a private school, I decide whether students may pray. In state schools, of course, the state decides. And a sound system of government won't get on the side of either the prayers or the non-prayers. Similarly, the state should say nothing about the ultimate benefits or harms of smoking. This is

Economics Has the Answer: What's the Question?

by Edmund A. Opitz

Adam Smith's monumental achievement was to enlarge the individual person's freedom of action in economic affairs, and thus in other sectors of his life as well. Smith's argument had several minor loopholes, but these were plugged by the Austrian School—Carl Menger, Eugen von Böhm-Bawerk—about a century after *The Wealth of Nations*. Today, it is fair to say that Ludwig von Mises and his students have created a genuine science of economics—a systematic exposition of the free market economy—which, as an intellectual structure, is virtually impregnable. Misesian economic science is, so to speak, The Answer. It's the recipe for anyone who wants to know how a society must organize its workplace activities so as to maximize economic well-being for all.

The Question is: How may we achieve the free and prosperous commonwealth? To which The Answer is: Install the free market economy, as taught by Austrian—and some other—economists.

Trouble is, almost no one is asking The Question!

Economic science does not tell John Doe how to make a million dollars on Wall Street, or a killing in real estate, or how to protect his assets. Entrepreneurship is an art, not a science;

profitable investing likewise. Economic science, like every other science, deals with abstract principles and general rules. Economic science sets forth the general rules which members of a particular society must apply in practice if the society is to enjoy maximum productivity and raise the general level of economic well-being. Economic science is a scholarly endeavor which shows what must be done to maximize the wealth of nations.

Economic science has The Answer for anyone who asks how a society may advance from poverty toward affluence. But economic science has no answer for those who ask: How can *I* make a fast and easy buck?

This is the wrong question, so far as economic science is concerned. How can people be persuaded to ask the right question? The question people should ask might be phrased as follows: How can we create the social institutions which provide maximum opportunity for all of us to be more prosperous? Only a sense of moral obligation will generate such a question.

The ordinary, decent, law-abiding citizen in his private dealings with his fellows would not use force or fraud to gain advantage over another. But when force and/or fraud are legalized millions *do* seek some advantage for themselves at the expense of their fellows. When the State allocates resources and redistributes the wealth, it is using its power to deprive producers of what belongs to them, in order to dispense it to

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those who have not earned it. Everyone is forced to pay tribute for the benefit of the wielders of power and their friends. Concerned with their own immediate well-being and looking to the State for handouts, tens of millions of Americans have no interest in working toward an economic order which would assure a rising level of prosperity for everyone—the free market economy.

Austrian economics is The Answer, all right, but it is the answer to a question which only a few are asking. The reason: only a few have an ethical incentive to ask it. Millions are searching for ways to increase their salaries, double their incomes, and enjoy the good life. Only a handful, by comparison, are working with any intensity to advance the free society-market economy way of life.

Economic Fallacies

We have it on the authority of Henry Hazlitt that “Economics is haunted by more fallacies than any other study known to man.” Who can deny it? Any reasonably bright high school student can read *Economics in One Lesson*. Having read the book, he can spot the fallacies in many textbooks of economics, in the speeches of public figures, in the commentaries of television and radio pundits, in sermons and academic lectures, in almost any place he cares to look.

The discipline of economics is not mired in simple ignorance; it is stalled by willful ignorance. Economic fallacies abound because every economic fallacy in practice gives someone an economic or other advantage over someone else. Pocketbook motivations keep economic fallacies alive; slay them in one generation and they return from the dead in the next.

Virtually every economic fallacy that plagues us today has been demolished time and again over the past couple of centuries; but has this work of demolition diminished the number and power of economic fallacies? Hardly; they appear about as numerous and virulent as ever. There are few new economic truths, but new errors proliferate wildly. Demolishing fallacies and exposing errors may be exhilarating for a time, but it is negative work; it is to toil on a treadmill. The positive truths of a market econ-

omy—together with its supporting institutions and ideas—are reached only by taking a different route.

The celebrated classicist, Gilbert Murray, offers some wise words on truth and error: “The great thing to remember is that the mind of man cannot be enlightened permanently by merely teaching him to reject some particular set of superstitions. There is an infinite supply of other superstitions always at hand; and the mind that desires such things—that is, the mind that has not trained itself to the hard discipline of reasonableness and honesty, will, as soon as its devils are cast out, proceed to fill itself with their relations.”

There will always be a need to expose economic error and demolish fallacies, but something more is needed if we wish to advance in the direction of a truly free society; and that something more is the sense of moral obligation which motivates persons to pursue the goals they perceive to be ethically right and good. Economics needs ethics.

Mises points out that economics “is a science of means, not of ends,” and that science, furthermore, is value-free. A science *describes*; but does not *prescribe*. “Science,” Mises goes on to say, “never tells a man how he should act; it merely shows how a man must act if he wants to attain definite ends. . . . Praxeology and economics do not say that men *should* peacefully cooperate within the frame of societal bonds; they merely say that men must act this way *if* they want to make their actions more successful than otherwise.” Moral obligation, a sense of “oughtness,” is not within the purview of science; the sciences, basically, operate in a sector of the universe that is ethically neutral. By the same token, there are no grounds in economic science *per se* for telling anyone that he ought to do this when he prefers to do that.

Although every science is value-free, the universe is not value-free! We live in a rationally and ethically structured universe where some things are morally right and other things are morally wrong; there is genuine good, as well as real evil. Moral obligation, besides being a reality that presses on the sensitive conscience, is a potent incentive to strive to translate the reasoned truths of economic science into a going concern economy.

Economics is the science of human action, and the actions of human beings are intimately implicated with ethical standards and moral obligation. In other words, economic science does not stand alone; it is a “means,” and as a means economics needs to be hooked up with disciplines that deal with ends.

What we have here is an IF—THEN situation. The economist cannot tell us that we ought to prefer a free and prosperous commonwealth; but IF that is what we want, THEN economic science can demonstrate that the market economy is the only means to achieve that end. Economic science can only explain; the economic argument must therefore be joined to an ethical imperative which commands.

Strengthening the Case

Economic reasoning can demonstrate that the free market system is the most efficient way to produce goods and services, rewarding every participant according to his contribution to the productive process—as that contribution is judged by his peers. But the economic case for freedom is strengthened immeasurably when it is bolstered by moral reasoning which demonstrates that the market economy is the only economic order which embodies the ideas of liberty and justice for all. Capitalism is the only eco-

nomie system that does not reward some at the expense of others.

The interventionist state provides cushy jobs for many a predator and parasite, people whose services would not be needed in a truly free economy. Many of these people, once they become dependent on consumer choice, might, to begin with, be worse off economically than before. The pocketbook argument will not persuade them, but the moral argument might.

The value-free science of economics is incomplete; it is only a means, and it is the nature of a means to complete itself by combining with an appropriate end. Value-free economics needs the value-rich discipline of ethics. And it needs something more as well, the related idea of “equal rights” which so inspired our Whig and Classical Liberal forebears. This is the conviction that a portion of the divine is incorporated into the makeup of every man and woman, generating a sacred precinct within, which to invade is to violate. This is the domain of those Creator-endowed rights specified in our Declaration as rights to Life, Liberty, and the Pursuit of Happiness, which governments are instituted to secure. Equal freedom and equal justice under the law follow logically, and provide the legal, cultural, and moral framework which demands the free economy as its natural corollary. □

1988-89 Essay Contest “Why Choose Freedom?”

sponsored by The Foundation for Economic Education

First Prize (\$1500): David Beers, George Mason University, “Social Consciousness and Individual Freedom”

Second Prize (\$1000): Matthew B. Kibbe, George Mason University, “The Unspoken Dialogue of the Market”

Third Prize (\$500): Roderick T. Long, Cornell University, “The Path of Liberty”

Honorable Mention: Matthew E. Schramm, Augustana College (Illinois); Bobby Taylor, University of Tennessee, Knoxville; Ellen Spertus, Massachusetts Institute of Technology; David M. Brown, Mercer County Community College (New Jersey); Darren R. Rice, University of Houston-Clear Lake; Richard Bostan, Simon Fraser University (Burnaby, British Columbia).

Dumping: An Evil or an Opportunity?

by Alex Huemer

In the latter half of the nineteenth century, America's rail barons were engaged in a titanic struggle for control of the nation's commercial rail traffic. Notable in this conflict was the attempt by Cornelius Vanderbilt to drive the Baltimore & Ohio Railroad out of business. Confident of success, Vanderbilt slashed the rates on his New York Central line's cargo fares, knowing Baltimore & Ohio couldn't hope to compete. Soon, however, the flush of victory turned to crimson rage: the head of the B & O railroad, Jim Fisk, had bought most of the cattle in Buffalo and shipped them to New York City for resale, on Central trains, at the ridiculously low fare of \$1.00 per head. The rate war had failed, and Vanderbilt was humiliated.

Over 100 years later, titanic struggles are again taking place. This time, the principal actors are huge multinational corporations, and instead of "rate wars" we observe the heralded consequences of their competition: international dumping.

The act of dumping is defined as "foreign sales below the home price." The term has been used in recent years to describe myriad competitive activities undertaken by international firms, until it has become difficult to identify dumping as an activity apart from fair competition. The European Community Commission

recently accused five Japanese companies of dumping because they were importing low-priced parts from Japan for their typewriter assembly plants in Europe. Meanwhile, Chrysler Corporation has been accusing the Japanese of dumping automobiles in the U.S. market, while deflecting accusations of import dumping themselves by arguing "the core of the [dumping] issue goes to the manufacturer of the cars, not distributors, such as ourselves."

In the press, in political speeches, and in the statements of interested parties, the term "dumping" has become a vague catchword with which to abuse every kind of foreign competition.

This statement was made by Gottfried Haberler in 1933. Abuse of the term "dumping" is not a modern phenomenon, but has resurfaced recently because of the awful images the term evokes: images of protected international monopolies overwhelming domestic markets, forcing Americans out of work and destroying strategic industries. But the images are exaggerated, the truth far less daunting.

Firms finding themselves exceeding their predicted inventories are often obliged to get rid of their excess stock of goods by temporarily selling below the usual retail price. When sold abroad in this fashion, we refer to it as intermittent or sporadic dumping, since sustained dumping of excess inventories cannot be maintained. This type of dumping is usually harmless; most firms can survive a temporary drop in the market price of their good. Moreover, for-

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eign firms faced with excess inventory problems will not simply cut prices abroad, but domestically as well.

Another type of dumping is that performed by foreign monopolies. When faced with increasing returns to scale of production, and unable to increase its profits by raising domestic sales, a firm may still reap greater profits by expanding production for foreign markets. So long as the costs of producing the good are met by foreign demand, the fall in per unit production cost will increase profits in the domestic market.

Therefore, a firm may competitively charge less for its product abroad than at home. However, any fall in cost of production will lead a profit-seeking firm to expand domestic sales as well. To spur demand for its good, the firm will cut the domestic price, and the best dumping price will fall again, but somewhat less. Ultimately, the prices in the two countries must converge, following a process of successive domestic and foreign price cuts. Such dumping cannot be sustained indefinitely.

It is not necessary, therefore, to introduce tariffs or duties to equalize the price of dumped goods at home and abroad—remedies likely to be suggested by those firms operating too inefficiently to compete fairly with the foreign firms. Rather than enjoy the inexpensive product of efficient foreign industry, while we concentrate on developing our own, we are being asked to accept higher prices from aging, uncompetitive industries.

Arguing against dumping as a product of unfair foreign trade practices, many people have pointed out that domestic industries might effectively compete with dumping firms if they could sell goods in unprotected foreign markets, expanding domestic output and reducing costs of production. Unfortunately, in the midst of making this perfectly reasonable argument, many people are inexplicably stricken with an attack of hypocrisy. They reason that if foreign nations are successfully dumping because they are protectionist, our best response is to be protectionist in turn. In a sense, they attack the symptom by aggravating the disease. The results are higher prices, crippled trade, and the persistence of industrial inefficiency.

There is one other type of dumping: that arising

from predatory pricing. It has been suggested that foreign firms dump their goods in an effort to drive their competition out of business, with the object of cartelizing the market in those goods. This is potentially the most damaging, yet least likely form of dumping to occur. In addition to being very costly to maintain, the resultant domination of the market would be exceedingly difficult to exploit. Any attempts to raise the price of the good above the competitive price would encourage other firms to come into the market and force the price down again.

How Should We Respond?

In the meantime, how should we respond to the dumping? For an answer, we need look no further than the example set by Jim Fisk: If foreign firms are prepared to sell us their goods below costs, we should let them. We can improve our standard of living and economic power by consuming their finished goods, and use their intermediate goods to cut our own production costs. Acts of predation can become opportunities for subsidy, if we are wise enough to take advantage of them.

Many people feel that we risk losing a great deal more than markets to foreign competition. It has been argued that we may lose our culture, our national security or even our power over our own government! Any careful consideration of these issues will lead us to reject these fears as groundless. As for companies influencing government policy, *The Economist* remarked recently, "This should more reasonably concern a tiny Pacific island . . . than a nation as large and diverse as the United States." On national security grounds, we must have access to strategic resources; but we needn't own them, and anti-dumping legislation has done much more to deny than to improve that access. Lest we fear for our culture, we should remind ourselves that as a free people, we needn't patronize those industries which do not cater to our tastes, or which offend our ideals. In the end, we need to realize that "ownership is no longer the main source of economic well-being."

What have we gained by criticizing international dumping? The only recent prosecution of a dumping case in our country has resulted in a trade agreement with Japan on the quantity and

price of semiconductors the Japanese may sell us. While U.S. semiconductor producers continue to rail against the Japanese for questionable violations of the agreement, U.S. computer manufacturers are complaining of severe shortages of memory chips and semiconductors, resulting in serious production delays and mark-ups of as much as 400 percent. In Europe, the Japanese are finding it difficult to continue establishing factories, while the Europeans are, as *The Wall Street Journal* observed recently, "on the one hand inviting companies to create employment and improve the trade balance with Japan, and on the other hand restricting use of vital components that are often difficult to procure. . . ."

What Would Happen Today?

If we were to rewrite our story of the rail barons in modern terms, it might go something like this: Cornelius Vanderbilt slashes the rates on his New York Central cargo fares. This time, Jim Fisk complains to Senator "Boss" Tweed in Albany. Securing an injunction against

Vanderbilt, Fisk appeals to the people against "the shameful predatory pricing" of the New York Central Railroad, and justifies the sudden legal barrier to lower rates as "'necessary" for the preservation of jobs, national security, and the sanctity of government institutions. Jim Fisk, no longer the wily entrepreneur, has become a coward and a scoundrel.

We, too, have an image to maintain. Where once Americans might have taken advantage of dumping to reap a tidy profit on finished goods and inexpensive consumption from cheap foreign exports, we now seek protection from them with barriers to fair trade and shrill condemnation of our allies and trading partners. In the name of dumping, we have humiliated ourselves internationally. Worse, in facing our problems we have denied our heritage of freedom and equality for the "opiate" of protectionism. It is time for us to reclaim that heritage, and with it the opportunity of a better future for America. It is time to overcome the "evil" of dumping, that evil which is in ourselves, and reclaim those opportunities which made America great. □

Protecting Whom from What?

by Bjorn Ahlstrom

I have a problem with the word "foreign." Every few years, someone urges us to protect American commerce by erecting trade barriers against "foreign" products. But what does foreign really mean?

Sony televisions are made in San Diego. Harley-Davidson motorcycles are 50 percent made in Japan. Which one is foreign?

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For that matter, what is domestic? Some 335,000 of the "American" cars sold here each year are made in Japan or Korea—more than the number of cars imported by Mazda, Mitsubishi, and Isuzu combined. Chrysler Corp. annually sells in the United States more than 120,000 Chryslers imported from the Far East, representing more than 11 percent of its total sales, while Honda builds more than 320,000 cars here. Which of these are domestic and which foreign?

The Volvo 780 that we sell in the United States has a French engine, a Japanese transmission, an American air conditioner, a German electronic system, Singaporean control valves, a Canadian exhaust system, a Taiwanese power antenna, South Korean electrical components, Swedish axles, and Irish tires. It is designed and assembled in Italy. Is this a Swedish car?

Volvo North America sells the 780. We directly or indirectly (through our dealers) employ 25,000 American citizens—including me. The other cars and trucks we sell are made in Nova Scotia, Virginia, Ohio, Utah, Belgium, and Sweden. Our parent company, AB Volvo, is owned by 162,000 shareholders in 50 countries, quite a few of them in the United States. Is this a foreign company?

I think “international” is a better word. International, just like Ford. Or Coca-Cola. Or IBM.

Companies like these—and there are thousands of us—buy raw materials and components all over the world, wherever the price and the quality are right. We make our products all over the world, wherever it makes the most business sense.

But when we operate across a lot of borders, we all adopt what I call a “home-country” approach. We have to. What this means is that we operate in the United States or France or Australia as if it were our home country.

We cannot just take the Swedish Volvo and sell it, unchanged, in the United States. Americans have different tastes in handling, styling, and other areas. And transportation and component availability change the economics. So the American Volvo is unquestionably a Volvo—but it’s a different car from the Swedish Volvo.

The same thing is true with a Coca-Cola: it tastes one way when it’s bottled in Atlanta, and another way bottled in Stockholm. It’s adapted

to the characteristics of the markets in which it is sold.

That’s what international companies do: in the many places they do business, they act as if they were local businesses, not carpetbaggers from abroad.

Now let’s make this more complicated. AB Volvo is a Swedish company. Our Volvo Penta division makes marine engines in Virginia. Most are sold here, but some are exported, even to Sweden. What’s foreign in this case? Are we dealing with imports or exports?

This is not a minor curiosity. Why is Taiwan’s trade surplus with the United States so large? One-third of the surplus results from American corporations making or buying things in Taiwan and shipping them back to the United States—at a profit. The same thing is true of Singapore, South Korea, and Mexico: their trade surpluses are heavily dependent on American/international corporations that have based themselves there.

What’s the point? After the Great Crash of 1929, our country erected huge trade barriers—and helped to launch the Great Depression. Back then, it was easy to tell the difference between “us” and “them” and to pass a law that penalized “them” (even if the law turned out to be a disaster).

Today, “us” is “them.” Except for quite small businesses, there’s no such thing as a domestic or foreign company. We’re all international. And that means we’re all American.

So, when you talk about trade barriers, remember this: You cannot write a trade-restriction law that will not cost American jobs. Or one that will not raise what we pay for American-made products. Or one that will not reduce the value of American savings invested in American and international securities.

The way the world works now, if anyone imposes trade barriers, everyone loses. □

The Key to Progress

In the highly complex, interwoven world marketplace of today, it is pointless to think of national economies as independent entities. Like it or not, modern industrial nations have become intertwined and interdependent economically, and the result is rising prosperity. Vigorous international commerce is the key to progress.

—RICHARD LESHER

The International Monetary Fund

by Ken S. Ewert

It was on July 1, 1944, just three weeks after the Allies had landed in Normandy, that the most significant intergovernmental conference of the century began. The conference took place at Bretton Woods, New Hampshire, and it represented, in the main, the thinking of two individuals, Harry Dexter White and John Maynard Keynes. Both of these men had grave doubts about the beneficence of market processes and preferred to put their faith in the ability of national and international “managers” to coordinate the world’s economic affairs. And in 1944 White and Keynes were not alone in their views. As some 45 countries met to plan out the “new economic order,” there was consensus on the necessity for increased economic coordination and a general view that the international gold standard was undesirable because of the restraints it placed on a nation’s ability to pursue the “full employment” policies prescribed by the *nouveau* Keynesian wisdom.¹

Two of the organizations formed at Bretton Woods have become increasingly more important in the world’s economic affairs. These are the International Monetary Fund (IMF) and the International Bank for Reconstruction and Development (World Bank). Of these two institutions, the World Bank has evoked considerable criticism over the years for its policy of lending primarily to governments instead of to private, profit-seeking organizations. A strong case can

be made that the policies of the World Bank have supported world-wide statist economic policies, and discouraged the expansion of the free market. The IMF, however, has generally been more acceptable to defenders of the market, since its operations do not so clearly subsidize anti-free market policies. However, as a closer look shows, the IMF has also been a major influence for statist economic policies.

The IMF was established “to promote international monetary cooperation” by maintaining fixed exchange rates among the currencies of different nations.² To accomplish this, the Fund was to make short-term loans to nations which had temporary balance of payments deficits (i.e., the net imports of the country exceeded its net exports). The short-term loans (usually three to five years) would presumably allow a nation to recover from its imbalance without having to resort to devaluing its currency.

IMF loans were, and are today, made according to the “quota” of each member nation. The quotas consist of the capital each country has paid in, usually 25 percent in gold and the rest in the member nation’s currency. A member nation can exchange a portion of its quota to buy another nation’s currency (usually dollars, German marks, or Japanese yen). These funds in turn can be used to support the borrowing country’s currency on exchange markets or to pay off creditors while it (supposedly) gets its economic house in order.

While the capital for these loans is officially provided by all member nations, in reality it is

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the industrialized "hard currency" countries who provide the lion's share. At Bretton Woods, nearly every weak currency nation sought to increase its "quota" so that it could "buy" more currencies of real value. The same is true today as many debtor governments favor large increases in quotas while industrialized nations seek more moderate increases. The quota system amounts to an agreement of hard-currency countries to lend funds to the soft-currency countries, and it ultimately represents a net transfer of funds from citizens of industrialized countries to the debtor-nation governments (since the loaned funds are continuously rolled over or re-loaned, and not repaid to the donor country).³

Subject to special Fund approval, a member nation can also borrow amounts well beyond its quota. The size and number of these loans (called "standby agreements") have increased over the years, and they usually include specific economic conditions which the debtor nation must observe. The standby agreements usually are repaid over a period of three to five years. In addition to this regular financing, the IMF has greatly expanded its role by establishing several "special facilities" which give the Fund more discretion in lending and allow longer-term loans and larger subsidies for less developed countries (LDCs) which are the principal users of Fund resources.⁴

The Fund's credit-dispensing ability was further expanded in 1970 with the creation of "Special Drawing Rights" (SDRs). While dubbed "paper gold," the SDRs are actually fiat money, i.e., only bookkeeping entries in the Fund's books. They are allocated to countries according to their quotas, and they are used by member nations in their transactions with each other and as reserve assets. The SDR is the fulfillment of what John Maynard Keynes had envisioned in the early 1940s. Keynes proposed a world reserve currency called the "bancor" which supposedly would free all governments from the disciplines of gold. Like the proposed bancor, the SDRs are designed to replace gold in world monetary transactions and to further free member governments to inflate their currencies.

Initially the IMF's primary role was to foster the fixed exchange system.⁵ But the Fund had

little success at this, since the inflation* in many countries made devaluation of their currencies inevitable.⁶ Even the widespread use of IMF credits couldn't sustain the value of debased currencies for long. By the time the fixed exchange system collapsed on August 15, 1971, the IMF had sanctioned more than 200 devaluations.⁷

Not only was the IMF powerless to stop the devaluations, its funding may well have been a net negative force since it restrained and slowed what would have been the normal market corrections of international exchange rates.⁸

When the fixed rate system finally collapsed (as the U.S. abandoned the gold-exchange standard) there were many people who speculated that the IMF would slowly fade into oblivion, since its primary role—maintenance of fixed rates—was eliminated. Such was not to be the case however, and the IMF has survived and even substantially expanded its role in the subsequent years.

When the IMF no longer had fixed exchange rates to justify its existence, it turned to lending for "temporary" balance of payments deficits as its primary function in the 1970s.⁹ Between 1970 and 1975 the volume of the Fund's lending more than doubled in real terms, and from 1975 to 1982 it increased by a further 58 percent.¹⁰

Balance of Payments Deficits

For the most part, the balance-of-payment lending by the IMF seems to assume that a country's imbalance of payments is caused by factors other than its own economic policies. Examples of externally caused temporary trade imbalances (supposedly proving the necessity of the Fund's role) might be a poor year for a country's major export crop, or a sharp rise in the price of a principal import (such as oil). While national trade imbalances are sometimes caused by such factors, most often the culprit is not some twist of fate but rather the economic policies of the debtor nation's government.

Governments the world over find it expedient to spend more than their citizens are willing to

* The word "inflation" is used here to denote the expansion of the money and credit supply of a nation, not the most noticeable result of that monetary expansion, which is rising prices.

provide in tax revenues. The additional spending is often financed by increasing the quantity of money and credit, which results in rising domestic prices. Faced with rising prices at home, the country's citizens will tend to buy more goods and services from abroad, since they have become relatively cheaper. At the same time, exports from the inflating country will tend to become less attractive to foreign buyers because of their increased cost. The end result is a balance of payments deficit.

This deficit would tend to correct itself if exchange rates were left unmanipulated by the inflating country's central bank. The value of the inflated currency would tend to drop in relation to foreign currencies, and this in turn would discourage imports and encourage exports. But what often happens is that the inflating country's central bank intervenes in foreign exchange markets to prevent the value of its currency from falling to (or closer to) its market level. It can do so, however, only as long as it has access to foreign currency reserves with which it can intervene to purchase its own currency.

The Results of IMF Rescues

Often when a country has depleted its reserves, the IMF enters and offers loans which enable the inflating government to continue its folly by providing it with the funds to negate (temporarily) some of the consequences of the inflation. According to Henry Hazlitt: "If nations with 'balance-of-payments' problems did not have a quasi-charitable world government institution to fall back on and were obliged to resort to prudently managed private banks, domestic or foreign, to bail them out, they would be forced to make drastic reforms in their policies to obtain such loans. As it is, the IMF, in effect, encourages them to continue their socialist and inflationist course."¹¹ The IMF thus facilitates inflationary policies (euphemistically called "full-employment policies") in member nations by being a "safety net"—it is always there to bail out its profligate members with fresh funds.

There is no doubt that by rescuing LDC governments, the IMF has helped make possible the massive monetary inflation which has oc-

curred and is still occurring in many of these countries. Even more important, it has allowed governments the world over to expropriate the wealth of their citizens more efficiently (through the hidden tax of inflation) while at the same time aggrandizing their own power. There is little doubt that the IMF is an influence for world-wide socialism.

Although IMF loans have been primarily short term and for the stated purpose of rectifying temporary balance of payments deficits, the Fund has been a *de facto* supplier of long-term financing to many LDCs.¹² A long-term loan is no different from a number of short-term loans strung together, and many of the IMF's member nations have a long record of back-to-back loans.¹³ Between 1954 and 1984, 24 member nations used Fund credit for 11 continuous years or longer; it seems that the majority of countries which begin using IMF funds continue to do so.¹⁴

Without question, IMF lending has had a sizable impact on the long-term economic policies of some LDC governments, and it thus deserves some of the blame for the triple-digit inflation, price controls, oppressive taxation, stifling regulations, and general disregard for private property rights which are common to many of these countries. There is, of course, no way to know what political and economic changes for the better would have occurred in the absence of IMF bailouts, but as *The Economist* notes, the Fund often "stands as the last defense between a mismanaged economy and outright financial collapse."¹⁵ Such a collapse, if it brings an end to statist policies, might well usher in increased economic freedom for millions of people.

Subsidizing LDC Governments

It might be objected that Fund lending merely takes the place of what otherwise would be private lending to LDC governments. And if this were the case, the IMF could not be held responsible for the policies that these loans made possible. However, the IMF often lends to financial "basket-case" countries which have little hope of obtaining private loans without IMF help. More important, almost all IMF loans are not market-rate loans, but are subsidized,

sometimes heavily.¹⁶ Given the basic economic axiom that more of an economic good will be consumed if its cost is lowered, the subsidized loans made by the IMF have encouraged LDC indebtedness and, since such loans are made to governments and not private individuals, increased the politicization of these societies.

Member nations can borrow from ordinary (non-facility) Fund resources at well below market rates. For example, from May 1982 through April 1984, the annual charge for use of these Fund resources was 6.6 percent. During this same period, interest rates paid by LDCs to commercial lenders were between 11 and 13 percent (often plus additional charges).¹⁷

The bulk of member borrowing, however, is done through Fund "facilities." As of 1984, more than one-third of these loans were financed by Fund borrowings from industrialized governments (rather than from quota contributions). Since the Fund can borrow at substantially lower interest rates than those available to the poor-risk LDC, it implicitly subsidized the borrowing country by passing on this lower rate. Moreover, some of the facilities are even more explicitly subsidized. The oil facility, for example, includes a "grant" factor of some thirty percent.¹⁸

With the increasing debt burden of many LDCs and the ensuing "international debt crisis," the IMF has garnered even more power and resources. In 1983 the Fund's resources were increased from 61 billion SDRs to 90 billion SDRs, and a number of new lending programs subsequently have been initiated.¹⁹

In addition to expanding its role as a lender, since the early 1980s the Fund has become the central player in "managing" the debt restructuring packages among debtor nations and their creditors. The IMF coordinates rescheduling packages in which commercial banks, governments of industrialized nations, and international agencies agree to supply new loans and reschedule old loans on the basis that the debtor nation promises to abide by IMF conditions.

The fact that the IMF loans are "conditionality agreements," which require the debtor nations to adhere to (or at least work toward) specific IMF-mandated policies, is pointed to by some Fund supporters as a crucial function

served by the Fund, and one which justifies its existence. The Fund is supposedly needed to impose some sort of economic discipline on nations which seem unable to impose it on themselves.

However, the conditions imposed by the Fund are seldom free-market oriented. The Fund concentrates on "macro-policies," such as fiscal and monetary policies or exchange rates, and pays little attention to fundamental issues like private property rights and freedom of enterprise.²⁰ Implicit in the Fund's stated policy of "neutrality" with regard to national political decisions is a belief that with proper "macro-management" any economic system is viable, whether it be socialist or capitalist. Because the Fund does not advocate the true prerequisite for economic prosperity—a lawfully constrained government which respects private property—its record as an economic manager is rather poor. There is every reason to believe that in the absence of the IMF, private lenders would require conditions (in return for further loans) which would be at least as effective in promoting economic health for the LDC.²¹

Until recently the IMF conditions routinely required "austerity measures" in the debtor nation. These measures often included reduced budget deficits, slower money creation, and more realistic exchange rates. These conditions have invoked widespread protests both from within the "Third World" and from the universities, think tanks, and charities of the industrialized countries. Austerity measures are attacked by liberal critics as being overly harsh, politically unfeasible, and particularly harmful for the poor who depend upon government programs in the affected LDCs.

In response to this criticism, the IMF's newest director, Michael Camdessus, has indicated that the IMF in the future will be less stringent with the debtor nations and place more emphasis on "growth." According to Camdessus, the IMF must take care to "respect a member government's judgment of priorities and of domestic political constraints." Reflecting the same tone, at the annual meeting in September 1987, the IMF interim committee proposed that the "conditionality" of Fund loans should be reviewed in light of the "increased emphasis being placed on growth-oriented adjustment."

In addition to more lenient conditions, Camdessus, with the support of U.S. Treasury Secretary James Baker, advocated more funding (from industrialized countries) for the IMF over the next few years to enable the debtors to "grow" their way out of debt.²²

The IMF role in the current crisis has not necessarily been beneficial and might well prove, in hindsight, to have worsened the debt situation. As IMF historian Margaret Garritsen de Vries notes, IMF involvement has prompted "net new lending from commercial banks on a much larger scale than had been thought possible in mid-1982."²³ Presumably the commercial lenders have been willing to extend new funds for one of two reasons: either they believe the IMF will "straighten out" the debtor nation's economy, or they believe that the IMF's involvement in the rescheduling process is an implicit guarantee of these loans. Congressman Henry B. Gonzalez, among others, believes the latter is true, and has called the IMF an "international FDIC for banks."²⁴

Whatever reason for increased lending, if, as seems likely, the LDC debtor nations fail to "grow" out of their present predicament, the IMF deserves much of the blame for the future losses and financial havoc which will result.

There are indications that the Fund may be currently evolving beyond its debt management role. It is clear from recent statements by Fund Director Camdessus that the IMF desires a more central role in international economic policy coordination and management of exchange rates. In fact, in recent years the IMF's annual meeting has increasingly come to serve as a focal point for the major industrialized countries' finance ministers and heads of central banks to meet and discuss economic coordination.

However, until now the U.S. has sat "in the driver's seat" so to speak, because of the premier position enjoyed by the dollar among world currencies. The IMF, supported by several industrialized countries, advocates replacing the current American pre-eminence in the global economic management process with the international oversight provided by the Fund. In order to achieve this, Director Camdessus advocates that the dollar be replaced as the world's reserve currency by the IMF-issued SDRs.

Conclusion

The IMF is seen by many within government (as well as banking and academic) circles as "the world's master economic trouble-shooter," and there is a growing call for an increased role for the Fund in world monetary and economic affairs.²⁵ More than 40 years after the Bretton Woods Conference, the same call continues to be echoed: "We need more international economic coordination."

Yet the faith that governments around the world are ever willing to place in a supranational organization like the IMF seems ill-founded. After all, the IMF has failed to achieve its original goal of maintaining fixed exchange rates, it has failed to attain its subsequent goal of improving the balance of payments problems of LDCs, and it is currently failing to solve the world debt crisis. Moreover, its "successes" also are open to serious question. It has financed statist policies in LDCs, it has transferred billions of dollars from citizens of industrialized nations to Third World regimes—some of them despotic—and it has facilitated worldwide inflation.

Why, then, the widespread support for the IMF?²⁶ The reason is more straightforward than many of us would like to believe. When governments speak of the need for "increased economic coordination," what they mean is that governments around the world want to better synchronize their inflationary monetary policies. Inflation is politically expedient for every government in our age. It temporarily stimulates economic activity and in so doing buys considerable political favor. Only later when the unpleasant effects appear—rising prices, economic dis-coordination, consumed capital, and unemployment—does the inflation become a political liability. The illusive goal pursued by governments around the world is to reap the political benefits of inflation without paying its subsequent costs.

The IMF is seen as a means to achieve this goal of simultaneous world monetary expansion. As Hans F. Sennholz observes, the IMF represents the "spurious notion that the policy of inflation can be made to last indefinitely through cooperation of all member governments. It acts like a governmental cooperative

with 146 members that tries to coordinate the inflationary policies of its members."²⁷ It is this vain pursuit that has sustained and nurtured the IMF throughout its history. □

1. The Treasury Secretary at the time, Henry Morgenthau, declared: "It has been proved . . . that people in the international banking business cannot run successfully foreign exchange markets. It is up to the Governments to do it. We propose to do this if and when the legislative bodies approve Bretton Woods." Cited in Henry Hazlitt, *From Bretton Woods to World Inflation: A Study of Causes and Consequences* (Chicago: Regnery Gateway, 1984), p. 88.

2. Article I of the original "Articles of Agreement," cited in Margaret Garritsen de Vries, *The IMF in a Changing World: 1945-1985* (Washington: The International Monetary Fund, 1986), p. 14.

3. According to Henry Hazlitt: "The guiding idea of the conference, even at its opening, was that the value of the weak currencies should be maintained by the countries with strong currencies agreeing to buy them at a fixed rate, regardless of their market value." See Hazlitt, p. 46.

4. These "special facilities" include: 1) The General Arrangements to Borrow which coordinates the lending of ten major industrial countries to wayward debtor countries in order "to forestall or cope with an impairment of the international monetary system." 2) The Compensatory Financing Facility which allows short-term, non-conditional loans to countries suffering from a temporary major decline in primary exports. 3) The Oil Facility and Subsidy which was established in response to the sharp increase in oil prices and allows minimal-condition loans beyond normal drawing rights. 4) The Extended Fund Facility which was established in 1974 to allow longer-term financing (over 8 to 10 years instead of the previous 3 to 5 year terms for repayment). With this special facility, the Fund has officially moved into the medium to long-term financing traditionally done by the World Bank. 5) The Supplementary Financing Facility, which was financed by Fund borrowing from industrialized country governments, further aided countries which had large payments deficits and did not qualify for regular IMF financing. See Richard Goode, *Economic Assistance to Developing Countries Through the IMF* (Washington: The Brookings Institution, 1985), pp. 5-10.

5. More accurately, a system of "adjustable peg" rates. It was recognized that occasionally "fundamental disequilibria" would occur in a nation's balance of payments which would necessitate adjustments in the value of the currency.

6. "Currency depreciation can always be avoided through a sufficiently restrictive, usually disinflationary, monetary policy. Exchange crises are—from a technical point of view—always the fault of the country's own monetary authorities." Roland Vaubel, "The Moral Hazard of IMF Lending," in Allan H. Meltzer, ed., *International Lending and the IMF: A Conference in Memory of Wilson E. Schmidt* (Washington: The Heritage Foundation, 1983) pp. 69-70.

7. Hans F. Sennholz, *Age of Inflation* (Belmont, Mass.: Western Islands, 1979), p. 138.

8. Without IMF assistance, "the countries with the most inflation would have suffered the consequences of their currency debasements much earlier and would have had to retrench much sooner." Sennholz, p. 138.

9. As *The Economist* wrote on January 17, 1976, "the IMF did its best to resist the change to floating. Now that it has had to be accepted, why is the IMF still bent on credit creation?" (cited in Vaubel, p. 70).

10. Vaubel, p. 66.

11. Hazlitt, p. 14. Even if the balance of payments problem were due to a "temporary" shock such as a sharp increase in the cost of oil imports, there is no reason to believe that postponing the necessary adjustment by borrowing will be beneficial to the country. Even if such "adjustment smoothing" was advantageous, the country hit by the disturbance could borrow in the international capital markets.

This would lead to a better utilization of resources because the borrower would pay the full cost, instead of using subsidized IMF funds. The borrower "would have to borrow at the opportunity cost of lending in the rest of the world." (Vaubel, p. 71).

12. In recent years, the IMF has been increasingly lending for longer periods, often ten years.

13. "The IMF appears to have created a class of permanent bad-credit nations that have grown accustomed to its emergency assistance." Fred L. Smith, Jr., "The Politics of IMF Lending," *Cato Journal*, Vol. 4, No. 1 (Spring/Summer 1984), p. 222.

14. Goode, pp. 19-20.

15. "Poor Man's Fund," *The Economist*, February 13, 1988, p. 14.

16. Vaubel, p. 66.

17. Goode, pp. 15-16.

18. Goode, p. 18.

19. The Structural Adjustment Facility (SAF) was established in 1986 in order to aid the poorest African, Asian, and Pacific countries. It allows the borrower a five-year grace period after which repayments begin and continue for another five-year period. IMF Director Camdessus is seeking an expansion of SAF from its current three billion SDR to 11 billion SDR. In the fall of 1987, Treasury Secretary James Baker proposed yet another IMF facility called the External Contingency Facility which would provide further aid to help sovereign debtor and creditor countries. (Anthony Rowley, "All Friends Again: IMF-World Bank Meeting Produces Harmony, If No Answers," *Far Eastern Economic Review*, October 15, 1987, pp. 67-70).

20. "Does it make any difference whether budgets are balanced by cutting spending or raising taxes?" I [Tom Bethell] asked the IMF information officer.

"That's a national political decision," he said. "How the government does it is its own affair."

I raised the problem of very high tax rates in many Third World countries.

"What is too high?" he asked.

"What about property rights?" I further inquired. "Do you insist that they be respected?"

"No," he said. (Tom Bethell, "Loony Lending," *National Review*, October 14, 1983, p. 1260).

21. The lenders could, in the absence of the IMF, form a type of consortium arrangement for dealing with their problem debtors. Moreover, IMF programs have not been very successful in curing these sick debtors. A former executive director of the Fund, Jahangir Amuzegar, admits "... it is disturbing that, despite its valiant rescue efforts across the Third World, the IMF is hard pressed to show more than a few clearly viable programs out of the roughly three dozen under its wing." (Jahangir Amuzegar, "The IMF Under Fire," *Foreign Policy*, Fall 1986, p. 114) Another author notes that "According to an analysis performed by T. R. Reichman, an economist in the Fund's powerful Trade and Exchange Relations Department, 21 stabilization programs initiated after Oil Shock I had only about a 33 percent success rate." Michael Moffitt, *The World's Money: International Banking from Bretton Woods to the Brink of Insolvency* (New York: Simon and Schuster, 1983), p. 130.

22. Rowley, p. 70. IMF Director Camdessus is presently calling for a further doubling of the Fund's capital.

23. de Vries, p. 189.

24. Smith, p. 218.

25. Amuzegar, p. 98.

26. There is also, happily, growing opposition to the IMF. The debate over increased funding in 1983 prompted a powerful coalition of Left/Right IMF opponents including Ralph Nader and Howard Phillips. It was only the about-face switch of the Reagan administration, which had been very critical of the IMF until the fall of 1982, that assured passage of the funding increase. Treasury Secretary Donald Regan was quoted in the *Financial Times* as saying, "I lobbied 400 out of 435 congressmen before that vote." (Smith, p. 238).

27. Hans F. Sennholz, "The World Debt Crisis," *The Freeman*, February 1983, p. 79.

State Funding Threatens Community Groups

by Robert J. Schimenz

Your local Little League may be on the dole. And it is not alone. Other youth baseball, football, and soccer leagues, police athletic clubs, senior citizen groups, and similar community-based volunteer organizations are on the receiving end of “member items”—state budget items in which elected officials are allotted funds to dole out to community organizations in their districts.

Community groups tend to have tight budgets, and their leaders are usually very frugal with their organizations’ funds. The appeal of the state offering thousands of dollars, for the completion of a few simple forms, has been too much for most groups to resist.

If you question the legitimacy of state funding, you will likely hear one of two answers. The first response, typically from an organization member who senses something is askew, is that the money has already been allotted, and some group is going to get it anyway.

This response ignores the long-term consequences of state funding. The ease of collecting funds by using the state as a governmental United Way will lead to an increased demand for state support. This increased demand will put upward pressure on state budgets, translating into higher taxes. In the long run, we all pay.

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The second response, generally heard from legislators, is that the state is always spending tax dollars on “bad” or “poor” people and it is only fair that we give some money to “good” middle class people and their activities. But because the bulk of the tax burden rests on the shoulders of the middle class, where is the gain? And because there is the cost of an added bureaucracy to collect and distribute the funds, the community suffers a net loss.

Forcing the general public to collectively support community organizations, no matter how worthy they may be, does long-term economic harm. Taxpayers are hurt by having less money to spend, and community organizations are hurt because they ultimately become dependent upon the state, where decisions are based on politics, not on merit.

The worth of community organizations is not at issue here. Worth is based on value and need. If people believe an organization is worthwhile, they will voluntarily donate their time or money. Businessmen will donate voluntarily, with an eye on their company’s reputation. This is especially true for youth sports groups, where local businessmen often act as sponsors.

But with state funding, the worth of an organization is decided by political processes, not by individual choices. More than our money, state funding takes away our freedom of choice. □

The Dam Builders

by Cecil Kuhne

The federal government has built, and operates, hundreds of dams across the United States. Entire river systems have been dammed. The Tennessee River has more miles of reservoir shore line than surrounds all five Great Lakes. Of the 2,446 miles of the Missouri River, only 149 miles still flow freely, while the remainder of the river has been tamed by dams. The Colorado River basin has been impounded to such an extent that, with vast portions of its flow diverted, little water reaches its outlet in the Gulf of California. The Columbia has been reduced to a succession of reservoirs, with little or no moving water in between.

Dams are constructed by several Federal agencies. The U.S. Army Corps of Engineers is currently working on over 300 dam projects. In the West, most dam construction is carried out by the Bureau of Reclamation. The Bureau, established at the turn of the century, has had its powers expanded over the years from that of irrigation to the point where it now operates some of the largest dam systems in the country. The Tennessee Valley Authority, a major political force in the Southeast, has built some 50 dams throughout the river's basin.

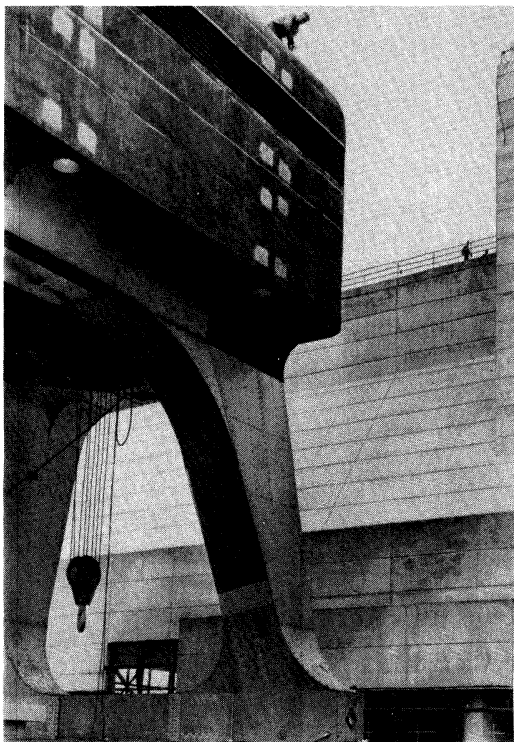
In his book, *A River No More*, Philip L. Fradkin explains the vested interests that support Federal dam building: "The power and the glory, not to mention money, center around water and the means to convey it. Woe to any president who tries to cut back this system. . . . It represents billions of dollars of water projects

and a political system to procure them that has yet to be successfully thwarted."

Federal dam builders often claim that dams are needed for flood control. But this often begs the question: a dam is built so that industry and development can move in, making another dam necessary to protect the development encouraged by the first dam, and so forth. In *The River Killers*, Martin Heuvelmans explains how the Corps of Engineers perpetuates its own needs in flood control: "When an area is drained or a dam is built, 'new' land is created, and it is soon crowded with people. These people demand greater protection from the very thing the Corps sought to alleviate. More pretentious projects are started which, in turn, attract more people. The cycle continues and grows more calamitous with each move."

The Cossatot River in western Arkansas is a case in point. The Gilham Dam was justified largely on the basis of the flood damage it would prevent. Yet the 49 square miles of flood plain below the dam had almost nothing to protect: a few barns, a summer shack or two, a handful of gravel roads, and a pasture with several hundred head of cattle. There had never been a recorded flood death on the Cossatot. But the dam prevailed, even though it would have been much cheaper simply to purchase the entire flood plain.

The use of dams for flood control is rarely justifiable from an economic standpoint, since dams are enormously expensive. Under a free market system, such dams would rarely be built because the land to be protected against flooding is usually not worth the cost of the dam. A



Cherokee Dam, Tennessee Valley Authority

“In short, private enterprise—that is, voluntary cooperation among free persons—would neither build the pyramids in Egypt nor TVA in Tennessee.”

—Dean Russell, The TVA Idea

more rational approach is for landowners to purchase private insurance to protect themselves from natural hazards such as floods, or to refrain from developing land in an area prone to flooding.

The need for hydroelectricity is also used to justify dams—even though an area may not be willing to purchase the power. The Alaska Power Authority, for example, proposed hydroelectric dams on the Susitna and several other rivers, despite the fact that it didn’t have contracts with the local utility companies. The reason there were no contracts was simple: it was cheaper to generate electricity by burning oil or gas. However, since the federal government

provides private developers of hydroelectric dams not only with cash subsidies but guaranteed markets (whether or not the power is actually used), hydroelectric dams have a way of being built. And it’s no coincidence that in the past 20 years, the demand for electricity has been nowhere near the levels projected by the dam proponents.

Electric power is obviously important to a developing region, but the question which should be asked is whether the electricity will be purchased at rates sufficient to pay for the dam. Only a free market can determine that issue in a fair manner. Hydroelectric dams should be constructed by utility companies, or by private developers planning to sell the electricity to utilities, who are willing to pay the huge sums necessary in the hopes of making a profit—with no assurances from the government that it will provide a market for the power generated. As things stand now, the government has no incentive not to build inefficient hydroelectric projects, since the eventual losses will be borne by the taxpayers as a whole.

Federal dam builders also cite the need for irrigation. But Federal irrigation projects often amount to enormous agricultural subsidies—water that may have cost the government \$70 to \$100 per acre foot to develop is sometimes sold to the farmer for as little as \$3 to \$4 per acre foot. Furthermore, these water projects themselves often destroy farmland—it is sometimes suggested that the Bureau of Reclamation has dug up and drowned more farmland than it has ever irrigated.

The decision of whether to build a dam for irrigation purposes is made simple by a free market approach. If farmers are willing to pay the price of the water necessary to recoup the costs of the dam, then the dam should be built; if not, the dam should stay on the drawing board. Let private investors decide.

In a free market, no dam would be built without the consent of all the property owners involved, and without investors being convinced that it will show a profit. Isn’t that how it should be? □

Tom Paine's Revolution

by J. Brian Phillips

Advocates of freedom often despair at the political inertia that must be overcome to achieve their goals. At times, it seems as if the freedom movement is progressing too slowly to reverse current political trends. In this regard, the American Revolution provides an important lesson.

Even after the Revolutionary War had begun, most Americans, including many colonial leaders, favored reconciliation with England. Most Americans still considered themselves to be loyal British subjects, and were willing to continue to do so, if only the King would correct his most grievous transgressions. In early 1776—more than eight months after the Battle of Lexington—colonists suddenly began to support the idea of American independence. This dramatic change can be largely attributed to the work of one man: Thomas Paine.

Paine was an undistinguished Englishman when he arrived in Philadelphia in November 1774 armed with several letters of introduction from Benjamin Franklin. Aided by Franklin's letters, Paine quickly found work as an editor and chief writer for *Pennsylvania Magazine*. Sharing Franklin's interest in science, Paine wrote about the newest inventions of the day, as well as political issues, but he remained relatively obscure.

However, in January 1776 that began to change, when Paine anonymously published a pamphlet titled *Common Sense*. While the ideas expressed in the pamphlet weren't new, the approach and comprehensive treatment were.

"[G]overnment," Paine wrote, "even in its best state is but a necessary evil; in its worst

state an intolerable one."¹ The purpose of government, he held, is to insure the security of the citizenry by protecting their rights. The central issue of the war, he believed, was over what form America's government should take. He went on to write: "I draw my idea of the form of government from a principle in nature . . . that the more simple a thing is, the less liable it is to be disordered, and the easier repaired when disordered." (p. 68)

To those who urged reconciliation because England was the "parent country," Paine replied, "Even brutes do not devour their young, nor savages make war upon their families." (p. 84) Then Paine became one of the first to publicly proclaim, "The authority of Great Britain over this continent, is a form of government, which sooner or later must have an end." (p. 87)

Loyalists reacted quickly to *Common Sense*, declaring the pamphlet's author to be ignorant of modern history and thought. Some said that Negro slaves, and Quakers and other pacifists wouldn't support the war effort. Charles Inglis argued that Paine's conception of man's inherent goodness was as flawed as the Hobbesian view that only force and violence could induce men to live under a government.

Much as the Loyalists despised Paine, many supporters of the Revolution held him in higher contempt. Indeed, John Adams would later call him "that insolent blasphemer of things sacred and transcendent libeler of all that is good. . . ."²

Wealthy colonists feared that Paine's ideas were too democratic, that he would advocate forcible redistribution of wealth. Paine, how-

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Thomas Paine

Thomas Paine was born in Norfolk, England, in 1737. During his lifetime, he was a sailor, teacher, exciseman, and inventor, as well as the premier propagandist for republican government in England, France, and what would become America. His pamphlets *Common Sense* and the series *The Crisis* united idealists with those interested in the economic advancement of the country, and gave great support to the morale of the common soldier in "the times that try men's souls." He died in 1809, almost forgotten, but eulogized by Thomas Jefferson as one who did as much as any man "to advance the original sentiments of democracy."

ever, never advocated such a policy, and was an ardent supporter of free trade.

Despite these criticisms, *Common Sense* had an unprecedented influence on the minds of the American people. Paine estimated that 150,000 copies were sold in the first year; other estimates went as high as 500,000 copies. With fewer than 3 million people in the colonies at the time, either figure is astounding. Nearly every adult read the pamphlet, and less than seven months after its publication independence was declared. Significantly, Thomas Jefferson consulted Paine while he was drafting the Declaration of Independence.

Paine, of course, wasn't the only writer to exert influence on colonial Americans. However, what he accomplished provides an important lesson for modern advocates of liberty.

The parallels between Revolutionary America and modern America are striking. Most Americans today complain about high taxes, government interference in their personal affairs, welfare fraud, inflation, and other mani-

festations of overextended government. Opinion polls show that most Americans favor less government, at least in theory. When questioned about specific programs and policies, however, Americans favor the continuation of the status quo.

Just as colonial Americans were willing to reconcile with a despotic King, modern Americans are willing to tolerate a despotic Congress. As Jefferson wrote in the Declaration of Independence: "all experience has shown that mankind are more disposed to suffer, while evils are sufferable, than to right themselves by abolishing the forms to which they are accustomed." It wasn't greater tyranny on the part of the King that led colonial Americans to embrace freedom, but an awareness of just how terrible conditions actually were. Modern patriots can achieve similar results, but only if we remain confident that our goals are attainable.

I hasten to add that we cannot expect laissez-faire capitalism to emerge shortly after the publication of a modern version of *Common Sense*. Statism, and its ethical roots, are too deeply ingrained for that to occur. However, if we are more cognizant of the history of freedom, then our struggle is far more tolerable. And more significantly, the length of that struggle may be shortened.

Philosophically, the American Revolution was a product of the Enlightenment. More than any other writer of his time, Thomas Paine made the ideas of the Enlightenment—individual rights and economic freedom—accessible to the public. These ideas remain a part of the American culture, if only implicitly. The emergence of the entrepreneur as a modern hero is evidence of this, as is a greater willingness to consider private alternatives to functions traditionally performed by government.

More than 200 years ago, one man—Thomas Paine—provided the key that unlocked the door to freedom. When our cause seems hopeless, we should remember this, for the knowledge that success is possible is the fuel that will propel us to our ultimate goal: freedom in our time. □

1. Thomas Paine, *Common Sense* (New York: Penguin Books, 1985), p. 65. Subsequent quotations are from the same edition, with page references given in parentheses.

2. John Adams, *The John Adams Papers* (New York: Dodd, Mead & Co., 1965), p. 86.

Faith and Freedom

by John Chamberlain

Ben Hart, the son of Dartmouth's Professor Jeffrey Hart, is one of those editors who got their training on the off-campus *Dartmouth Review*, a conservative publication that has turned out more good newspapermen in recent years than any of our graduate schools of journalism. He is also an indefatigable scholar in the off-hours when he is not working for the Heritage Foundation in Washington. In a writing regime that has begun for him daily at six every morning he has produced an excellent book called *Faith and Freedom: The Christian Roots of American Liberty* (Lewis and Stanley Publishers, 384 pp., \$18.95).

The book makes a case for the claim that our constitutional liberties are historically rooted in the Christian faith. But Thomas Jefferson, who wavered between Deism and Christian beliefs, preferred to speak of a nondenominational "Creator" who had endowed us with "certain unalienable rights." The common people in the colonies who objected to taxation without representation could have been secular in demanding that the "rights of Englishmen" going back to Magna Carta must be respected. But in any case there was a consensus: individual citizens had the right to representative government.

"We are fortunate," says Ben Hart, "that the American Republic was created at a time when there was such unanimity of opinion on what constitutes good government. The disagreements were over specifics, not fundamentals; means, not ends." Whether it was Jefferson's deistic "creator" or the God of the Bible

who was the source of our liberties did not really matter.

What was important, in Hart's view, was that America, at the end of the eighteenth century, "was overwhelmingly Protestant, and of the dissident variety." In 1775 there were 668 Congregational churches, 588 Presbyterian, 494 Baptist, 310 Quaker, 159 German Reformed, 150 Lutheran, 65 Methodist. The Anglican Church, with 495 congregations, was in decided minority. Only 1.4 percent of the population was Roman Catholic, and three-twentieths of one percent Jewish.

Fully 75 percent of all Americans at the time of the Revolution belonged to churches of Puritan extraction. These Americans believed they had the right to face their God directly, without institutional barriers intervening. The greater part of Hart's book is devoted to exploring the faiths of churchgoers who looked back to John Wycliffe's and William Tyndale's tradition of translating the Bible into contemporary English and reading it for themselves. In America the pivotal document in the development of constitutional government was the Mayflower Compact, which was signed by almost all of the adult men on the Pilgrims' voyage. This, says Hart, disproves the impression left by historians that the "social compact" was an idea invented by John Locke in 1688, when the Era of the Enlightenment was dawning. Locke's "social compact" theory, says Hart, "was not really a theory at all, but was derived mainly from Scripture and his experience with the Congregational church."

What really mattered was that Locke and the Mayflower Compact people came from the same source. The Puritans, who sailed to the Boston area ten years after the Pilgrims had settled in Plymouth, had a leader in John Winthrop who wanted to build a government on biblical principles. Winthrop, who envisioned a "shining city on a hill," was a republican rather than a democrat. He believed there must be safeguards preventing a tyranny of the majority. Winthrop's way of avoiding a tyranny was to divide his law-making body into a House of Assistants and a House of Deputies, which represented the first bicameral legislature in North America.

Winthrop's hopes that his "shining city" would hold Puritans close to the Boston area

were doomed by what Edmund Burke at a much later date would refer to as the “dissidence of dissent.” The Reverend Thomas Hooker, though a good friend of Winthrop, petitioned the Massachusetts General Court to allow his congregation to move to Connecticut. Winthrop said Hooker was breaking a covenant in leaving, but he couldn’t stop him.

The Fundamental Orders

The Puritans in Boston had their own charter, which they had had the foresight to take with them from England, well out of the reach of Stuart monarchs. In Connecticut, Hooker established his Court without a charter. His General Court inspired the so-called Fundamental Orders of Connecticut which was the first written constitution in America. The Fundamental Orders created a pattern for the Federal Constitution.

The Fundamental Orders set up a working government by the people themselves, without any concession from a previously existing regime. The Orders provided for regular elections but set strict limits on the power of those elected. Madison, Hamilton, and Jefferson, the Founding Fathers, had a lot of precedent to go on when the final break with England came in the late eighteenth century.

What Hart is intent upon doing is to establish the idea that the American and French revolutions were two entirely different things. The American revolution was really a counter-revolution, aimed at preserving a dispensation that had been in effect since Winthrop’s and Hooker’s day. It was George III, with his archaic divine right of kings, who was the revolutionist in 1776. The French revolution, coming out of the Enlightenment, had no ancient roots in Protestant insistence on the right to face God directly. It collapsed into Bonapartism after Robespierre’s guillotine had done its nefarious work.

The majority opinion in America was Protestant, but there were so many sects that it was necessary to create a government which would not favor one Christian sect over another. Hence the separation of church and state that is found in the First Amendment. Modern judges get it all wrong when they say that the First Amendment means that government forbids

State encouragement of religion in general. All that the Amendment says is that there shall be no specific religion.

Some of the states, in 1787, had official churches, but this didn’t last. In 1786 Jefferson’s and Madison’s state bill in Virginia disestablished the Anglican Church, which had become a minority sect in Virginia anyway.

Hart wonders how the posting of the Ten Commandments on school walls, or how publicly expressing thanks to our Creator for all He has given us, threatens the liberties of anyone. He hopes that different judges appointed by President Bush will bring an end to petty squabbling about such things as a moment of silence in schools. As he puts it in a concluding chapter on “the true Thomas Jefferson,” “. . . one would have to have a very warped perspective on American history to believe the Founding Fathers intended or foresaw the federal government being used to bludgeon Christianity.”

The clear intent of the First Amendment, says Hart, “was to protect a religious people from government.” □

PRIVATIZATION AND DEVELOPMENT

Edited by Steve H. Hanke

International Center for Economic Growth/ICS Press, 243 Kearny Street, San Francisco, CA 94108 • 1987 • 237 pages • \$29.95 cloth, \$12.95 paper

Reviewed by Robert W. McGee

This book is a “how-to” manual on privatization, which Hanke defines as “contracting with or selling to private parties the functions or firms previously controlled or owned by governments.” However, whereas most privatization books emphasize how privatization has worked in developed nations, this book spends a good deal of time showing how privatization aids economic development in less developed countries.

But the book is not exclusively about privatization in the Third World. There are more general chapters on the role of divestiture in economic growth, political obstacles to privatization, property rights, legal and tax considerations, and financing and marketing techniques that apply to any privatization program. Each chapter is written by an expert in the field, and

Professor Hanke has done a good job of editing their work to make the chapters flow smoothly.

The first part of the book discusses the effects of privatization in the developing world. Hanke's introduction calls privatization a revolutionary innovation in economic policy, and mentions that the privatization concept has spread from Britain to France and to the "people's republics" in Africa and just about everywhere in between. Privatization will have a lasting impact in many places because it leads to structural change rather than cosmetic changes that can be easily undone by the next political administration.

There is something in privatization for everybody. Privatization promotes efficiency because private parties can do just about anything more efficiently than government, as long as they must compete in the marketplace. (If government grants a monopoly, that's another story.) Others favor privatization because it shrinks the size of government. Individuals from all parts of the political spectrum find privatization appealing once they can be shown what it is and what it can do for them.

Several chapters address this marketing question from different angles. Robert Poole points out the political obstacles to privatization—it is widely believed that there won't be enough suppliers to permit competition, public services are "natural monopolies," government must provide the service in question to ensure that the poor have access to it, and so forth. Poole answers these and other popular objections that have been raised against privatization.

One chapter provides a decision-maker's checklist of things to consider when preparing for privatization to avoid the pitfalls and maximize the chance of success. Another discusses successful privatization strategies and cites examples of how privatization has cut costs in a wide variety of areas.

For instance, it costs the Army \$4.20 to process a check, but a private company can do it for \$1. Private airlines in Australia carry 99 percent more tons of freight and 14 percent more passengers per employee than does Australia's state-owned airline. Government offices in Hamburg, Germany, saved 20 to 80 percent in custodial costs by privatizing. Fire protection can cost 50 percent less when provided pri-

vately. Preparing timber for sale on public lands costs \$80 to \$100 per 1,000 board feet, compared to \$10 on private lands. Construction costs for Veterans Administration nursing homes are 290 percent higher than for private nursing homes. Ohio's private property assessors can do the job for 50 percent less than the national average, but quality, as measured by the relationship between appraised values and actual property sales prices, is the highest in the nation. Many more examples are given.

From the evidence, it is obvious that privatization strategies can be used to reduce the cost of just about any government service. But part of the problem with trying to start a privatization program is to overcome the inertia of the status quo. Politicians and affected parties have to be convinced that they stand to benefit from privatization. This book describes techniques that have proven successful in winning over key groups.

The book also gives four case studies of countries that have privatized. The history of privatization in Britain is especially interesting because Britain has been at the forefront of the privatization movement. The British Columbian experience is interesting to read because of the novel approach that was used—transferring government assets to a holding company and giving its stock to the residents of British Columbia. Privatization in Turkey has led to both successes and problems. While intervention in the economy was reduced, it has been difficult to get the citizens to invest in anything other than gold and real estate because those were the only two investments they felt safe with. The Grenadan example shows what can be done when the proper groundwork is laid.

Privatization has had many successes since the late 1970s. The evidence is clear that government goods and services can be provided better and cheaper by the private sector. The major problem to be overcome is to convince those affected that they will be better off if their product or service is provided privately rather than by government. When this is done, privatization can succeed. □

Professor McGee holds a law degree and teaches accounting at Seton Hall University.

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MAY

1989

VOL. 39

NO. 5

Published by

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

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the Board: Bruce M. Evans

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The Freeman is the monthly publication of The Foundation for Economic Education, Inc., Irvington-on-Hudson, NY 10533 (914) 591-7230. FEE, founded in 1946 by Leonard E. Read, is a nonpolitical educational champion of private property, the free market, and limited government. FEE is classified as a 26 USC 501 (c) (3) tax-exempt organization. Other officers of FEE's Board of Trustees are: Thomas C. Stevens, chairman; Ridgway K. Foley, Jr., vice-chairman; Paul L. Poirot, secretary; H.F. Langenberg, treasurer.

The costs of Foundation projects and services are met through donations. Donations are invited in any amount. Subscriptions to *The Freeman* are available to any interested person in the United States for the asking. Additional single copies \$1.00; 10 or more, 50 cents each. For foreign delivery, a donation of \$15.00 a year is required to cover direct mailing costs.

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Bound volumes of *The Freeman* are available from The Foundation for calendar years 1969 to date. Earlier volumes as well as current issues are available on microfilm from University Microfilms, 300 North Zeeb Road, Ann Arbor, MI 48106.

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.

PERSPECTIVE

Property and Welfare

If private property rights are sound principles of a just society, then the welfare state, since it forces people to part with what is theirs even against their own choices, is unjust. To put it simply, it perpetrates legalized theft by taking from some persons what belongs to them and making it available, without the consent of the owner, to others. While the objective the government may serve by this could be justifiable and even noble, the means used to promote that objective are plainly criminal.

Of course, one can ask, how else might those objectives be achieved? The answer is, "In millions of possible peaceful ways, but not by means of the violation of the rights of others." We are not to be made slaves even with the excuse that the goals of our slavery are laudable. We are not to be deprived of our honest holdings even if we do not use them as generously and wisely as others may have discerned we ought to. Most of all, we are not to be made the subjects of kings, politburos, or majorities who devise the objectives of our lives for us without our consent. What we do to solve our problems—those dire ones that lead some very decent people to yield to the idea of the welfare state—is a matter for us to discover and implement as diligently as possible.

—TIBOR R. MACHAN
Auburn University

The Educational Challenge

Education has always been a major part of the American Dream. Originally schools were private and attendance voluntary. Increasingly, government came to play a larger role, mandating compulsory education, funding education, establishing and administering schools.

We are proud, and with good reason, of the widespread availability of education, but, unfortunately, in recent years our educational record has tarnished. Parents complain of declining quality. Educators complain of the atmosphere in which they are required to teach. Students complain of boredom. Taxpayers complain of growing costs. Hardly anyone

maintains that the schools are giving young people the tools they must have for the year 2000.

Public education is, I fear, suffering from the same malady that afflicts so many other government programs. As Justice Louis Brandeis wrote in 1928, "The greater dangers to liberty lurk in insidious encroachment by men of zeal, well meaning but without understanding."

The malady is one of an overgoverned society. In education it has taken the form of denying parents control over the type of education their children receive. The increasing role of government has adversely affected education at all levels. It has fostered an atmosphere that both dedicated teachers and serious students find inimical to intellectual development.

Now, more than ever, we must be able to provide the educator with the necessary tools for presenting in an accurate way the ever-important concepts of a free society. And, in so doing, we must not forget the cultural and historical setting for the development of a market society. It is not enough to understand the relationship of supply and demand. Our teachers must be able to convey to our youth through historical understanding the necessity of a free society in the world in which we live.

The challenge we face is clear. Americans must do what is necessary to re-establish the economic base of a free society. The problems have been identified, solutions proposed . . . success now depends on the will.

—SHERIDAN NICHOLS
American Enterprise Forum

The Uninsured

An estimated 37 million Americans lack health insurance, up 25 percent since 1980. Why are so many people going without medical coverage?

According to a study written by John Goodman and Gerald Musgrave for the National Center for Policy Analysis, state regulations have priced many Americans out of the insurance market. Recently enacted laws require

many forms of coverage that a lot of people don't want and can't afford. For example:

"Thirty-seven states require health insurance coverage for the services of chiropractors, three states mandate coverage for acupuncture, and two states require coverage for naturopaths (who specialize in prescribing herbs).

"At least 13 states limit the ability of insurers to avoid covering people who have AIDS, or who have a high risk of getting AIDS.

"Laws in 40 states mandate coverage for alcoholism, 20 states mandate coverage for drug abuse, and 30 states require coverage for mental illness."

In trying to expand benefits, state legislators have hurt the very people who can least afford them.

—BRIAN SUMMERS

What Protection Teaches

Protective tariffs are as much applications of force as are blockading squadrons, and their object is the same—to prevent trade. The difference between the two is that blockading squadrons are a means whereby nations seek to prevent their enemies from trading; protective tariffs are a means whereby nations attempt to prevent their own people from trading. What protection teaches us, is to do to ourselves in time of peace what enemies seek to do to us in time of war.

—HENRY GEORGE,
Protection or Free Trade

Reader's Digest Reprints Education Article

"Why College Costs Are Rising," by John Hood, has been reprinted in the April 1989 *Reader's Digest*. This article originally appeared in the November 1988 issue of *The Freeman*.

We have extra copies of the *Digest* version of Mr. Hood's article. Please write to FEE, stating the quantity you'd like.

The Cambodian Experiment in Retrospect

by Morgan O. Reynolds

On January 7, 1979, the Vietnamese communists marched into Phnom Penh and replaced the Khmer Rouge nightmare with a more familiar brand of tyranny. Western journalists and scholars eventually reported the chaos, famine, and genocide that brutalized Cambodia from 1975-1979, but something is still missing—a coherent explanation for the tragedy. Like the fiasco in Jonestown, Guyana, a socialist experiment gone so dramatically awry seems to be dismissed as crazy, fanatical, or insane and then quickly forgotten.

But was it all so incomprehensible, so hard to decipher? No. A close inspection reveals nothing illogical or irrational about the Khmer Rouge and Cambodia, *given their goals*. The episode was a conscious ideological effort to completely replace the market economy with socialism. To be sure, it was much more determined and extreme than most socialist efforts, but this only makes the Cambodian experiment all the more essential to understand as an example of the pre-eminent issue of our age—socialism versus capitalism, collectivism versus individualism, death versus life. Originally, the word “socialism” was coined to express opposition to individualism. The brutal attempts of the Khmer Rouge and other communists to suppress all traces of individuality are not irrational but quite predictable and intelligible.

Professor Reynolds teaches in the economics department at Texas A & M University.

Socialism in all its variants has been widely associated with economic failure, yet two episodes stand out as virtual laboratory experiments in the perennial war on commercial activity—Lenin’s effort of 1918-1921 and the Cambodian disaster of 1975-1979. The parallels are impressive.

Early Western news accounts described the Bolsheviks’ economic policies as silly and irrational, although the 1917 revolution had followed 70 years of socialist theorizing, agitation, and the famed declaration of Marx and Engels in *The Communist Manifesto* of 1848 that “The theory of the Communists may be summed up in the single sentence: Abolition of private property.” The idea of central planning grew from the socialists’ desire to eliminate decentralized ownership of the means of production and the “chaotic” market economy in favor of socialization of the means of production and the application of science to society, thereby allowing man consciously to direct history in any manner desired.

The Destruction of Trade

Economic historians—e.g., Boris Brutzkus (1935), Lancelot Lawton (1932), Alexander Baykov (1947), T. J. B. Hoff (1949), Paul Craig Roberts (1971)—agree that the Bolshevik program from 1918 to March 1921 was a conscious effort, however muddled, to replace the market economy with a system of planned, non-

transferable, in-kind assignments of inputs and outputs. There was a deliberate destruction of commercial trade and abolition of money and banking rather than a war-caused "breakdown of normal trade." The economy—voluntary social cooperation—came to a virtual halt under state restrictions and direction. Production became so disorganized and anarchic that Lenin abandoned the planning effort to preserve his power. Famine took the lives of an estimated 5.5 million people before some 10 million were saved by relief from the capitalist West. Peasant uprisings and the Kronstadt rebellion in February 1921 forcibly brought home growing domestic discontent to the Bolsheviks. Workers were particularly outraged by the regime's effort to prevent individuals from supplying themselves with necessities.

By March 15, 1921, Lenin had seen enough. He decided that communism could only be built upon the rationality of the bourgeois economy: "Whoever dreams of a mythical communism should be driven from every business conference, and only those should be allowed to remain who know how to get things done with the remnants of capitalism." Further, Lenin said, "We are very much to blame for having gone too far, we overdid the nationalization of industry and trade." Abandoning the original vision of socialism posed doctrinal difficulties for Lenin, but new words ushered in a New Economic Policy (NEP)—meaning private property and the market economy were allowed partial operation, especially in agriculture and trade—and recovery quickly followed.

Like the inexperienced intellectual V. I. Lenin, Khmer Rouge leaders fervently embraced Marxist doctrine and tried valiantly to implement it. A docile nation composed 90 percent of peasants in an apparently simple economy seemed an ideal place for true socialism to "work." Yet the dream of a blueprinted, harmonious society should be traced back to Plato's *Republic* rather than to Marx and Lenin:

. . . what has been said about the State and the government is not a dream, and although difficult not impossible . . . when true philosophers are born in the reigning family in a state, one or more of them, despising the honors of this present world which they deem mean and worthless . . . will begin by send-

ing out into the country all the inhabitants of the city who are more than ten years old, and will take possession of their children, who will be unaffected by the habits of their parents; these they will train in their own habits and laws, which will be such as we have described: and in this way the State and constitution of which we were speaking will soonest and most easily attain happiness, and the nation which has such a constitution will gain most.

Each Khmer Rouge leader was from an advantaged family, each studied law or economics in Paris in the 1950s, each embraced Marxism-communism as a means to save the people from capitalist exploitation, and each wrote tracts and dissertations which announced his ideological dedication and intentions. Like Lenin and his fellow armchair intellectuals, none of the Cambodian philosopher-kings ever did manual labor for a living or managed any enterprise.

Once in power the Khmer Rouge leaders refused, in contrast to Lenin, to temporize in order to preserve their political power and revolution. Full speed ahead, the Khmer Rouge leaders were undeterred by early disaster; they proceeded with their quest, although in 1978 Pol Pot admitted, "We are building socialism without a model." Anticipating Pol Pot's problem, economist Ludwig von Mises argued in 1920 that socialism could not begin to work in a remotely efficient manner under real world conditions of continual change, and he added, "Historically, human rationality is a development of economic life. Could it then obtain when divorced therefrom?"

The Khmer Rouge deliberately isolated the renamed "Democratic Kampuchea" from the markets of the outside world and destroyed all vestiges of the old days in favor of starting afresh: the government acted to abolish money, all private property, exchange, and therefore prices, and to move labor from the cities to rice production as commanded by "Angka" (the organization). By abandoning cities the program eliminated Lenin's problem of supplying food to the cities, which supposedly had been the source of "class conflict." Of an estimated 7-8 million inhabitants in 1970, an estimated 2-3 million were killed or died of starvation, mass suicide, and disease after almost four years of

Khmer Rouge rule. Combat troops never exceeded an estimated 70,000 or 1 percent of the population, a macabre confirmation of docility and political susceptibility to collectivism. Even though the Khmer Rouge earlier had followed the same policies in the areas under their control, and intellectuals since Plato have advocated a utopia designed and ordered by a single will, the world expressed amazement at events in Cambodia.

Many Western journalists, in contrast to revolutionaries, do not treat ideas seriously, and therefore fail to recognize the power of ideas in action. They don't realize that chaos and brutality must accompany a determined effort to implement what economists Mises and Hayek called an impossible or unworkable economic scheme, namely, thorough-going socialism. For example, Sydney Schanberg in *The Death and Life of Dith Pran*—the basis for the film *The Killing Fields*—puzzles over the words used by the regime: *angka* = the organization, *opakar* = people or instruments, *Khmer* = nation or machine. Uncomprehending, Schanberg calls the terminology strange for a government trying to erase the colonial past.

Another writer, Craig Etcheson (1984), points out that the revolution was so ultra-radical that even the communists were appalled. Yet Etcheson is inconsistent in terming market phenomena like rent and credit archaic while calling the Khmer Rouge's elimination of money, banking, and other financial institutions "backward." Other academic writers blankly decry the lack of bureaucratic information about the Khmer Rouge, vainly hoping that documents alone might tell them why certain policies were put into effect and why others changed at certain times.

Private property, money, prices, unequal rewards, and commerce often offend intellectuals. They yearn for an alternative, an economic system where commercial institutions are suppressed or controlled, if not totally eliminated. They sympathize with vague ideals about an earthly paradise built on planning, socialism,

and communism. At a minimum, they oppose markets and capitalism. As a result, they remain blind to the cause of the events they so poignantly relate about Cambodia.

A Descent into Barbarism

Economists still debate whether rational economic management of a complex society based on monopoly control of the means of production under a single mind or committee can work in a tolerably efficient fashion. While a single case is not decisive, the Cambodian experience strongly suggests that it cannot work. Obliteration of private ownership, market exchange, and prices threatens civilization because without the exchange mechanism, the economy and, therefore, society collapses. Productive coordination of human effort is impossible without trade in productive assets (capital markets). There is no demonstrated, superior alternative to the price system and Wall Street. Though most intellectuals would recoil from the idea, a logical corollary is that each step away from capitalism (individualism, private ownership, and limited government) is a descent into barbarism, degradation, and irrationality.

Experiments in unalloyed socialism have quickly ended in failure. This explains why every communist government, including Heng Samrin's Post-Khmer Rouge regime, is "advancing to socialism" but never reaches it. The bones of millions of Cambodians suggest why living human beings will never reach socialism. □

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Old Banking Myths

by Hans F. Sennholz

Many banks and thrifts are tottering on the brink of bankruptcy. The deficit in the fund that insures deposits in savings institutions more than doubled last year, and continues to rise. Government action may well be needed again to sustain the structure. Even the future of mighty city banks is in doubt: billion-dollar loans have been made to third-world countries that have neither the ability nor the intention to repay.

To explain such ominous happenings in American finance is to search for the ideas that are guiding Americans in their financial matters. Ideas and images in men's minds are the invisible powers that govern them. The financial structure, in disrepair and disrepute, is the logical outcome of financial thought that places legislators and regulators in the center of things. It rests on their wisdom and discretion, and relies primarily on political force rather than individual freedom. It is a precarious system that builds on government insurance and government guarantees and, in final analysis, depends on monopoly money and legal tender force. It is a discredited system that is inflicting immeasurable harm on many people.

To rebuild the financial structure is to identify and discard the features that discredit it, and to lay a new foundation. It is to explode the erroneous thought that permeates it, and to dispel old myths that guide it. It is to refute the fictions and fallacies that have created the banking myths, especially the following:

Myth 1: Banking is inherently unstable when left free and unhampered.

Although economists disagree on many things, most see eye to eye on their acceptance of political control over money and banking. Being accustomed to banking legislation and regulation, and addicted to a money monopoly and legal tender force, they rarely spare a thought for individual freedom in such matters. Most economists pin their hope on legislators and put their trust in regulators who are to safeguard the system.

The deep-seated aversion to individual freedom does not spring from any explicit theory that pinpoints the shortcomings of freedom, nor does it rest on any consistent school of banking thought that elaborates specific faults. It springs from intellectual lethargy and a long tradition of political control over money and banking. "We've had it so long. It's the American way." This is the most convenient, although rarely enunciated, justification for government control. These economists invariably point at American money and banking before the Civil War which, in their judgment, confirms their belief. In particular, they cite the "Free Banking Era" of 1838-1860 as a frightening example of turbulent banking and, therefore, applaud the legislation that strengthened the role of government.¹

In reality, the instability experienced during the Free Banking Era was not caused by anything inherent in banking, but resulted from extensive political intervention. At no time in American history has banking been free of onerous legislation and regulation. The "free banking" law, which New York State adopted

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in 1838 and many other states emulated thereafter, did not establish free banking; it merely ended the creation of banks by special charter. "Free banking" acts were little more than "incorporation acts" that invited applicants to seek charters from the administration rather than the legislature. They did not repeal burdensome statutory provisions and regulatory directives. In fact, they added a few, especially for note issues by these "free" banks.

"Free" bank notes were printed by the offices of the state comptrollers. To obtain these notes, a New York bank had to deposit with the comptroller an equivalent value of (1) U.S. Treasury obligations, state bonds, or bonds of other states approved by the comptroller, or (2) mortgages on improved real estate with a 50 percent or better equity. Severe restrictions curtailed the issue of mortgage notes, which limited their volume rather significantly. State bonds became the primary collateral for note issue. Most states and, eventually, the federal government (in the National Banking Act of 1863) emulated the system.²

Many banks that failed during the "Free Banking Era" went to ruin when the states defaulted on their debts. Florida, Mississippi, Arkansas, and Indiana defaulted in 1841, followed by Illinois, Maryland, Michigan, Pennsylvania, and Louisiana in 1842.³ Mississippi, Arkansas, and Florida even repudiated their debt. The state governments continued their operations in debt default; the banks that were built on the obligations of those states lacked such a privilege.

State bonds were the major component of free bank portfolios, which exposed the banks to the ever-present risk of rising interest rates and declining state bond prices. When state governments suffered budgetary deficits, interest rates on state obligations tended to rise, which immediately cast doubt on the banks that carried the debt. State politics obviously played a major role in the life and death of a bank.

In several states with free-banking laws, the stated value of eligible government bonds exceeded their market value, which not only invited multiple credit expansion but also bred fraud and corruption. With government bonds selling at a discount, bankers could use them at face value, issue notes, then buy more discount

bonds, and issue even more notes. For example, with government bonds selling at 80 percent of par, an unscrupulous operator could purchase a \$1,000 bond for just \$800, issue \$1,000 worth of notes, purchase \$1,250 in face-value bonds, issue another \$1,250 worth of notes, buy more bonds and issue more notes, and finally acquire valuable assets, and abscond with them, in "wildcat banking" fashion. Obviously, law and regulation bred the scheme and led to instability.

When compared with many other countries, the total number of local banks in the U.S. became rather large, which points to yet another important source of bank disorder: the restriction of banks to unit size. Many states prohibited intrastate branch banking as well as banking across state lines, which prevented much diversification, and limited lending and borrowing to one location. Unit banking tied the solvency of a bank to the fortunes of the town in which it happened to be located, and to the commerce and industry that sustained the town. As a town prospered or decayed, so did the bank that served it.

Further Limitations

Legislators and regulators further circumscribed banking with onerous charter requirements. To obtain a bank charter, an individual had to petition the state banking authority and, among other requirements, bring proof of a minimum capital of \$10,000 or \$20,000, or even \$50,000, as was later required for national banks in communities with populations under 6,000, or \$100,000 for national banks in larger cities. Most Americans with low incomes and little material wealth were barred from entering the banking business. The restrictions obviously kept the industry smaller than it otherwise would have been, and bred countless local banking monopolies, especially in rural communities. In most of their money and credit transactions the American people became dependent upon a local bank. In many a town in territories just opened up they depended on a single bank if there was one at all.⁴

During the "Free Banking Era" the banks obviously were not free; they were curious combinations of public enterprise and special

interest. No matter how free other industries may have been throughout this period, the principles of the market order never took hold in the fields of money and banking. Motivated by the popular hostility against money lenders and the age-old belief in the desirability of ever more money, politicians and officials carefully regulated all important aspects of money and banking and protected their charges from the full severity of commercial and civil law. In periods of financial crisis many states permitted banks to flout their contractual obligations, to suspend payment of specie, or resort to makeshift devices in order to avoid payment on demand. Such practices did not make for a sound and reliable banking system.⁵

Myth 2: Banks tend to charge usurious rates of interest, contrary to the commands of charity, justice, and natural law.

The myth of banking instability receives strong support from the ancient usury doctrine, which led authorities to outlaw interest-taking altogether or at least to set maximum rates. In their zeal for preventing usurious interest-taking, many regulators set their maxima at levels far below free market rates, thereby curtailing lending or preventing it altogether. Banks, which seek to bring lenders and borrowers together, cannot serve them properly with government stipulating the rates. Usury laws are price-control laws; they disrupt markets, mislead production, cause shortages, and waste economic resources. Yet, they have been popular throughout the ages because money lending was believed to have evil effects on the community. Even Adam Smith endorsed legislation that put a ceiling on interest rates.⁶ His contemporary, Jeremy Bentham, promptly took him to task in a famous essay, *Defense of Usury*,⁷ that made a strong plea for individual freedom in determining the terms of a loan.

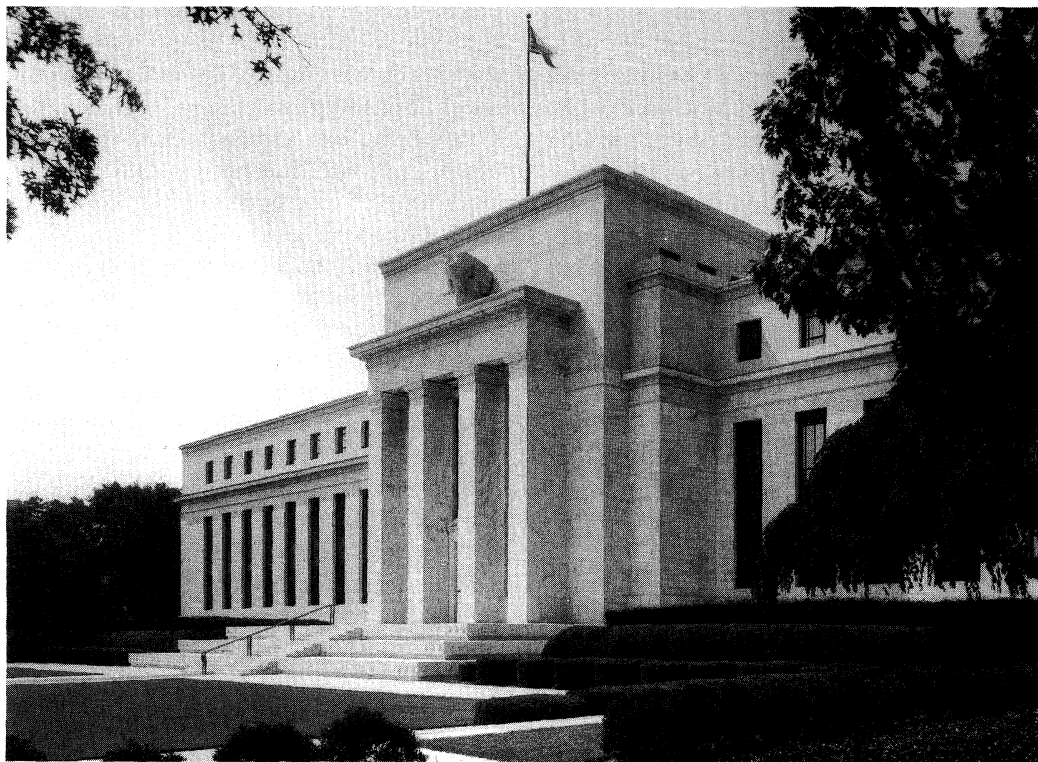
Throughout U.S. history the states set usury ceilings to interest-taking. In many cases, especially at the frontier, they set maxima far below the rates that would have prevailed if there had been freedom. Consequently, capital markets were crippled and sound banking was hampered. The institutions that emerged kept their

interest charges at or below the legal limit and, to remain profitable under given conditions, issued money substitutes in the form of unbacked notes. Circumscribed by usury legislation, they printed bank notes against which they maintained fractional reserves in legal money—silver or gold. Unfortunately, fractional reserves always are an invitation for disaster as soon as the note holders lose confidence in the solvency of the issuer.

Especially in the West, where the need for capital was enormous and the credit risk very great, the maximum rates of 6 to 10 percent as set by state laws constituted a severe impediment to the banking business. At the frontier the debtor's risk component alone often amounted to a multiple of the ceiling rates, which made most lending clearly illogical. When market conditions call for rates of 10 to 20 percent while the usury rates are set at 6, 7, or 8 percent, most lending comes to a halt. As the courts endeavored to enforce the laws with fervor and severity, the banks were forced to choose between closing their doors or issuing unbacked notes at permissible rates of interest. Many chose to issue notes and face the risk inherent in unbacked issue and fractional reserves.

The precarious situation of American banking today springs from similar causes. The 1970s were years of accelerating inflation and soaring interest rates. Commercial banks welcomed the abundance of credit, which meant more bank loans and higher profits. Yet, in some states, lending ground to a halt as the market rates of interest reached usury levels and were barred from going higher. Under such conditions financial institutions readily placed their funds in other states and other countries without usury restrictions. A bank in Pennsylvania could freely place its funds in Mexico at market rates, but could not legally do so in Pennsylvania.⁸

Many savings and loan associations are sharing the fate of the big city banks. Some can be charged with making poor loans; yet, most lived faithfully by the strictures of legislation and regulation, financing the construction and purchase of homes through mortgage loans. They, nevertheless, are in dire straits because inflation together with regulation is inflicting



Federal Reserve Building, Washington, D.C.

painful losses. Until 1981, legislation narrowly circumscribed the rates of interest they were permitted to pay their passbook depositors while inflation raised the market rates far above the permissible rates, which lifted them right out of the competition for funds. They lost many billions of dollars of deposits, which sought higher interest rates in money-market funds and other instruments. To survive the painful drain of savings and safeguard their liquidity, the thrifts then had to “purchase” funds through the sale of certificates at interest rates far above those earned on old mortgage loans. Compounding the difficulties, the market value of old loans fell precipitously as interest rates rose to new highs.

In turmoil and change the Depository Institutions Deregulation and Monetary Control Act of 1980 sought to give relief to the ailing industry. It relaxed some controls over banking and tightened others. It repealed old interest-rate legislation, which was playing havoc with banks and thrifts. It made monetary control more comprehensive and effective, and sought to solve the problem of declining membership

in the Federal Reserve System. In particular, the law authorized banks and thrift institutions to offer interest on checking accounts starting at the beginning of 1981. It introduced so-called NOW accounts (negotiable order of withdrawal accounts), which were to make banks and thrifts more competitive with money market funds. Moreover, the law phased out Regulation Q, the ceiling on interest rates payable on time deposits, and set aside the usury ceilings that many states had imposed on mortgage loans as well as business and agricultural loans. The new freedom to pay market rates of interest was to give relief to a suffering industry. Unfortunately, it came too late for many institutions that had suffered so long in the vice of inflation and usury legislation.

Myth 3: Effective economic policy requires government control over banks.

In recent years the old doctrines of banking instability and usurious interest rates have found a new ally in the doctrine of government responsibility for full employment and eco-

conomic growth. The old and the new have joined forces to deny freedom to banking and confirm government as a money monopolist and banking regulator. Government is held responsible for economic prosperity and full employment, and, therefore, is expected to direct, control, and manage the national economy through the Treasury, the central bank, and numerous other agencies. Yet, it is prevented from doing so effectively, we are told, if it lacks control over all issuers of money, in particular all banking institutions. Money balances must be concentrated in narrowly defined banks so that the total stock of money can be properly guarded and managed.

Most economists readily accept this dogma; they are convinced that legislators and officials must manage the people's money. In the footsteps of John Maynard Keynes, mainstream economists hold government solely responsible for prosperity and full employment and, therefore, expect it to manipulate and fine-tune money and banking. Monetarists contend that government must increase the stock of money at a steady rate, in order to achieve economic stability and steady growth. And supply-siders call on monetary authorities to manage the people's money, keeping an eye on gold. Only economists in the Austrian tradition reject all such notions as myths or fictions that contribute so much to the sorry state of banking today. They reject not only the popular acclaim of government control over the stock of money, but also the very foundation of the Keynesian structure, the "full-employment policy."⁹

More Regulation Ahead?

It is unlikely that the Austrian explanations and recommendations will prevail in the coming years of savings and loan disasters and banking crises. The doctrines of political power and wisdom in all matters of money and finance are deeply imbedded in the American frame of reference and discourse. This is why we must brace for more efforts at regulation. Surely, some controls may be relaxed as others are tightened, reacting continuously to an unsatisfactory state of affairs.

Politicians and regulators can be expected to lay the blame on the remaining margin of indi-

vidual freedom however small it may be. They will seek to tighten the controls as the losses mount and the U.S. Government is called upon to honor its guarantees. Surely, he who pays the bill will want to have a say on how it may be incurred. This is why the federal government can be expected to tighten its grip on American banking and finance. And, once again, it may confirm the old observation that one government intervention tends to breed another and ultimately leads to all-round regimentation.

Yet, no matter how dark our financial future may look, individual freedom is alive and well in many other parts of the world. It bestows its largess to any country with the wisdom and courage to pursue it. Its light is shining brightly all over the world, visible to all who can see. Having suffered staggering losses and economic stagnation, and having tried every conceivable highway and byway of the political command system, we do not doubt that, in the end, we, too, will see the light again and make it our guiding beacon. □

1. Paul Studenski and Herman E. Kroos, *Financial History of the United States* (New York: McGraw-Hill Book Co., 1952), p. 114; Bray Hammond, *Banks and Politics in America* (Princeton, N.J.: Princeton University Press, 1957), pp. 572-604; Major B. Foster, Raymond Rodgers, Jules I. Bogen, Marcus Nadler, *Money and Banking*, Fourth Edition (New York: Prentice-Hall, 1955), pp. 97-98; Gerald C. Fisher, *American Banking Structure* (New York: Columbia University Press, 1968), p. 181; Charles L. Prather, *Money and Banking*, Sixth Edition (Homewood, Ill.: Richard D. Irwin, 1957), p. 163 *et seq.*

2. Hugh Rockoff, *The Free Banking Era: A Re-examination* (New York: Arno Press, 1975), pp. 125-130; also Robert G. King, "On the Economics of Private Money," *Journal of Monetary Economics*, July 1983, pp. 127-158.

3. Arthur J. Rolnick and Warren E. Weber, "The Causes of Free Bank Failures: A Detailed Examination," *Journal of Monetary Economics*, October 1984, pp. 267-291; also "New Evidence on the Free Banking Era," *American Economic Review*, December 1983, pp. 1080-91.

4. Comptroller of the Currency, *Annual Report*, 1895, Vol. I, p. 20.

5. Lawrence White points at the Scottish free banking system (1727-1844) as an example of a sounder system. Individual freedom and unlimited banker liability gave rise to a banking system that did not suffer from panic-induced runs. Cf. *Free Banking in Britain: Theory, Experience, and Debate, 1800-1845* (Cambridge: Cambridge University Press, 1984).

6. Adam Smith, *The Wealth of Nations* (New York: The Modern Library, Random House, 1937), p. 339.

7. W. Stark, ed., *Jeremy Bentham's Economic Writings* (New York: Burt Franklin, 1952), Vol. I, pp. 121-207.

8. It was also more profitable and convenient to place a few big loans with a few borrowers than to make many small loans to numerous borrowers. The big city banks in the money centers showed their favors on foreign governments all over the world. Eager to make friends and win allies, the U.S. Government encouraged and guided them every step of the way.

9. Hans F. Sennholz, *Debts and Deficits* (Spring Mills: Libertarian Press, 1987), p. 159 *et seq.*; also *Money and Freedom*, (Spring Mills: Libertarian Press, 1985).

Where Will It All End?

by Scott C. Matthew

It seems clear that one reason bad ideas catch on—even become law—is that the short-term effects appear to be so good. Without a clear, cool look at the long-range consequences of a proposal, we can be made to fall for all sorts of destructive programs. And so, bit by bit, our freedom and our treasured way of life are surrendered. With every “good deed” proposal we need to ask: “But where will it all end?” Let me give you an example of a court case in which “doing good” in the near term leads to such destructive results.

It’s early evening. An elderly man, Mr. Johnston, approaches the front door to his apartment building. This is a high crime area. The building’s front porch is dimly lit and the outer door is never locked. As Mr. Johnston is about to enter the building, the door is jerked open by a youth who has been hiding inside. The youth strikes and robs Mr. Johnston. Mr. Johnston brings a lawsuit against Mr. Harris, the landlord, claiming that the lighting and lack of locks were to blame for the assault. The trial judge throws the case out, but the Supreme Court of Michigan allows the case to go on. They find reasonable the idea that the landlord had created conditions to which criminals would be attracted—that Mr. Harris had in effect set a trap for Johnston! (*Johnston v. Harris*, 387 Mich. 569)

We all feel very sorry for Mr. Johnston. The assault was a terrible and deplorable act. But we should ask: How do the blame and responsibility for that assault find their way to Mr. Harris, and will placing the blame on him really help all the other Mr. Johnstons in the world? Let’s play “do-gooder” and find out.

First, let’s not give Mr. Harris any benefit of the doubt. Let’s forget what the words “high crime area” imply about the ability to maintain a building. Let’s not consider the possibility that every one of the last ten locks he installed had been broken within days. Let’s not ask if the lights were often vandalized by tenants and others, so that he was hardly able to keep the area lit at all. Let’s figure he simply didn’t make these changes due to their costs. Rotten old Mr. Harris.

So due to *Johnston v. Harris*, Mr. Harris is now forced to add new, better locks and lights. We have done some good today, and we can go home, right?

But Mr. Harris cannot go home. He has to worry about what the next court will decide.

And what will the next court find? We already have set the standard that tenants are entitled to security for which they have not paid or been promised. (I say “not paid” because Johnston could have moved to a more expensive building that had these features. And I say “not promised” because Johnston claimed only that these features were inadequate, not that they were left unrepaired. No, this building was just what Mr. Johnston knew it was when he moved in—cheap.)

Where Does It End?

But where will it end? Mr. Harris is now faced with meeting standards which may not be set until after some mishap occurs. As has been noted elsewhere, one will give wide berth when walking near barbed wire, but wider still when walking near it in the dark.

So time passes, and Mr. Harris and other landlords, upon advice of counsel or the force of future court judgments, significantly upgrade their apartments. The wary landlord or future judicial legislator may well deem it the reasonable thing to have bars on all windows, motion detectors on the roof, a key card system at the door, cameras in the hallways and elevator—maybe even a guard on duty. How about alarm buttons in each room wired to the police station? That would be great. And a personal health and safety beeper each tenant could wear? We can expect insurance companies to respond to *Johnston v. Harris* by providing in-

surance at higher rates, and only to those with secure buildings. Now that the courts have set the standard of “not exposing others to foreseeable criminal activities” even if they don’t pay for or expect that service, where will it all end? Wherever the exact point is, I believe we can reasonably agree that it won’t end until we have much more secure buildings.

We know very well that buildings don’t become significantly safer by wishes. Time and money must be spent. A wide range of levels of safety are possible, and the landlord and tenant normally choose the proper level for them through a mysterious and wonderful process called “the market.”

But now the market has been fiddled with. We, as do-gooders, will be convinced that the courts have made it better. Still, if Mr. Harris now must make significant payments for security measures, he either will have to increase his rents or receive a lower return on his investment. We can assume that there is relatively free entry into the local market (no government limits on numbers of units) so that he already is making pretty much the minimum acceptable return—if there were lots of money to be made, others would enter the market and drive rents down to that minimum point. So Mr. Harris, with the changes and expenses required, must raise rents.

Now Mr. Harris will enter a somewhat different housing market—one where the apartments are roughly the same as his, but where greater security has been so important to the tenants that they have been willing to spend more of their limited resources for that security. And we would find, if we looked, that such buildings have been readily available to those willing to pay for that service—and if a person won’t pay for a service, is it right or efficient to give it to him? As do-gooders, we’ll try not to think about that.

As we notice for the first time those buildings similar to Mr. Harris’s but with more security and higher rents, we might begin to wonder why Mr. Johnston didn’t choose to live in one of those apartments. There seem to be two possibilities. If he didn’t desire such security based upon its price—perhaps he is not risk-averse and was willing to take the chance of assault to save the money, just as some choose not to

carry insurance—then Mr. Harris gave him just the kind of apartment he wanted. For Mr. Johnston now to demand more than he was willing to pay for is wrong, and this type of claim should not be accepted.

But wait—what if Mr. Johnston were poor and couldn’t afford those more expensive apartments? In that case Mr. Harris provided Mr. Johnston an apartment that he could afford, so that he wasn’t left out on the street. If in some societal sense we feel that it is morally wrong for Mr. Johnston to have to live in these lesser conditions—in other words, the conditions he can afford—then shouldn’t we take that burden upon ourselves? Do we have the right to force Mr. Harris to bear this burden alone? Is his property ours simply to give to others at our whim? But suppose we say, “He’s just a greedy landlord, let’s make him carry this burden that we profess to feel.” Here’s how we will do it.

The first step is to rule, in this lawsuit, for Mr. Johnston. Now, without having to have paid for security, he is compensated for its lack. How will Mr. Harris and other landlords respond? They will “upgrade” their apartments as described above (and raise the rents, of course). Now there will be *no* inexpensive apartments for people who choose to do without security measures.

Now all who can afford to pay the higher rents will be forced to live in the more expensive “secure” buildings. Of course, they had been able to afford the rent for these buildings all along and had chosen not to live there, so we have just saved them from themselves. Good for us.

And now all who cannot afford to pay these higher rents will be out on the street. No cheaper apartments will be available. We can fix that, right?

Sure, we can give the poor extra money to pay Mr. Harris’s higher rents. The problem is that as do-gooders, we already are spending lots of the public’s money on these people, as well as plenty of other things, and the taxpayers just won’t stand for any more. Budgets that don’t balance are hard on re-election—and higher taxes are harder still. We just can’t come up with the money—don’t want to either, really—to pay those higher rents we have caused. So?

We can fix it. We can require, through our

ruling in *Johnston v. Harris*, that buildings be improved in terms of safety, but add to that our ace in the hole—rent control. We have it in our power to see a need (more secure buildings), fill that need, and—here’s the beauty of it—we can single out a small, unpopular group known as “slumlords” and make *them* pay for it.

I know what you’re thinking—what if someone uses words like “due process,” “no taking without just compensation,” “equal protection,” that kind of stuff? We’ll do what we always do—we’ll just say they don’t apply here. Wasn’t that simple? So it ends *here*, right?

Maybe not. How do those citizens, whom we are plundering due to their chosen occupation of landlord, react to all this? How would you react? As best you could, I expect. First, you’d make all the required changes if you could afford to, because the power behind government controls is really the power of a gun, and the money isn’t worth time in prison. Next, you’d try to get out of this silly business—who needs that kind of hassle? Life’s too short, and you never know just what else the do-gooders might have in mind. Now that they have singled out “landlord” as a class ripe for confiscation, why be a landlord? You’re smart—you can always do something else. So you’d try to sell your apartments.

And who would want to buy them? Well, just about anyone who likes to be the target of unpredictable persecution, that’s who. It seems likely that at some price, probably much below their value before *Johnston v. Harris*, someone would take the chance. So your wealth—the difference between the pre-*Johnston* value of your property and what you sell for—will either be transferred to others (the new buyer, the tenants, the state) or it will be destroyed. Either way, you will be out of luck. Well, you were a slumlord anyway, so we have done a good thing. People will have safer apartments for the same old price, someone else will run them, and you can deliver pizzas. Thank you for your cooperation in this matter. So, is this where it all ends? I wouldn’t think so.

Even though the people who owned buildings have either sold them or are eating the losses, there is that small problem known as “the future.” The demand for apartments—secure and less secure—continues to rise over time.

With a growing population, we’ll need a constant supply of new apartments and replacement apartments for old, inefficient buildings. So now, in the face of rent control and a history of persecution, predict the likelihood that adequate resources will be devoted to apartment construction. Pretty high, right?

Actually, what you’re likely to have is a virtual absence of construction of just the kind of lower-income apartment you were improving with *Johnston v. Harris*. Also, figure on buildings simply being abandoned by their owners as a sinkhole for money they no longer have. And with rents controlled for present tenants, fewer of them will want to move—why give up a “good thing”? As the rental market grows tighter, it will become increasingly difficult for average people to make a move of any kind. People will either become trapped in an inappropriate apartment or won’t be able to find a place to live.

Now this “cure” seems somewhat worse than the poor lighting we set out to fix with the *Johnston v. Harris* precedent. So will this finally end with an overturning of *Johnston v. Harris*—an admission of our mistake? I doubt it, because we have the power to “fix” the housing shortage too! We’ll let government build the houses that “the market fails to provide.”

Finally, we’ve arrived at the “just” result *Johnston v. Harris* was destined to produce. Here is where it “ends.” Remember, landlords offered rental property of a type *we* would not choose to rent, so we forbade its rental. The changes we demanded tended to raise rents, so we forbade the raising. The rent control reduced available housing, so we built the housing. Now, instead of an entire range of options, from the least expensive and least comfortable to the most expensive and comfortable, people have a few, stark choices. There are plenty of very expensive apartments, there are some cheap apartments that are never available for rent, and there is lots of public housing. And it finally ends—with unsafe, poorly maintained, self-respect-draining dumps, used to warehouse the poor in conditions *we* would not choose to rent. *Johnston v. Harris* claimed the power to improve the lighting, and left the people in darkness. □

Who Are the Problem-Solvers?

by James L. Payne

The following is the author's reply to a correspondent who wrote him urging greater use of government to right social wrongs.

Dear Mr. _____:

You write that you are disturbed by the suffering and unfairness you see in society. I am also concerned about many such problems. The question is, how should we go about making the world a better place?

The usual method is to turn to government. For example, you feel that doctors overcharge the poor. Following the political approach, you would contact politicians and ask them to pass a law reducing physicians' fees. I disagree with this approach. First, it is based on coercion, and I don't think coercion is an appropriate remedy for most things. This is a fundamental problem with government action. Governments raise their money through coercion, and impose their will through policemen and soldiers. When we turn to it, we are turning to the sword. Maybe this method can't be avoided for some particularly intractable problems, but forward-looking reformers should hesitate to use it.

A second problem with government is that it relies on bureaucracy: large, complex organizations that are handicapped by self-defeating rules and staffed by less-than-dedicated employees. Bureaucracies cost a lot, often fail to

solve problems, and frequently make things worse.

A third problem with government action is that it is insensitive. Government acts through universal prescriptions, laws that apply to everyone. It therefore attempts to regulate situations it does not know anything about. For example, how can anybody claim enough understanding to declare what all doctors should be paid? There are millions of different doctor-patient situations. Unless we study each one, we cannot make a wise and fair determination of the proper prices to be charged. Government will not and cannot study each one; therefore it is bound to impose unfairness and inefficiency in many, many cases.

The alternative method of dealing with social problems is voluntarism—laying aside the use of coercion and depending on individual action, persuasion, and voluntary organization. For example, if you felt physicians were charging too much, your first step would be to look into the matter and find out what doctors' costs were, why they were charging what they were charging, and so on. A next step might be to approach physicians and try to persuade them to charge less. This would engage you directly with the problem, exposing you to the complexities of the issue and perhaps revealing gaps and intolerance in your own views. A third step might be to form a voluntary organization aimed at persuading doctors to charge less, or aimed at helping the poor to pay medical bills.

James L. Payne is a political scientist who is writing a book on the theory and tactics of voluntary methods of reform.

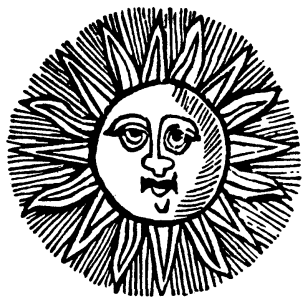
Would such methods work? Not perfectly, by any means. But, depending on the effort *you* put forward, they would be a start. All too often, we treat social issues as just another form of TV entertainment, like Monday Night Football. We sit in our armchairs and expect “them,” the people on the screen—quarterbacks, congressmen—to solve the problem. When it comes to making a better society, *we* should get out and work on the problems ourselves.

To some extent, your belief in coercive controls stems from a cynical view of human nature. You declare that “all people are naturally selfish—and will take all that they can get. If you do not believe this, tell me one person who will not do it.” I agree with you that selfishness is an element of the human makeup. But so are idealism and the desire to help others. The question is, on which aspect of human nature should we found our philosophy of social improvement?

Shouldn't we stress the positive? Shouldn't we adopt the voluntary methods that assume people will be helpful and sharing toward others? In this way we shall encourage those virtues. The coercive method that assumes people must be forced to help others promotes more selfishness and the ever-greater use of force.

You ask me to show you “one person” who will not “take all that they can get.” I can: yourself. You took the trouble to type a three-page, single-spaced letter to me, a stranger, not because it would make you any richer. You were motivated by a deep concern with social problems. And I'll give you another person who is not totally selfish: me. I want to donate \$100 to your Society for Low-Income Medical Assistance as soon as you've got it set up. Now that makes two of us, and we're on our way to winning the world.

Sincerely,
Jim Payne



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The Levelers: Libertarian Revolutionaries

by Nick Elliott

Among students of intellectual history, the revolutions in the United States (1776), France (1789), and Russia (1917) attract most interest as being the result and cause of ideas: in America the liberalism of Thomas Paine and the later Federalists, in France the turbulent combination of the liberalism of Voltaire and Montesquieu with the populism of Rousseau, and in Russia the path-breaking implementation of Marxism. Earlier revolutions in the Netherlands and in England are often passed over.

The first English “revolution,” following the Civil War of 1641-1646, was a remarkable event for the ideas which led up to it, and which ensued from it. England had been a profoundly individualistic society for centuries before the war. As Alan MacFarlane has shown in *The Origins of English Individualism*, there was little of the tradition of communal ownership and dependency in social relationships of the sort that prevailed in mainland Europe.¹ This individualism made England particularly hospitable to Reformation ideas, and subsequently to liberal principles.

The Reformation was a challenge to the monolithic state churches. It also allowed for

each believer to communicate with God in his own way, and so made the church hierarchy redundant. The fragmentation of English religion was aided by the translation and mass production of the Bible, allowing each individual to interpret for himself. Religious radicals, like the Leveler leader John Lilburne, drew upon the stories of Protestant suffering told by John Foxe in his *Book of Martyrs*.

One of the major reasons why civil war erupted was that Charles I and his Archbishop of Canterbury, William Laud, were attempting to impose a uniform high church religion. This policy was inextricably linked to the maintenance of state hegemony. Laud ordained a weekly reading in every church of the Divine Right of Kings—the doctrine that kingship is directly conferred by God. The Church of England had often been used before to control the ideas and behavior of subjects. Those who challenged the authority of the church also threatened the powers of the state. The Earl of Strafford recognized this when he wrote: “These men do but begin with the Church that they might have free access to the state.”²

Early Liberals

Against this circumstantial background a group developed known as “The Levelers,” an informal alliance of agitators and pamphleteers

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who shared the same commitment to liberal principles. The Levelers have been neglected by more recent liberals. Indeed, it has remained a largely unchallenged assumption that they had socialist aspirations.

"Leveler" was a term of abuse, coined by those seeking to exaggerate the threat of their ideas. The only sense in which they were levelers was that they sought an equality of rights in law; they railed against tipping the scales of justice in favor of those with wealth and status. *Yet they explicitly disavowed the charge of favoring the leveling of wealth.* They distanced themselves from the "Diggers" or "True Levelers," who were genuine visionary communarians.

Against the despotism of the Stuart state the Levelers invoked the concept of natural rights. They drew upon the explication of natural law by Christopher St. Germain in his book *Doctor and Student*.³ Richard Overton, one of the leading Leveler activists, expressed the principle like this: ". . . by natural birth all men are equally and alike borne to like propriety, liberty and freedom."⁴

Natural rights are a current of thought in the liberal tradition: the theory was later expanded by the philosopher John Locke and was the foundation of the Declaration of Independence. When the Levelers spoke of rights, they assumed them to reside with individuals. They believed that each man should have freedom limited only by regard for the freedom of others.

What went alongside the principle of equal natural rights was the principle of equality in law. In this the Levelers championed the cause of the common man by calling for the law to be applied impartially, without favor to wealth or position. For them, the basis of law was English common law, supplemented by a few statutes which guaranteed individual liberty, such as the Magna Carta and the Petition of Right.

Levelers renounced most of the laws made since the Norman invasion, the corruption of the common law tradition being seen as the result of the "Norman yoke." Sir Edward Coke's *Institutes*, the classic contemporary defense of evolutionary common law, was used as a Leveler handbook. Their approach anticipated the

case for evolutionary common law as opposed to statutory law made by later liberals such as David Hume and F. A. Hayek.

It was a principle justified by bitter experience. The Leveler leaders suffered many times from arbitrary arrest and imprisonment, both under the Stuart monarchy and under the post-war republic. In a famous trial in 1649, John Lilburne was indicted for high treason. Lilburne made a strident defense on grounds of principle, and confounded his opponents with procedural delays. He convinced the jury of his innocence and was acquitted. The result was hailed as a great victory; bonfires were lit throughout the capital. Yet, within a year he was tried and convicted by Parliament, acting as judge and jury, and banished to lifelong exile in the Netherlands. He died under sentence, having spent 12 years of his 42-year life as a prisoner of the state.

Lilburne held such a commitment to his legal philosophy that he opposed the trial and execution of Charles I—whom Lilburne had enlisted in the Parliamentary army to dethrone. He believed that if the King were to be tried at all, then it should be before a common law court and jury, the procedure of justice that should be available to every free-born Englishman.

To the Levelers, all men were born free and equal. It followed that government could be legitimate only as a contract among free individuals. Government was justified only as a voluntary combination to provide better protection for property. The cohesion of principles is illustrated by this statement made by Leveler Maximilian Petty at the Putney debates: "For I judge every man is naturally free; and I judge the reason why the men when they are in so great numbers that every man could not give his voice, was that they who were chosen might preserve property; and therefore men agreed to come into some form of government that they might preserve property. . . ."⁵

Monarchs had obligated the allegiance of subjects by claiming that their authority was granted by God. For the Levelers, government was legitimate only if the consent of those under it was secured. In the context of history their belief in representative government was notably advanced; the idea was to become the basis of Western democracies.

The Response to Despotism

It is an accident of history that the Reformation movement gave rise to ideas which reassessed the relationship of the individual to the state. Luther was shocked when his denouncement of church corruption led to uprisings in Germany, and he called for the rebellion to be crushed without mercy. Calvin was less conservative in accepting the consequences of his doctrinal challenge, but the organization of society which the Calvinists established in Geneva was very closed and restrictive. Neither the state church, nor the Lutherans and Calvinists wanted pluralism in religion, but the unexpected outcome of their conflict was that overall compliance was less easy to enforce.

It was the same with religious toleration in England. Parliament had rebelled against the King not because they objected to uniformity of religion, but because they disliked his own preference for a High Church, and Laud's inclination towards Arminianism. During and after the war neither side held the authority to enforce a doctrine. The result, which neither Parliament nor King sought, was *de facto* toleration.

Many varieties of faith were being practiced throughout the country. The Levelers themselves differed in religion—Lilburne was a mainstream Puritan until his conversion to Quakerism in later years. William Walwyn was an antinomian, while John Wildman appears to have inclined towards skepticism. The breakdown of conformity in religion made the law an anachronism, and made law enforcement an exercise in futility.

The whole basis of Leveler politics was original in that the foundation wasn't religious doctrine. What they sought was a secular republic, without religious direction from the state. In common with later liberals, they called for the abolition of tithes—the feudal fee charged to pay for the state church. They argued for complete religious toleration—a position that was very radical for the time.

Those in government, before and after the Civil War, felt alternative doctrines to be a threat. Tight controls were maintained over the means of communicating new ideas, by vesting the sole right to print and publish with agents of the state. Under Charles I all printing and pub-

lication were controlled by the Stationers Company, which held a legal monopoly.

Lilburne first became famous when, as a young man, he was arrested by officials of the Stationers Company while assisting in the illegal importation of texts from the Netherlands. Tried and convicted before the Star Chamber, he was flogged down the length of Fleet Street, pilloried, and then shackled in a prison cell. Lilburne was freed after two years, in time to enlist with the Parliamentary army. After the war, Parliament was no more willing than the King had been to relinquish control of printing. The Stationers Company was not abolished, but reformed as the "Committee of Examinations." Lilburne soon fell afoul of the Examiners. Locked away at their behest in Newgate prison, he wrote *Englands Birth-Right Justified*, an eloquent piece in which he called for the dissolution of the "insufferable, unjust and tyrannical Monopoly of Printing."

The imposition of an alien prayer-book in Scotland provoked rebellion and led to the First Bishops' War against the Scots in 1639. Charles had not called a Parliament since 1629, and so had scant means to finance the war. The Stuart machinery of government was still largely feudal, and the King had to exploit what expedients he could to find revenue. He revived knighthood fines, imposed fines for the enclosure of forests and common land, increased excise taxes on domestically produced goods, and levied "ship money"—supposedly to finance the navy—upon inland towns. Another expedient was the creation of monopolies—the sale by government of the sole right of manufacture. These expedients bridled the economy and were particularly onerous for small capitalists. They were one of the heavy grievances which led men to take up arms and fight a war against the King.

The most despised monopoly was the Merchant Adventurers Company, which held the sole right for trade in textiles. A booklet popularly received was the anonymous *A Discourse for Free Trade*, which called for the removal of their charter.⁶ In the Leveler constitution, trade was to be free from government intervention: "That it shall not be in their power to continue or make any Laws to abridge or hinder any person or persons, from trading or merchandiz-



Oliver Cromwell
(1599–1658)

ing into any place beyond the Seas, where any of this Nation are free to Trade.”⁷

Leveler support had its basis in the Parliamentary army, which was uniquely suitable for the spread of radicalism. Ironically, it was Oliver Cromwell, the leader at odds with the Levellers, who had formed the army into a meritocracy. “Gentlemen” did not have automatic passage into the officer elite: rank was dependent upon soldiering ability. Ordinary pikemen and musketeers were less divided from the men of status, and began to see themselves as equal in rights to their leaders. The most dedicated fighters were motivated by religious zeal, and some of them were forceful orators, with a captive audience of fellow soldiers.

When the first civil war was won, the victorious army hoped for great things. But, Parliament viewed the standing army as a threat to its power, and as a dangerously radical body of opinion. They ordered the troops to disband, which added to discontent and reinforced Leveller support. When the troops elected their own agitators, the army became a political force.

What followed were the remarkable Putney debates, at which ordinary soldiers sat down with generals—Oliver Cromwell and Henry Ireton—to discuss political principles. The Levellers argued that government can be legitimate

only with the consent of the citizens. They contended that there was no basis for excluding poor men from voting, because without having a voice in the making of laws one is not obliged to comply with those laws. Colonel Rainsborough made the case like this: “. . . for really I think that the poorest he that is in England hath a life to live as the greatest he; and therefore truly, sir, I think it’s clear, that every man that is to live under a government ought first by his own consent to put himself under that government.”⁸

They drew up a constitution to be presented and agreed to by the people, distributed in pamphlet form as *An Agreement of the People*. The first Agreement appeared in 1647, and two variations in subsequent years. The Agreements were drawn up by people who had been severely disillusioned by the new regime. They had taken up arms to fight against the arbitrary rule of King Charles I, but now saw Parliament becoming equally despotic.

The Agreements aimed to limit government by dispersing power among separated executive, legislative, and judicial branches. The House of Lords was to be abolished. Certain individual rights were to be protected from government infringement by constitutional guarantee. The obvious parallel here is with the American revolutionaries, who enshrined their concept of natural rights in a constitution which was aimed at restraining government.

The separation of powers was incorporated into the Instrument of Government, Britain’s first and only written constitution, drawn up by John Lambert. The Instrument established a division of powers among the Lord Protector, Parliament, and a Council of State. It also guaranteed certain individual liberties against the encroachment of statute law; it guaranteed religious freedom for all but Catholics and followers of “licentious” sects. Although the Levellers denounced the Instrument, their ideas had a clear bearing upon its design.

The Leveller Legacy

Many of the books written about the Levellers chart their “rise and decline” as a political movement, as if their importance lasted only as long as they had the ear of Oliver Cromwell.

More significant than the movement and its activists were the ideas which they introduced into public discussion. Their ideas lived on, long beyond their immediate political successes. In 1826, when Thomas Jefferson wrote that "[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," he was quoting the words of Leveler Richard Rumbold.⁹ Americans founded a republic with a government limited by constitution; they enacted what the Levelers had proposed.

Religious uniformity could never be a serious policy again with the great diversity of faiths that had been flourishing outside of controls. Toleration in law was admitted in 1689, with freedom of worship made permissible for all but Unitarians and Catholics. It was made complete in the nineteenth century with the opening of the political nation to Catholics and Jews. However, state involvement in religion remained an issue of contention for the liberals of later years. Tithes fell into disuse, although they were not formally abolished until 1936.

For the same reason—the obvious futility of the law—censorship ceased to be a sensible undertaking. Improved printing technology had made pamphleteering simpler and cheaper. When in 1644 the poet John Milton published his famous *Areopagitica: A Speech for the Liberty of Unlicensed Printing*, the work was illegally dispersed through the underground London printing network; its spread was a vindication of the very argument contained within. The output of private presses outgrew the resources of the Examiners. In 1645 fewer than 700 new publications were brought into circulation. By 1648 the number had grown to over 1,400. It was in this year that *The Moderate* was first seen, a regular newspaper with Leveler sympathies. In 1695 censorship was allowed to lapse from the statute book, in recognition that it had become ineffective.

After many years of guarded privilege, the Merchant Adventurers government charter was dissolved in 1689, as one of the acts of the Glorious Revolution. It was not until the 1840s that trade was freed from the strictures of the law, as the result of the unrelenting efforts of liberals and humanitarians. Monopolies of one sort or another have persisted, and remain a

source of contention in modern times. Leveler support for a wider franchise went unheeded at the time, but was revived to become one of the great liberal campaigns of the nineteenth century. In the positions they took on these questions, the Levelers showed a remarkable anticipation of what became, much later, liberal and progressive opinion.

The overthrow of the monarchy in England removed a structure of government that had existed for centuries. For the first time, a new foundation of government had to be built. Questions of political philosophy took on a new importance.

It was also a time when the monopoly powers of government were not sustained. In their absence, individual liberty was left to prosper. People needed to worry less about offending the law when they practiced their religion or set down an opinion in writing.

For a time, in the postwar upheaval, when they had won support of the army, the Levelers were power-brokers; Cromwell and the army leaders had to consort with the Leveler leaders. Leveler fortunes climbed, and Cromwell remained receptive—but only while he needed the army against Parliament and the Scots.

Remarkable while it lasted, Leveler control over the balance of power could be maintained only so long as there was instability. With the Scots defeated, and Parliament brought into forced obedience, Cromwell could act against the Levelers. Once more, their political activities placed them in danger. They either retired, escaped, or went to prison. In retrospect, however, prison walls did not prevent the advance of their ideas. In subsequent years, England became a freer place in which to live, and this owed something to the efforts of these early libertarians. □

1. Alan MacFarlane, *The Origins of English Individualism* (Oxford: Blackwell, 1979).

2. M. A. Gibb, *John Lilburne the Leveller—A Christian Democrat* (London: Lindsay Drummond, 1947), p. 35.

3. Pauline Gregg, *Free-Born John* (London: Dent, 1986), p. 217.

4. Richard Overton, "An Arrow Against All Tyrants," in *The Levelers in the English Revolution*, G. E. Aylmer, ed. (London: Thames and Hudson, 1975), p. 69.

5. Aylmer, p. 106.

6. Gregg, p. 118.

7. *An Agreement of the People*, in Aylmer, p. 165.

8. Aylmer, p. 100.

9. Christopher Hill, *The Experience of Defeat* (London: Faber and Faber, 1984), p. 37.

At Whose Expense?

by Philip Smith

A question often overlooked in public policy debates is deceptively simple: “At whose expense?” Let us reflect for a moment on this question and see if, by answering it, we can clarify some current issues.

Take, for example, child care benefits. When described by child care advocates, the issue seems rather innocuous. “Shouldn’t working mothers,” they ask, “have a right to adequate child care at reasonable cost?” The answer to such a question would seem to be yes, since parents have a right to seek adequate child care wherever and at whatever cost they choose.

But these advocates often go a step farther. They maintain that a parent’s right to *seek* child care somehow places a burden on a second party to *provide* it. This second party is usually thought to be the parent’s employer, or perhaps the taxpayers. This second party, then, is the answer to the question, “At whose expense?” Immediately another question then comes to mind—why?

Why should an employer be forced to provide child care? Some will argue that unless force is invoked, there won’t be enough child care facilities. This is doubtful, since as a general rule the free market works to meet consumer demands. A demand for child care will be met by profit-seeking entrepreneurs, if the market is free from government interference. However, if child care providers are burdened with too many regulations, laws, and taxes,

they may not find it worthwhile to stay in business. Furthermore, if entrepreneurs must compete with government-subsidized providers, they may be driven out of business, thereby reducing the options available to parents.

Most important, however, is the fact that employers are people too—and they have a primary right to do as they choose with their own earnings and property. This includes the right to decide whether to offer employee child care. This is truly an “inalienable” right, and takes precedence over other so-called “rights,” such as the parent’s “right” to child care at the expense of an unwilling second party.

Likewise, imposing the financial burden on the taxpayers still amounts to forcing the individual taxpayer to purchase child care for someone else. Why should you be forced to pay for my child’s care? I have no more right to use government to take your money than I do to seize it directly at gunpoint. The only just system is one in which child care is paid for without the threat of coercion. Any other scheme, regardless of the noble intentions of its designers, plunders one person to provide care for someone else’s child.

Catastrophic Health Care

As another example, let’s consider catastrophic health care for the elderly. We might agree that this is a noble and desirable thing—but again we must ask the question: “At whose expense?” And it is here that the arguments for mandatory health care benefits collapse on ethical grounds. For, as with child care, we dis-

cover that the burden of financing catastrophic health care is to be placed on an unwilling second party—taxpayers. By what right?

Logically, all people should be free to seek out health insurance from those willing to provide it. As long as the purchasers of a plan give their money willingly, no ethical problems arise. But when one person is forced to fund an insurance plan for another, that person's rights have been violated.

Consider someone who has purchased health insurance for himself and his family. By what right should he be forced to also buy health care for strangers? The answer, of course, is that no one has the right to demand this of him.

The Homeless

As a third example, consider the plight of the homeless. It is a sad but unchanging fact that some people cannot and will not be able to afford a home. Some concerned citizens think the solution is to build housing for the homeless, and perhaps provide food and social services. But once again the question arises: "At whose expense?"

The usual answer is the government. But who pays the government's bills? Clearly you and I do, through taxes taken from us by force. It is the individual taxpayer who finances any such "charity." Advocates of such programs believe themselves empowered to force us to give to their cause, not by persuading us, but by threat of imprisonment under the tax laws.

But what if I have my own favorite charities or causes, and already give to them all that I can? Or what if my neighbor simply doesn't

believe he is obligated to build a house for a stranger? By what right can he be forced to give up his money simply because someone else doesn't have enough of his own? The answer, again, is that no such thing should be demanded of him.

But what a cruel state of affairs, some will say. What about those too poor to buy insurance, or child care, or a home? How will they survive?

The answer is simple: private, voluntary charity. Human compassion runs deep, resulting in thousands of charitable organizations that exist solely to help the less fortunate, and which get no government funding. These organizations, unlike the government, are limited to peaceful means of persuasion. They cannot take from us by force; they must convince us that their cause is worthy and their goals are in line with our own. When we ask of their work, "At whose expense?" the answer is: willing donors.

A distinction, then, becomes clear. With the help of the handy litmus question, "At whose expense?" we quickly skip to the core of matters which otherwise might seem a confusing mix of merits and drawbacks.

The answer to the question will be either *willing buyers* or *unwilling victims*. In the first case, those who benefit from a good or service are those who pay for it, or for whom a charity has paid the bill; in the second case an agent, usually government, is employed to rob from some to provide for others in the name of "justice" or "compassion." But America was founded on the principle that ends don't justify means. Justice and compassion are never served by violating the rights of free human beings, even for the noblest causes. □

Wilhelm von Humboldt

In proportion as each individual relies upon the helpful vigilance of the State, he learns to abandon to its responsibility the fate and well-being of his fellow-citizens. But the inevitable tendency of such abandonment is to deaden the living force of sympathy, and to render the natural impulse to mutual assistance inactive.

**IDEAS
ON
LIBERTY**



Of Special Interest

by Lloyd Cohen

In every election campaign of recent memory, the phrase "special interest" has been used pejoratively to describe the programs and appeal of one candidate or another. While the phrase is frequently used, it is never defined.

Although the failure to define a commonly used term sometimes reflects a general understanding of its meaning, the more reasonable conclusion in this case is that it represents and conceals various forms of misunderstanding and misinformation. This imprecise usage is not only a reflection of sloppy thinking but a cause of it as well. It is impossible to think clearly and argue convincingly when using language carelessly and imprecisely.

In an effort to add a measure of intellectual content to popular political discourse, I offer a definition of "special interest" that is clear and concise, permits meaningful distinctions between different kinds of government activity, and is in accord with the moral opprobrium usually attached to the phrase. While what follows may seem like a lesson in elementary economics, it is not. It is, rather, a discussion of political rhetoric and morality, employing economics as a vulgar but powerful tool to facilitate understanding.

Every proposed government project will benefit some and harm others. Any project that would benefit all has either long since been enacted or will be enacted with minimal opposi-

tion. On the other hand, those proposals that would harm everyone have no proponents. The only proposals that are of any interest fall in the middle; they help some and hurt others.

The mere fact that a given program would help some and hurt others cannot be sufficient to qualify it as a special interest project. Otherwise the term would lose all power as an analytical tool, since every government program would satisfy the criterion. Yet, both the public and the media seem to use the phrase "special interest" in precisely this fashion. If someone disapproves of a proposed government activity, he simply points out a discrete set of people who will benefit, and proceeds to tar the project with the special interest brush. Thus in the 1984 Presidential campaign, Walter Mondale was accused of favoring projects such as domestic content legislation that would benefit labor unions, while Ronald Reagan, who favored lower marginal tax rates, was portrayed as a tool of moneyed interests.

The special interest critique of proposed government activity is sometimes presented in a slightly more sophisticated form. The critic depicts the group that would benefit from a project as narrowly as possible, and the group that would be injured as broadly as possible. Then the argument is made that because the losers outnumber the winners the project obviously serves only a special interest and therefore should be abandoned.

For example, those who argue for quotas or tariffs on low-priced imported shoes tend to count only foreign producers and importers as those who gain. They ignore consumers who

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benefit from lower prices and those employed in exporting industries who benefit from the increase in trade. (Imports are ultimately paid for with exports.) Similarly, the class injured by shoe imports is expanded beyond those who participate in the domestic shoe industry by presenting an apocalyptic vision of a decline in other sectors of American life which surely must follow in the wake of imported shoes, as for example, "our soldiers could be left without boots to wear in the event of war."

The proper focus of the pejorative phrase, "special interest," must be a narrower and more precise category. The general interest can never be determined by a mere show of hands, whether or not those hands are properly counted. Whatever virtue there may be to democratic hand counting, it isn't synonymous with the general interest.

And as a corollary, the failure of a project to benefit more individuals than it injures can never be a sufficient condition to classify it as serving a special interest. A mere counting of hands would fail to reflect the character and magnitude of the gains and losses to the affected individuals.

For example, those who would gain by the confiscation and general disbursement of the property of a single individual will always outnumber the one who would lose. Nonetheless, it is generally understood that the loss to the owner weighs more heavily on the scales of justice than the gain to the thieves. When the government protects that individual's right to his property, no one refers to that as a special interest activity in any pejorative sense of the term.

I would like to think that the following illustrates a widely shared public moral understanding that defining a political special interest isn't merely a matter of head counting. Near the end of the 1988 campaign, when Michael Dukakis proclaimed that while George Bush represented the interests of Wall Street, Dukakis represented Main Street, he was labeling George Bush as representing a special interest (the wealthy) and declaring that he represented another special interest (the unwealthy). It was, I suppose, Dukakis' hope that a majority of the American people would vote their narrow self-interest. Dukakis' decline in the polls after tak-

ing this tack, and his ultimate defeat, were perhaps in part a recognition by the electorate that he was trying to appeal to special interests, and vindication of the principle that a President should represent a general interest rather than anyone's or even everyone's special interest.

General Interest vs. Special Interest

If it is not merely the number of winners versus the number of losers that is the proper criterion for the pejorative phrase "special interest," what criterion is appropriate? In order to distinguish intelligently between special interest and general interest projects, it is necessary to compare what is gained by those who are served by the project with what is lost by those who must pay. But, on what scale are these gains and losses to be compared?

The early utilitarians such as Bentham and Mill believed it was both meaningful and theoretically possible to delve into the souls of the individuals affected and measure pleasure and pain on some sort of scale in order to compare those quantities among individuals. Were we to employ such a standard, it would require that we determine the number of utils (units of pleasure or pain) each affected person would gain or lose from a project, and sum those numbers over all the affected individuals. A special interest project would then be one for which the utils gained by the winners were less than the utils lost by the losers. However, having faith neither in the metaphysical existence of the theoretical concept, utility, nor *a fortiori* in the operationalization of that concept, measuring utils, I prefer the use of a more concrete and accessible measure.

Although the concept of utility suffers several deficiencies, it also has one important virtue. Unlike a mere counting of hands, it gives different weights to different people's interests in a project. Its disabling shortcoming, however, is that the weight it gives, utils, is little more than a theoretical construct, about which modern scholars could argue with the same success as did our apocryphal medieval ancestors over questions such as how many angels could dance on the head of a pin.

As an alternative to utility, social wealth is a

far more accessible measure. The gain or loss to each individual that would be generated by a proposed project can be measured by his willingness to pay. Summing those gains and losses provides a measure of the effect of a given project on social wealth.

For example, if building a dam would confer a benefit on someone for which he would be willing to pay as much as 100 dollars, then 100 dollars represents the value of the dam to him. If another individual who would be harmed by the project requires a payment of 150 dollars to compensate him for his loss, then 150 dollars represents the cost of the project to that person. A special interest project may be defined as one for which those who oppose the project would require more in dollars to accept it, than those who benefit would pay to enact it. Expressed another way, a general interest project is one for which the winners could compensate the losers for their losses and still retain some winnings, whereas a special interest project is one for which compensation of the losers by the winners would result in the winners joining the camp of the losers.¹

A Theoretical Tool

The definition of special interest projects that I offer, i.e., projects for which the dollar gain to the winners is less than the dollar loss to the losers, is a theoretical tool. You may still ask of what use is this tool. Armed with it are we any better off than the utilitarians in our effort to operationally distinguish special interest and general interest projects? How can we determine how much someone is willing to pay? Surely we cannot ask him. Once it was known that willingness to pay was the criterion by which government projects would be judged, it would be all too easy for people to lie and claim a willingness to pay enormous sums both for the projects that they favor and to prevent those they oppose. How can we determine their true willingness to pay?

We have at hand an institution to help us in this inquiry—the market. It is through the use of markets that those who gain from the transfer of resources (the winners) can compensate the owners of those resources (the losers). The operation of the market doesn't require coerced

transfers of resources by the government. If a product or service is offered on a market, no one need pay more for it than its market price. Therefore we can infer that if someone is unwilling to pay the market price, then the good or service simply is not worth that price to him. Anyone advocating a government project that results in wealth transfers—and of necessity they all do—should be required to explain why, if the transfer is a net benefit, it hasn't already occurred.

The only legitimate answer must involve some notion of market failure. That is, for some reason, although it is of net benefit in that the gain to the winners is larger than the loss to the losers, the market fails to provide this project. The usual reason for such a failure is that it is impossible to exclude from the benefits of the project those who value it, but do not pay for it. Hence, although many would be willing to pay if they had to, since they do not have to in order to get the benefit they will not, and the project will not be financed.

The quintessential example of such a project is national defense. The self-declared pacifist who refuses to pay for national defense claiming that he has no fear of the Soviet Union cannot be excluded from the protection that the rest of us pay for. Since it is in the narrow self-interest of each of us to free-ride on the provision of this collective good, it is likely that we would have a severe under-provision without the coercive power of government to compel a contribution from each of us.

It is out of necessity, but nonetheless with some reluctance, that I acknowledge the validity of a market failure/collective good justification for government-financed projects that provide benefits to some at the expense of others. The existence of collective goods and the efficiency problems they create explain the necessary role of government in providing for such things as the national defense and a system of criminal justice. However, the market failure argument is all too easy to make, and virtually impossible to prove or disprove.

As an extreme example of the difficulties in disposing of alleged market failures, consider the following. The women of America could argue that perfume and dress purchases should be subsidized because when they smell and look



nice it gives pleasure to others, men in particular. The men would be willing to pay for that pleasure if they had to, but because they cannot be excluded from smelling and seeing women wearing perfume and dresses they will not pay for it. Therefore in order to achieve an efficient level of perfume and dress purchases, the government should use tax dollars to subsidize women's shopping.

This example may seem absurd and trivial, but it isn't clearly erroneous. Every private activity may generate uncompensated benefits and costs to others. There is no simple or obvious way to distinguish the significant and worthy cases—deserving of government action because the benefits of such action will outweigh the costs—from the trivial and unworthy cases. Ultimately such questions must be decided by the exercise of an intelligent, good faith judgment.

Nonetheless, the tools of economics can do much to winnow the wheat from the chaff. The number of projects that could pass a rigorous application of this "willingness to pay" test and be shown not to deserve the title "special interest" is, I believe, very small. The principle of the test is clear. It asks that we weigh equally the dollar costs to those who must pay against the dollar gains to those who receive the benefits. Any other argument that proponents might

raise must rest, either explicitly or implicitly, on invidious distinctions in how the welfare of various groups of people should be weighted on our collective scale of values.

A good example of a special interest project is an import restraint. Economic theory has taught for over 150 years that the net cost to the public of import restraints, above and beyond any benefit to the domestic industry, is immense. In the steel industry, for example, the restraints proposed by the United States International Trade Commission in 1984 were estimated by the Commission staff to cost the American people several billion dollars a year, or \$300,000 per American steel worker's job "saved." The people who would gain from the constraint were primarily those employed in the steel industry.

Could the steel workers whose jobs are saved pay the rest of us \$300,000 for each projected job paying \$40,000 a year and still retain some of the gain of protection? Clearly not. Why then did they favor this protection? The answer is simple: special interest government projects *never* require that the winners compensate the losers. It is only because special interest protectionist legislation imposes the greater cost of protection on others that the protected industries support it.

Those readers who view private property as inviolate may wish to treat the "willingness to pay" test I have proposed as a necessary, but not a sufficient condition for approval of a government project. It may strike them as unjust that property rights be nullified for such a seemingly arbitrary reason as whether other people place a higher dollar value on the property.

In defense let me suggest that we normally treat every property right as contingent and limited in just such a fashion. For example, even the most extreme Lockean believer in the sanctity of private property doesn't consider it trespass if I light a match on my property and the photons of light emitted enter your property. It is so obvious that permitting such reciprocal invasions is mutually beneficial that it seems absurd to label it a trespass. But in its metaphysical character it is as much an invasion of another's property as ordinary trespass; the fact that we do not treat it as such is a reflection of an implicit shared understanding that such so-

cial wealth-maximizing invasions should be permitted.

The "willingness to pay" criterion for defining a special interest project that is rightly deserving of condemnation, and distinguishing it from a general interest project deserving of approval, does not lead to the approval of new or different violations of individuals' property rights. Rather, the test simply provides a theoretical underpinning for those projects that even the most scrupulous property rights adherent would already approve.

A Legal Tool for Limiting Special Interest Projects

One legal tool for appropriately limiting the projects that get government funding is to take seriously the requirements of the eminent domain (takings) clause of the Fifth Amendment, which provides: "nor shall private property be taken for public use, without just compensation."² This would require that the government not take anyone's property for purely private purposes and that anyone whose funds or property were taken for a public purpose must receive full compensation. No special interest project can survive the requirement that the losers be fully compensated. If the winners must compensate the losers, they will do so only if the project has a net positive gain.

The primary benefit of rigorously defining special interest is that it provides economic, moral, and political meaning to the world around us. It weighs each person's interest in a project on a uniform and comparable scale. The inefficiency and injustice of special interest projects have the same root. Social wealth is diminished by every special interest project; the pie becomes smaller. The injustice is also readily apparent. Advocating a special interest project implicitly requires giving greater weight to the welfare of some more than of others.

Of course, those who favor such projects will use a variety of rhetorical devices to obfuscate the special interest nature of their proposals. They will describe the outcome of the market as "unfair," or assert that "we cannot expect the market to solve all our problems." The use of such sophisms is meant to conceal the simple truth that those who promote such projects are in effect saying that the losses to those who must pay do not carry the same weight as the gains to those who benefit. The drawing of such invidious distinctions across individuals should be righteously condemned. It can only injure the fabric of a democratic society that rests its sense of nation not on a common race, religion, or culture, but on a political tradition of equality and liberty.

The groups helped by special interest legislation are generally small and well defined in contrast to the larger, more diverse groups of individuals who are hurt. This helps explain why coalitions are formed that lead to the enactment of this legislation, but the explanation of its political origin doesn't define a special interest project, nor is it sufficient to explain the term's pejorative connotation.

It is neither the failure to count heads nor the insular character of the group served that offends our intuitive sense of justice. It is rather the willingness to diminish the combined wealth of all Americans to benefit a narrow group that is so morally odious. An evaluation of a proposed government action employing this definition of the special interest will reveal and clarify its moral, economic, and political character and consequences. □

1. For those with some formal training in economics, I note that this is the Kaldor as contrasted to the Hicks or Scitovsky compensation criteria. See Henderson and Quandt, *Microeconomic Theory* (1958), p. 219.

2. Richard Epstein's excellent book, *Takings: Private Property and the Power of Eminent Domain* (1985), provides a full-blown description and defense of this largely ignored Constitutional doctrine.

Private Enterprise in Poland

by Barbara Sall

The shop is small, but well organized and has a great location in the center of Krakow's business district in the old, medieval part of town. Kristina, the proprietress, shows me her latest selection of avant-garde pins and earrings, and I hasten to buy several. At the black market exchange rate of 1,400 zlotys per \$1, I figure the price of an originally designed pin to be about 50 cents.

Kristina is a member of the fairly large, struggling class of private entrepreneurs who have survived decades of Communist rule in Poland, the land of eternal contradictions. Her business, like that of her fellow private shopkeepers all over Poland, is legal and not underground. She garners her supply of costume jewelry and beautiful leather goods directly from artisans and craftsmen. Her prices are a matter of supply and demand, although the pervasive inflation of the Polish currency has had a devastating effect on her customers' ability to buy.

I visited Kristina's shop when I traveled to Poland last June. Hers is one of many private shops that provide a wide variety of goods. They sell explicit caricatures of Communist bureaucrats, posters that ridicule the Communist system and hint at revolution, and paintings of dark and depressing scenes of life under Communism. At the same time, private flower stalls and produce stands are brimming with fresh—

and expensive—harvests. These small, private enterprises provide over half the food consumed by Poles, and create islands of entrepreneurial activity in the midst of the numbing regulations of socialism.

Despite over 40 years of Communist rule, Poland has retained an element of private enterprise that surprises many Western visitors. There will be no need to instruct Poles on how to run shops, restaurants, small farms, or even private manufacturing concerns should *perestroika* come to Poland. All these businesses currently exist in Poland, but their ability to prosper is severely hampered by government intervention.

The largest private sector, by far, is in agriculture. Unlike leaders in other Communist countries, Polish Communists lacked the resolve to collectivize the large landowning peasant class. According to Neal Ascherson in his excellent book, *The Polish August* (Viking, 1982), the Polish Communists were unwilling to commit the violence that would have been necessary to force the peasants off their land and into communes. Because of this, Poland has maintained a tradition of private ownership of land unequalled in the Eastern bloc.

Not that private farmers haven't had their difficulties. When scarce investment resources are grudgingly allocated to agriculture, private farmers are way down the list and must try to grow food without access to fertilizers, machinery, or labor. The thousands of large work horses you still see in Poland are the only farm "machinery" most private producers have, and

Barbara Sall is vice president of The International Alliance for Freedom and Peace, based in Boise, Idaho. To protect the identities of the Polish citizens interviewed for this article, pseudonyms have been provided for some of the participants.



BARBARA SALL

A private vendor sells plump—but expensive—tomatoes on the streets of Krakow.

farmers must recruit extended-family members to help with the harvests.

So, although more than half of Polish food is produced by private farmers, these landowners have very little ability to improve their farming methods. Also, unless they are able to take their own produce to town to sell, they must sell to the government at fixed prices that provide little incentive to expand production.

Private Manufacturers

In addition, Poland has a small, private manufacturing industry. I was fortunate in being able to talk to Marek, a worker in a private chemical plant near Krakow.

To a Pole, the most important part of working for a private company is the pay. Marek earns four times the wages he would if he worked for a comparable state factory or laboratory. On the other hand, there is a great deal of uncertainty for workers in the private sector. If a private company becomes too successful in competing against state-run concerns, the government can

remove the licenses required to do business, or refuse to supply raw materials.

Not surprisingly, all this uncertainty is particularly hard on business owners. Although a venture may prove successful, and the first impulse would be to reinvest profits, a sudden cutoff of supplies can result in the loss of invested capital. For that reason, businessmen are reluctant to invest more than they can afford to lose. Most private manufacturing concerns remain small and try to avoid the attention of the Communist bureaucracy. This is not so difficult as a Westerner would assume because of the survival techniques developed by Poles over centuries of invasion and occupation by unfriendly powers.

Business is often conducted only among old friends and in an atmosphere of reciprocity that would puzzle the American capitalist. The most important commodity in Poland is information, and this can be relayed to selected individuals through an amazing network of “friendly” party officials, plant superintendents, and suppliers.

The need to engage in trades for information and supplies, however, can lead to shady arrangements that involve bribes and supplies taken illegally from state storehouses. Marek deplored the need for such arrangements, but insisted that they often are required to stay in business.

One of the objectives of Solidarity, the banned trade union, has been to put an end to underground deals and bribes—an idea that has a great deal of support among Polish businessmen. They realize that Poles must be free to make trades and buy supplies on world markets in order to develop an extensive and successful private sector. Reliance on the arbitrary whims of government bureaucrats and the black market is no way to run a business.

Although Polish entrepreneurs temper their enthusiasm with large doses of realism, they are excited about two bills currently before the Polish assembly.

The first, and more important, would restructure the present tax system, which is extremely graduated. Any increase in profits is literally taxed out of existence and, in the words of Marek, "It makes it impossible to subsist and not to cheat. Every private businessman is now cheating—paying bribes and maintaining good relations with authorities in order to circumvent the tax codes."

Ideologically it would be very difficult to pass a meaningful tax reform. The idea of a socialist society that allows adequate profits in the private sector is something even democratic socialistic countries such as Sweden have a hard time accepting.

The brightest spot on the horizon concerns removal of some of the many licenses and regulations that are stifling Polish businesses. A list has been drawn up that would virtually exclude many firms, mostly service businesses, from current regulations.

The new bill eliminates most educational requirements, supply restrictions, and wage and price controls. Several of Marek's young friends plan to open day care centers and technical service businesses. They cite the government's need to promote any type of economic growth as the reason behind the new deregulation package, but are quick to point out that without passage of the tax reform bill, deregulation

is essentially meaningless. Marek hopes that continued protests about the horrid state of the economy will pressure the government into going ahead with significant tax reform.

I got an indication of how important the private sector is becoming in Poland from Kazimierz Fugiel, a strike leader at the Lenin steelworks in Nowa Huta. Fugiel and all the other members of his strike committee were fired from their jobs at Nowa Huta upon being released from prison, where they had served time for their involvement in the spring 1988 strikes. They were immediately offered jobs in the private sector that would have paid three to four times what they earned in the steelworks.

But idealism is strong in Poland. Fugiel and his fellow strikers refused the private sector offers and pressed the government to let them have their jobs back. All were given their old jobs and continue to represent Solidarity as active members of the strike committee. Still the fact that alternative jobs exist in the private sector creates a new tie between Solidarity labor demands and private enterprise.

More Changes

It is very doubtful that Poland will adopt a fully capitalistic system in the foreseeable future. But, since Solidarity was outlawed in December 1981, many changes have occurred.

Production workers now realize the advantages of dealing with private plant owners. More and more of them don't want to negotiate with government officials who can call out the *zomos* (internal police), instead of listening to the legitimate demands of the workers.

Libertarian societies in Warsaw and Krakow are offering classes in the creation and operation of private firms. The instructors are business owners.

Free market economic theory and practice are being openly taught in major Polish universities. Required courses in Marxist theory are ridiculed by students and faculty alike. Some members of the Polish intelligentsia believe that even the idea of a Communist or socialist society is dead in Poland. Miroslaw Dzielski, chairman of the Krakow Libertarian Industrial Society, told me, "The present leaders of the Communist Party in Poland are not Commu-

nists. They are the *sons* of Communists.”

But they also hold the power in a country where opposition parties are illegal. The question in Poland, I was told several times, is not whether capitalism or socialism works better. Everyone knows that capitalism is the superior economic system. The question is, will those in power relinquish even a small portion of their power; and if they do, will the Russians allow it?

Although many Americans place considerable faith in *glasnost* and *perestroika*, Polish dissidents look upon the new Russian openness as a short-term, unimportant development. The cycles of repression, hopeful change, and then further repression have been all too frequent for dissidents to believe that real change will come to Poland, or to the Soviet Union, as long as Marxism-Leninism holds sway.

And yet, knowing that they can't remove the Communists from power, the dissidents still are willing to take terrible risks in slowly pushing the Communist system as far as they can. They have adopted the techniques of civil disobedience to win concessions such as alternative service for draft resisters and promises to alleviate Poland's horrendous pollution problem.

These victories give them hope, but Poles are well aware that hard-won gains can be taken away overnight. The Polish people exist on a game board with twice as many squares leading back to “START” as those that would advance them to the final elimination of Communism. But to end the game would be to lose everything, and this they refuse to do. They will continue to strike, to face the *zomos*, to go to jail, and to publish their underground works; but the outcome is anything but assured. □

Readers' Forum

To the Editors:

Gary M. Anderson's otherwise excellent article (“Profits from Power: The Soviet Economy as a Mercantilist State,” December 1988) is too kind on Soviet-style command economies. It is difficult to imagine a weaker criterion than that an economy should exist and produce something of value to somebody. If we reinstate the usual criteria—namely, economic growth, the degree of consumer satisfaction, technological capacity—these economies are utter failures. I suppose that under the weaker criterion both Vietnam and North Korea have economies, but there isn't too much more to be said for them.

A different conclusion is warranted: whereas in the 1930s and '40s the view that without a price system no economy could develop over time was logically plausible, only developments from the 1950s onward made it possible to observe actual attempts around the world to

employ central command as an economizing device. Whereas before it might have been possible to say that most command economies would fail but some would succeed, now it is possible to say definitively, for our time, at least, that no command economy works well. For those in the Soviet Union and elsewhere who have sacrificed much in favor of this vision, this must be a crushing blow. For others who once aspired to such a vision, it is clear that they must choose otherwise. Whereas most social theories, given the nature of this recalcitrant subject matter, remain around forever and it is very rare to see them discredited, we ought to take pleasure in the fact that life has thrown up sufficient empirical experiments for almost everyone to reach the correct conclusion.

AARON WILDAVSKY
University of California,
Berkeley

Gary Anderson replies:

Professor Wildavsky and I are in complete agreement about his major point, that Soviet-style economies perform relatively poorly. The only dimension in which the Soviet-style economy really excels is in enriching the dictator and others who control the apparatus of the State.

However, I object to the description of the Soviet system as a "command economy." The reality of the Soviet economy is not the abolition of the price system, but massive government intervention which has driven the price system partially underground. The economy remains a market, although a grossly distorted one, because a large, complex economy *must* be a market; coordination requires a price system. Mises was absolutely correct in his assessment that socialism is impossible. The state has imposed tremendous distortions which exploit consumers terrifically, but the market has not been abolished. I believe that the end result is more properly described as "mercantilist" than "socialist."

I also agree with Professor Wildavsky that the consistently poor performance of the Soviet-style economies is gradually forcing many to realize the huge gap between their vision and reality. But we must also recognize that the Soviet-style system remains a source of tremendous profit opportunities for ruthless power-seekers. The worst who rise to the top in such a system receive large benefits, and can be expected to defend these special privileges with the same ruthlessness.

GARY M. ANDERSON
California State University,
Northridge

To the Editors:

I would like to praise *The Freeman* for a most outstanding article which appeared in the February 1989 issue. It is George Leef's "Why is There a Drug Problem?" Outside of Thomas Szasz's writings, Mr. Leef's is the only one I have seen which truly addresses the drug problem. It is a sad tribute to today's currents of non-self-responsibility that absolutely everyone

blames drug usage on everything except the drug user himself.

I have long been convinced that the "drug problem" is simply that large numbers of people seem to prefer to anesthetize themselves and run from reality rather than face their problems with a clear mind. Mr. Leef has brilliantly expounded upon this thesis in his article. The popular culture abounds with the mind-set of the drug addict; no wonder so many drop out. Consider "TGIF" and "Miller Time." These and countless other instances point to a popular disdain for work and a wish to escape.

If I may suggest it, I think that Mr. Leef's thesis could be expanded upon in psychological terms. I believe those who turn to drugs do so because they harbor a self-hatred and a profound fear of existence. To the drug user, the world is a terrible, unpredictable, and dangerous place. These psychopathologies have their roots, I hypothesize, in the very same places examined by Mr. Leef in his article: the schooling by the state, welfare policies, and the myriad market interferences which are inherent in the mixed economy. After all, what people fear most is uncertainty and doubt; the loss of personal control causes terror.

Ludwig von Mises has demonstrated that government interference in the market economy generates ever more uncertainty and unpredictability and that this is the harrowing legacy of inflation. If we school our children that there are no principles, that knowledge is impossible, then they will grow up fearing a totally incomprehensible universe and likely will turn to drugs for solace.

Mr. Leef has performed a great service to our drug war-weary nation.

MICHAEL C. HOVEY
Wilmington, Delaware

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Passage to a Human World

by John Chamberlain

In spite of its occasional hop-skip-and-jump presentation and its reliance on abstractions, Max Singer's *Passage to a Human World: The Dynamics of Creating Global Wealth* (Indianapolis: Hudson Institute, 390 pp., \$21.95) is a most comforting book to read. Its broad thesis is that the human race, barring the possibility of destruction by collision with a meteor of asteroid size, is never going to suffer from lack of materials necessary to keep it on an onward and upward course.

What kings and barons could have in the Middle Ages, everyone can have tomorrow. The goal of a \$3,000-a-year personal income is foreseeable in relatively short order for all save the people in a small minority of Third World states. Even they will be lifted to the \$3,000-a-year category in time.

Singer begins by establishing some broad facts about the nature of wealth. We are accustomed to thinking of wealth in terms of gold, oil, growing forests, fertile farmland, and big power plants. We put great stress on the base metals, such as iron and bauxite, or on a steady wood supply. But Singer says that fear that we will run out of crucial metals and forest products is part of a big "edifice of error." There is plenty of iron in the ground and plenty of bauxite for aluminum. The cheap metals cost less than ten cents a pound. Copper is "sort of in the middle," as Singer expresses it. But whether cheap or in the middle, metals make up so small a percentage of modern wealth that they have

little effect in determining prices. What is important about modern wealth is that it consists mainly of ideas.

The way to get rich, says Singer, is to learn. He quotes a Mexican cab driver as saying, "Poverty is the result of people not knowing how to do anything." We are more productive than the people of Abraham Lincoln's time because we know more. And what one person knows, another may copy.

Singer attributes the building of the "edifice of error" to a self-constituted elite—a "new class"—that he calls the "University-Oriented Americans." These combine a conviction of intellectual superiority with a generally low morale about their country and the world. The common people, in contradistinction to the UOA elite, have a high morale.

Singer conveniently arranges his thoughts about the UOA and the ordinary citizen in two columns. According to the low-morale ideas in Column A, the world is divided into rich nations and poor nations. World population is growing faster than ever and is out of control. The U.S. is wastefully using a disproportionate share of the world's treasures, and eventually these treasures will be used up. In wasting the resources the U.S. is exploiting poor nations.

Continuing the Column A lament, Singer says the UOA elite considers modern technology to be very dangerous and getting harder to control. People working for profits cannot be trusted. They are not idealists. They don't help

produce a fairer income distribution or encourage the extension of democracy.

All of the low-morale ideas in Column A, says Singer, are wrong. Actually (see his Column B), the world is moving quickly toward a time when most, if not all, nations will be rich. India and China, even with their huge populations, will be among them. Some nations are moving faster through a transition than others. World population will level off in a way that will not cause harmful crowding. Modern technology is a major reason why dangers to health have decreased so rapidly.

As for profits, people who work for them are just as trustworthy as those working for other motives. Our country is an apt vehicle to express idealism, for it is full of people who care about real results. Many countries take inspiration from us even though they have their own definitions of democracy. So much for Column B.

The pollution problem worries Singer, but only because too many people are percentage-point perfectionists about it. We'll never have skies that are completely free of ozone hazards. But we can do much to inhibit the spread of carbon dioxide. Every tree that is planted helps. To gain perspective, Singer amuses himself by asking, "How clean is your house?" It could be kept cleaner and neater, but maybe you have children. How dangerous is your house? It could have more smoke detectors. How many burglar alarms do you have? Is your electrical wiring properly grounded? Do you have "grab bars" to protect against falling in the bathtub? You do your best to check on these items, and so strengthen your house investment over the years. But you can't spend twenty-odd hours a day on the subject. The point is that our homes are as clean and neat and safe as we choose to make them.

The same is true of the larger environment. The coal supply could stand cleaning up. But if we don't reach absolute perfection, it isn't going to make much difference to our health. Life spans will still increase.

Singer is, however, worried about what he calls sneaky pollutions. One such was the sneaky pollution of scurvy. It was not until scientists had learned things about vitamin C that the British Navy prescribed limes for its sailors,

and it was a full forty years before the merchant marine got similar treatment.

Singer's book is written largely in terms of high abstraction. He forces his readers to supply the names of his University-Oriented Americans who contribute to the edifice of error. He does not identify any of his prime culprits. They could be faculties at Stanford or Berkeley or the University of Chicago. He could have been much more graphic if he had simply said "Harvard—or Yale, or Princeton—hates America" and then gone on to name the individual projectors of the hatred.

You won't find anything about the Cold War in the Singer book. Gorbachev is not in his index. Presumably Singer classifies the possibility of destruction from nuclear warfare with the likelihood of disaster from collision with an asteroid. It could happen, but as the Soviets scramble to restore grain production to old Czarist-day levels, it probably won't. □

THE ELECTRIC WINDMILL: AN INADVERTENT AUTOBIOGRAPHY

by Tom Bethell

Regnery Gateway, distributed by Kampmann & Co., 9 E. 40th Street, New York, NY 10016 • 1988 • 294 pages • \$17.95 cloth

Reviewed by David M. Stewart

I first read Tom Bethell's essays in *Reason* in the late 1970s. At the time, I admired his clear, fluid style and effortlessly persuasive arguments on economic issues. But in his monthly column for *The American Spectator* in the 1980s, he has become a first-rank critic of contemporary liberalism.

In virtually every political essay Bethell writes, there appears a one-, two-, or three-sentence epitome of some tenet or tendency of liberalism. Sometimes the point made is the major point of the piece, sometimes a brilliant aside or parenthesis. Regardless, Bethell can do to liberalism in a couple dozen words what some writers are unable to do in reams.

The Electric Windmill shows off Bethell the liberal critic in good form. This wasn't, however, Bethell's main intention. In fact, he says in his introduction that "It did strike me as a

good idea to exclude the numerous policy-oriented articles that I have written over the years."

On a whole, though, the book moves smoothly from "inadvertent autobiography" to, if not policy pieces, political culture pieces. But even in the early essays, concerned with the first several years of his life after arrival in the U.S. from England in 1962, Bethell sprinkles observations and comments on the political culture he observed.

The first essay is partly an account of his first months in the country, partly an account of his contrition for his "wishy-washy liberalism." Bethell says that immediately upon entering the U.S., he "didn't hesitate to suggest various ways in which national customs and folkways could be improved."

If he wasn't immediately surprised at himself for offering his advice—after all, "it was understood that [Americans] were themselves frequently aware of their shortcomings and more than willing to take self-improvement lessons from educated Englishmen"—it eventually came to him "what a lot of nonsense I had been permitted to get away with. . . . after the passage of a few months most British immigrants are to be found pensively staring down at the sidewalk, . . . recalling with embarrassment some vile rudeness and vowing not to let it happen again."

From New England and Virginia, Bethell went to New Orleans, where he became a reporter on the weekly *Vieux Carré Courier*. In the essays about this period he traverses New Orleans jazz and a brilliant jazz collector, William Russell Wagner, the vicissitudes of the New Orleans real estate market, and a Kennedy assassination conspiracy investigation.

From here Bethell moves on to Washington, D.C., spelunking the Beltway culture, exploring what he calls (after Joseph Sobran) the phenomenon of "the Hive"—the liberalism of the intelligentsia.

These pieces aren't dry political treatises, though. On the contrary, they really are principally reportage. He reports on crime from courtrooms and judges' chambers; on abortionists and the pro-life movement from Pennsylvania Avenue; on the Hive's vehicle, the Democratic Party, in San Francisco; on the "loyal

opposition," pragmatic, country-club Republicans, in Dallas; on AIDS and "safe sex" at Stanford University.

In each essay, though, Bethell leavens his journalistic observations with compact illuminations on the implications of what he sees or the principles informing the agents' words and deeds. What is most impressive is that he does it on the fly, without sacrificing narrative continuity.

Thus the incident giving the book its title. Bethell reports stumbling onto ACT '79, the "Appropriate Community Technology Fair," a gathering of various energy technology visionaries and bureaucrats. "I decided to take a look at the windmill," he writes, "a large three-bladed propellor on top of a tall tower. The propellor was churning around merrily, although there was little or no wind at ground level. . . . It would save about half your electricity bill—if you lived in a windy spot. . . . I asked the gentleman from Vermont why the blades were whirring around so smoothly in such still air. 'It's not working off the wind,' he said. 'It's plugged into the power outlet.' It wasn't demonstrating the production of electricity. Electricity was demonstrating it." □

(Mr. Stewart is an advertising copywriter and a free-lance writer in Rochester Hills, Michigan.)

LIABILITY: THE LEGAL REVOLUTION AND ITS CONSEQUENCES

by Peter W. Huber

Basic Books, 10 E. 53rd Street, New York, NY 10022 • 1988 • 260 pages • \$19.95 cloth

Reviewed by George C. Leef

When the solemn judgments of a nation's legal system become the object of jokes and sarcasm, there has to be a serious problem. There may be plenty of discussion over the correctness or wisdom of *Marbury v. Madison*, the Legal Tender Cases, *Lochner v. New York*, or *Brown v. The Board*, but nobody has ever *laughed* at those decisions.

But how about the case in which a contestant

in a refrigerator-carrying race recovered against the manufacturer of the refrigerator for injury to his back; the case in which a church was sued by the family of a person who had committed suicide under the theory that the church had exacerbated the suicide victim's feelings of guilt and depression; the case in which New York City was held liable for compensatory and punitive damages to the wife of a policeman who shot her and then himself, on the grounds that the city was reckless in requiring officers to carry guns off duty; or the case in which a bank was held liable to the widow of a guard who had been shot when another guard went berserk, for having failed to discover the guard's mental defect? Cases like those cause sensible people to snicker and wonder what this country is coming to.

If you merely want a bandolier of ammunition to use in arguing that our legal system has gotten pretty silly, this book will be of great use. Each of the above cases is mentioned (with legal citations) along with dozens more of the same genre.

But if you want to understand how this lamentable situation of liability for almost any injury of any type whether you caused it or not came about, and what its detrimental effects are, this book is a must. It is an investigation into the intellectual history of the liability revolution, the goals and theories of the "Founders" of this revolution (as Huber refers to a group of legal theorists from the 1950s led by the late William Prosser, who taught law at Hastings College; John Wade, Professor of Law at Vanderbilt University; and California Supreme Court Justice Roger Traynor), the predictable ways in which the main players in our legal system—judges and lawyers—seized upon these theories and used them to further their own ends, and how the effects of the liability revolution are proving harmful to almost everyone. Peter Huber has written one of those rare and wonderful books that help the reader to see how the world really works.

The Founders' principal belief was that if manufacturers were held strictly liable for any accident that befell a consumer of one of their goods, this soon would be reflected in higher prices and more efforts to design safe products. Consumers would, in effect, buy a no-fault in-

surance policy along with every item they bought, whether the seller wanted to provide this "insurance" or not. The expected result was more coverage for individuals (who were presumed to be too ignorant to purchase insurance on their own) and ever-safer products brought into the market.

Bringing about this revolution, which was never sanctioned by legislation, required destroying contract law between buyers and sellers. Often a sales contract allocated risk between the buyer and seller in a way that the Founders thought improper. The contract might, for example, disclaim the seller's liability for various types of harm which could befall the consumer. As long as such disclaimers had legal standing, the dream of universal no-fault coverage for consumers could not be realized for the simple reason that producers would not voluntarily agree to it.

The Founders' solution was simple and brazen—judges sympathetic to the cause merely declared that liability disclaimers were unenforceable. Contracts were no longer viewed as binding documents of mutual consent, but rather as flypaper that unconscionably trapped the helpless consumer. The struggles of manufacturers and insurers to keep their potential liability within bounds they were willing to accept were useless. Over a period of only some 20 years, the ancient law of contract between buyer and seller was demolished to make way for the Founders' new world of limitless liability.

At the same time that contract law was under a slash and burn attack, tort law was undergoing a massive alteration as well. Having taken accidents out of the realm of contract, the Founders needed to expand tort law to make producers responsible for injuries under virtually all circumstances.

Under traditional tort law, the plaintiff had to demonstrate that the defendant had acted negligently, and that the plaintiff's injury had been caused by that negligence. Furthermore, a number of strong defenses were available to the defendant, such as contributory negligence on the plaintiff's part. This law just wouldn't do.

The Founders therefore also had to rewrite tort law through judicial fiat, which they did. The concept of negligence was redefined to

mean, roughly, producing anything that isn't perfect.

Today, for example, if an automobile or a vaccine isn't one hundred percent safe—and it can *always* be claimed that the producer could have done something to make the product safer—the producer may be held liable in any case where a person is injured. The judgment may be for tens of millions of dollars, including vast sums of punitive damages.

It will do the company no good to argue that the plaintiff was almost entirely to blame for the misfortune. It will do no good to argue that the causal connection between the product and the injury was extremely tenuous or speculative. The company has money. It must pay.

Has the liability revolution brought about the changes anticipated by the Founders? Has the level of safety risen? Huber shows conclusively that it has not. In fact, he makes a convincing case that the revolution has actually decreased the overall level of safety.

For example, a new medicine might relieve a great amount of distress and save many lives, but losing even one lawsuit to someone who suffered an adverse reaction to the medicine would more than wipe out the producer's entire profit on the item. So the new product isn't sold in the United States.

Or suppose that a manufacturer of a consumer product tries to incorporate every imaginable design change that marginally enhances the safety of the product. The resulting product will be substantially more expensive than otherwise, and that factor may cause people to continue to use their old and far less safe model. Like so many grandiose plans for reforming and perfecting the world, this one backfired.

The real beneficiaries of the revolution in liability? Lawyers, of course. Quite a few of them have gotten rich by getting a "good" jury and winning an enormous judgment against some hapless company. Our present liability law shifts resources away from safety-promoting activities and into litigation. For all but a few big winners in the liability slot machine, this is a bad trade-off.

The solution to the mess created by the liability revolution, Huber argues, is a return to the law of contract. "Neocontract," he calls it—informed consent between buyer and seller

as to how the risks inherent in a transaction will be allocated between them.

Revitalizing contract law would permit insurance to function once again in areas where insurers have retreated in the face of limitless potential liability. Insurance, Huber demonstrates, is far better than tort litigation as a means of compensating those who have been injured. Insurance works more quickly, fairly, and with much less overhead than does the tort liability system the Founders have saddled us with. Insurance also doesn't discourage innovation and safety improvements as our current system does. But insurance cannot work in a legal environment in which the chief maxim is "Those who have money must pay as much as the jury says."

In proposing a return to contract, Huber affirms another general principle familiar to readers of *The Freeman*. Not only do plans for perfecting society backfire, but the solution to the problems created by such plans is a return to individual freedom and responsibility. Many of our nation's problems would disappear if public officials would just allow people to make their own choices, rather than playing nanny all the time.

If you fear that a book on the law is going to be a dull read, you need not fear this one. Peter Huber writes with more clarity and wit than I have ever encountered in a work on a legal topic. I wouldn't have thought it possible for a book on law and economics to be so entertaining.

A couple of cavils, if I may. First, the book is not footnoted in the usual fashion with numbers in the text. Therefore, the reader doesn't know whether a case or statement has been footnoted until he looks under the notes for that chapter at the end of the book. If, for example, you wanted the name and citation of the case in which a telephone booth manufacturer had to pay for injuries sustained by someone who was using the booth when a car driven by a drunk smashed into it, you would have to look under the notes for that chapter, only to find out that the information hasn't been provided. The virtue of traditional footnoting is that if you don't see a number, you know that the author is giving you no further information.

My second cavil is the way in which Huber

alternates between the pronouns "his" and "her." Apparently this style of writing is employed out of a desire to be "non-sexist." But the idea that consistent use of the pronoun "he" is bad or wrong is just plain silly.

Enough caviling. Huber has performed a monumental public service in so clearly and thoroughly analyzing this unfortunate development in the law. Get this book, read it, and then talk about it with every thinking person you know. □

(George C. Leef is Associate Professor of Law and Economics at Northwood Institute, Midland, Michigan, and adjunct scholar with the Mackinac Center.)

BEYOND GOOD INTENTIONS: A BIBLICAL VIEW OF POLITICS

by Doug Bandow

Crossway Books, 9825 W. Roosevelt Road, Westchester, Illinois 60153 • 1988 • 256 pages • \$9.95 paperback

Reviewed by Carl Helstrom

Doug Bandow, a syndicated columnist and Senior Fellow at the Cato Institute, has written a book that will be of particular interest to devout Christians. *Beyond Good Intentions* offers an outstanding analysis of political philosophy based upon a cogent exegesis of Scripture from an evangelical perspective. Most of all, however, this book is a strong personal testimony that emphasizes aspects of Christianity and politics that other recent writers have largely ignored.

In the opening pages, Bandow explains how, in his opinion, a Christian should view politics. He shows how the current welfare system has failed, then examines viable alternatives in an excellent section called "The Need for a New Political Paradigm." He concludes that Christianity outweighs any other world view because of its unique emphasis on individual morality. He states: "We live in a fallen world, and there is no answer other than personal redemption through Jesus Christ. All human institutions, including government, have been corrupted by man's fall. . . . Christians cannot stand aloof

from politics: quite simply, the stakes are too great." Worldly ideologies and philosophies, Bandow believes, lack this outlook and, therefore, are deficient. These first three chapters are remarkable critiques, displaying Bandow's ability and experience as a policy analyst.

Next Bandow presents several chapters of Biblical exegesis, followed by an examination of important issues concerning us today. He demonstrates ways in which the modern-day Christian, interested and involved in politics, can make sound and prudent decisions. The most important part of the book, however, is the last chapter, "Christian Activism in the Public Square," in which Bandow sums up his views.

A Christian, he claims, should put Christ first. This may seem to be simple common sense, but he repeatedly emphasizes throughout the book the significance of being "Christian" before being "political." Putting politics before principle results in the use of governmental force for religious purposes. A true Christian does not seek to use political power for religious purposes, and is possessed of theological views that are singularly Christian and take precedence over pragmatic policy-making. These are fundamental beliefs, or principles—the Christian's intellectual tools or guidelines for acting in the secular world.

The most significant argument Bandow puts forth is that this personal, Christian attitude necessarily leads to a special view of government and politics, one that emphasizes responsibility, tolerance, and cooperation as the proper political demeanor of the Christian who seeks to live according to the compassionate and righteous example of Christ. Concentrating on this approach serves to safeguard private property and to promote a limited government that acts justly, rightly, and without privilege, according to the rule of law. As Bandow points out, this position allows for peaceful coexistence between Christians and other peoples.

The author admits that Christianity and classical liberalism share many attributes. Here again, however, Bandow reminds us he does not believe that secular philosophies have the necessary moral component to succeed, "resting as they do upon secular premises and ignoring Scriptural principles."

What Bandow is getting at from a theological

point of view is what Ludwig von Mises wrote of from a secular perspective in his book, *Liberalism*, in which he stated:

[Classical] liberalism proclaims tolerance for every religious faith and every metaphysical belief, not out of indifference for these "higher" things, but from the conviction that the assurance of peace within society must take precedence over everything and everyone . . . only tolerance can create and preserve the condition of social peace without which humanity must relapse into the barbarism and penury of centuries long past."

Peaceful coexistence is essential to the classical liberal. He believes that the best possible life can be lived within a society that allows for the private ownership of property and the free exchange of ideas and goods, a society that provides for lawful recourse in the event of wrongdoing. Consequently, the classical liberal believes in private property, political liberty, free enterprise, limited government, and the rule of law, but most of all, he believes in peace. He will tolerate another person's views and actions, as long as no one is being harmed.

The Christian is concerned first with salvation, but, according to Badow, salvation and eternal life with God are individual goals. The way to achieve those goals is through careful attention to Biblical instructions, Christ-like

compassion, and right and respectful action. The Christian believes in God as Creator and Designer and in Jesus Christ as His Son who came to redeem us from the bondage of sin. He chooses to seek salvation by accepting Christ, and is commanded by Scripture to do good. Faith in Christ's redemptive power guides the believer during his life on earth. But, as Badow says, "Jesus instructed His followers to leave the separation of the weeds and wheat up to the Father. . . ." A Christian must be tolerant, yet principled, persuading by good actions and intellectual power. In other words, Christian persuasion should be by peaceful methods, not by political force.

This book is an important work that clarifies the relationship between Christianity and politics. It is a spiritual message for those involved in the political arena who struggle with their faith in Jesus Christ, their commitment to civic service, and the proper way to use political power. And it is a sound political statement, reinforcing the concept of limited government, individual responsibility, private property, free trade, and the rule of law. Most significant, though, *Beyond Good Intentions* is a personal message by a man who believes in what he writes. □

(Mr. Helstrom is a member of the staff of The Foundation for Economic Education.)

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JUNE

1989

VOL. 39

NO. 6

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

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The Freeman is the monthly publication of The Foundation for Economic Education, Inc., Irvington-on-Hudson, NY 10533 (914) 591-7230. FEE, founded in 1946 by Leonard E. Read, is a nonpolitical educational champion of private property, the free market, and limited government. FEE is classified as a 26 USC 501 (c) (3) tax-exempt organization. Other officers of FEE's Board of Trustees are: Thomas C. Stevens, chairman; Ridgway K. Foley, Jr., vice-chairman; Paul L. Poirot, secretary; H.F. Langenberg, treasurer.

The costs of Foundation projects and services are met through donations. Donations are invited in any amount. Subscriptions to *The Freeman* are available to any interested person in the United States for the asking. Additional single copies \$1.00; 10 or more, 50 cents each. For foreign delivery, a donation of \$15.00 a year is required to cover direct mailing costs.

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Bound volumes of *The Freeman* are available from The Foundation for calendar years 1969 to date. Earlier volumes as well as current issues are available on microfilm from University Microfilms, 300 North Zeeb Road, Ann Arbor, MI 48106.

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.

PERSPECTIVE

Little Tyrannies

For many Americans who are dedicated to personal freedom, the steady growth in the size and power of the federal government is a prelude to tyranny. To counteract this trend, many advocate the principle of "states' rights" or variations on the theme of "local control." The assumption seems to be that individual liberty is less likely to be eroded by government officials who live near their constituents.

But this assumption is invalidated by the facts of daily life. In many cases local governments in their zeal to promote the "common good" have become the willing instruments of tyranny against the individual. As a result, a visit by one's local building inspector can be as devastating as a knock on the door by an IRS agent. I can cite examples from my own experience and the experience of others in my own relatively small California city:

A few weeks after I purchased my newly built home, which is situated on a corner lot, I started to erect a six-foot fence at the sidewalk on one side of the house. I was promptly visited by a zealous emissary from the building department, who informed me that I must cease building the fence immediately because I didn't have a permit. He told me I had to prepare a plot plan of my property and a drawing of the finished fence, submit this with a fee to the building department, and wait three weeks for the planning commission to meet and pass judgment on my proposal. I asked what would happen if I just continued to build the fence, and the conscientious fellow told me I would be fined and "forced" to remove all building that had preceded the meeting of the planning commission.

Outside the city limits a vacant field at a busy intersection became an informal bazaar where people sold everything from knives to oil paintings. All of this was with the permission of the property owner, who charged a small fee from her informal vendors. When county officials discovered what was going on, they ordered the peddlers to leave because the field wasn't zoned for commercial activity.

In this same city a motel owner erected a hand-painted "Welcome" sign on his motel. A neighbor complained anonymously, and it was

discovered that the motel owner had never submitted an application to erect the sign. He submitted one after the fact, but the Design Review Board turned it down because it added to "visual clutter." The city ordered the motel owner to remove the sign.

Had any of the above property owners not complied with local ordinances, they would have been fined or jailed or both. These local governmental agencies had turned ordinary, innocent, and basically productive pursuits into criminal activities. Variations on these scenarios are being repeated daily in towns and cities throughout the country.

Government as protector of an individual's right to live and work in freedom has been replaced by government as enforcer of rigid and arbitrary standards of esthetics and behavior. The great despotisms of the world are just larger versions of these little tyrannies.

—WILMA MOORE
Santa Rosa, California

What If. . . ?

The other day I sat down to read the newspaper, as I usually do in the morning. As soon as I read through the first section, I knew it would be one of those "what if. . . ?" days. Every now and then I'm agitated by those kinds of thoughts—what if I were in that situation? Maybe you've had them, too.

Well, on this particular day I was reading about strikes, and quotas, and South Africa, and the West Bank, and the Contras, and Congress granting aid and giving money to this and that place and passing a law for something or other. Suddenly some tremendous "what ifs. . . ?" hit me. What if the U.S. government didn't try to save the world with dollars; and what if politicians didn't keep passing legislation to cure problems they caused in the first place?

I ventured on to the rest of the paper and through the day I was preoccupied with my "what ifs. . . ?" What if our military worried only about protecting us from foreign aggressors, rather than trying to defend the rest of the world? What if we were totally free to trade with less developed countries, exchanging much-needed capital for inexpensive labor services to raise living stan-

dards in Third World countries, rather than watching Congress create "foreign aid" from tax revenues and public debt? Or, for that matter, what if foreigners could freely invest in the U.S. without the problems and restrictions of protective legislation? And what if the string-pullers on Capitol Hill finally realized that almost every time they get a bill passed, it's just one more restriction on some citizens? Sure, it might benefit a limited constituency or pressure group, but who does it hurt? Let me tell you, I was on a roll. . . and I hadn't even gotten to the deficit.

That was some "what if. . . ?" day I had. Yet, I think the bottom line for all my "what ifs. . . ?" is that I believe raising living standards and producing needed goods is an economic matter, not a concern for politicians. Living by basic, simple principles of economics makes for a stronger, healthier, and more fruitful society than any number of politicians can conjure up. Somehow the idea that someone in Washington can tell me how to work, what to eat, and who to do business with better than I can tell myself just doesn't set right. But, maybe there's something I missed and those people have a corner on what will happen in the future.

Unfortunately, my "what ifs. . . ?" probably will stay with me a long time, because I would like to understand why people choose to support political expediency and promote government interference in economic affairs. I would like to understand why people don't see the benefits of principled economic activity on the market and vote for the limitation of governmental activity. So, I'll keep reading the paper in the morning and struggling with my "what ifs. . . ?" and I'll keep dreaming of my greatest "what if. . . ?": What if we were left to hash out our own economic fate?

—CARL HELSTROM

The Freeman Gets Around

In the past year, *Freeman* articles have appeared in Argentina, Canada, El Salvador, France, Germany, Great Britain, Greece, Guatemala, Honduras, Mexico, South Africa, and more than 50 newspapers in the United States. Including our three recent *Reader's Digest* articles, *The Freeman* reached over 50 million readers during the past year.

Monopoly Government

by Thomas J. DiLorenzo

In theory, the goods and services provided by federal, state, and local governments are public goods—goods that will not be provided in adequate quantities by the market system because of “market failure.” But in reality, most of the goods and services provided by governments are *private* goods. Governments in the U.S. provide literally thousands of goods and services in direct competition with private businesses.

Governments, however, compete unfairly. They enjoy exemption from Federal, state and local income, sales, and property taxes and immunity from minimum wage, securities, bankruptcy, antitrust, and myriad other regulations. Government enterprises can also exercise the power of eminent domain and borrow at interest rates considerably below those paid by their taxpaying competitors (especially small firms) because of tax-exempt interest payments. Their capital and operating costs are subsidized by tax revenues and, perhaps most importantly, they are often granted monopoly status by law. Thus, competition between private businesses and government enterprises is unfair.

Unfair Competition by Federal Government Enterprises

The federal government provides what many consider to be public goods, such as national defense and the justice system, but it also provides

thousands of purely private goods and services. Former Senator S.I. Hayakawa of California stated in 1981: “Federal employees are currently operating over 11,000 commercial or industrial activities that the private sector also performs. . . .”¹ The Senator added: “Since the business of government is not to be in business, I ask myself why.”

The reason probably has something to do with the desire to supplement agency budgets with commercial profits. As seen in Table 1, Federal agencies enter businesses as mundane as laundry work and as sophisticated as engineering and computer programming. All of the services listed in Table 1 are also provided by private firms.

As one example of unfair competition by government, consider the Federal publishing business. Although much government printing consists of publishing congressional hearings, executive branch memoranda, IRS tax forms, and other tools of running the government, much of it is commercial and, therefore, competes unfairly with private printers. The Government Printing Office (GPO) is the largest Federal publishing facility. According to the director of the GPO: “We have . . . 33 acres under our roof, 6,200 employees, of which over 5,000 . . . are in the main plants . . . and well over 100 presses. . . . We are probably the largest . . . printer in the United States.” There are also “more than 300 printing plants located in many government agencies.”²

Even a cursory look at the GPO’s monthly catalog of publications reveals that the federal government competes on a large scale with private publishing companies. Consider the following ex-

Dr. DiLorenzo is the Scott L. Probasco, Jr., Professor of Free Enterprise at the University of Tennessee at Chattanooga. This article is partly adapted from his book, coauthored with James T. Bennett, Unfair Competition: The Profits of Nonprofits (Hamilton Press, 1988).

TABLE 1
Examples of Commercial Occupations
in the Federal Government
 (as of October 31, 1981)

Occupation	Number of employees
Painting and paperhanging	10,207
Industrial equipment operation	18,061
Food preparation and serving	22,680
Plumbing and pipefitting	18,640
Metal work	25,579
Warehousing and stockhandling	39,762
Laundry work	2,131
Guards	8,193
Computer operators	10,241
Computer specialists	30,617
Engineers and architects	154,210
Librarians and archivists	9,761
Supply clerks and technicians	31,501
Mail and file clerks	23,536
Electricians	13,096

Source: U.S. Office of Personnel Management.

amples from the January 1987 catalog. *The Backyard Mechanic* "can help you save money by doing simple auto repair and maintenance jobs yourself" and "discusses ignition systems and spark plugs and guides you through a tuneup, a brake relining, a brake system flushing and bleeding, a power-brake check, . . ." and so on.

Oddly enough, the debt-ridden federal government claims expertise in financial management. In *Managing for Profits* readers are instructed in "production and marketing, purchasing and collections, financial management, taxation, insurance, and more." Also in the financial planning area is *Starting and Managing a Business of Your Own. Insurance and Risk Management for Small Business* "provides basic information in selecting insurance and in reducing risk for the small businessman." The GPO also publishes advice to the individual investor in *A Guide to Individual Retirement Accounts*, which discusses "the various savings and investment vehicles available."

The federal government may be notorious for producing barely comprehensible laws, regulations, and forms, but it offers published advice on *How Plain English Works for Business*: "twelve case studies describe how some business organizations have scored success by simplifying consumer documents."

One of the biggest areas of commercial book sales has been health and fitness, including diet and exercise books. The federal government competes in this market with such publications as *Dietary Guidelines and Your Diet*, which advises people to "maintain desirable weight; avoid too much fat; avoid too much sugar; and if you drink alcoholic beverages, do so in moderation." The federal government competes with the flourishing cookbook industry by publishing hundreds of cookbooks, including *Country Catfish*, which "describes 18 ways to serve them" and exhorts that "Catfish are great—either plain or fancy." *Getting Fit Your Way* provides consumers with "a total physical fitness program" and also "contains information on weight control and how to stop smoking." The GPO produces more than 18,000 publications, including all these books and thousands more that compete with commercial publishers. And they compete at a considerable advantage because of taxpayer subsidies and other benefits. Taxpayers pay for both the production of books and pamphlets and for the marketing as well. The GPO proudly boasts: "In addition to our mail order service, we [the GPO] maintain a nationwide network of Government bookstores."³

Unfair Competition by State and Local Governments

State and local government enterprises provide few goods and services that are *not* private goods. At the local level of government the major category of expenditure is education, even though education is not a public good. Private schools existed long before public schools were established in the U.S., and they still proliferate despite the competitive disadvantages they face.

At one time, there was a pretense that public schools provided a uniform education to everyone, but the great disparities that are apparent in the quality of public schools have abolished that myth. Supporters also argued that morality could be better taught in public schools, but many parents are concerned about the *lack* of morality taught in public schools, while others believe that teaching morality violates the constitutional separation of church and state. Public education is also said to increase worker productivity through skill enhancement, but that, too, is questionable

TABLE 2
Services Provided by Both Local Governments and Private Businesses

Service	No. of Cities and Counties	% Using The Private Sector
Public Works/Transportation		
Residential solid waste collection	1,390	49
Commercial solid waste collection	1,143	58
Solid waste disposal	1,314	31
Street repair	1,640	26
Street/parking lot cleaning	1,483	9
Snow plowing/sanding	1,282	14
Traffic signal installation/maintenance	1,569	26
Meter maintenance/collection	767	5
Tree trimming/planting	1,454	31
Cemetery administration/maintenance	718	11
Inspection/code enforcement	1,588	6
Parking lot/garage operation	784	13
Bus system operation/maintenance	555	25
Paratransit system operation/maintenance	579	26
Airport operation	561	30
Public Utilities		
Utility meter reading	1,204	19
Utility billing	1,248	20
Street light operation	1,281	52
Public Safety		
Crime prevention/patrol	1,659	3
Police/fire communication	1,685	1
Fire prevention/suppression	1,520	1
Emergency medical service	1,361	16
Ambulance service	1,256	27
Traffic control/parking enforcement	1,502	1
Vehicle towing and storage	1,310	85
Health and Human Services		
Sanitary inspection	991	1
Insect/rodent control	1,059	13
Animal control	1,508	7
Animal shelter operation	1,262	14
Day care facility operation	441	35
Child welfare programs	567	6
Programs for elderly	1,190	5
Operation/management of public/elderly housing	611	12
Operation/management of hospitals	393	26
Public health programs	743	8
Drug/alcohol treatment programs	635	7
Operation of mental health/retardation programs/facilities	508	7
Parks and Recreation		
Recreation services	1,458	6
Operation/maintenance of recreation facilities	1,539	8
Parks landscaping/maintenance	1,574	9
Operation of convention centers/auditoriums	452	8

(Continued next page)

TABLE 2, *continued*

Service	No. of Cities and Counties	% Using The Private Sector
Cultural and Arts Programs		
Operation of cultural/arts programs	707	9
Operation of libraries	1,189	1
Operation of museums	505	4
Support Functions		
Building/grounds maintenance	1,669	19
Building security	1,499	7
Fleet management/vehicle maintenance		
Heavy equipment	1,642	31
Emergency vehicles	1,560	30
All other vehicles	1,622	28
Data processing	1,471	22
Legal services	1,605	48
Payroll	1,719	10
Tax bill processing	1,320	22
Tax assessing	1,098	6
Delinquent tax collection	1,254	10
Secretarial services	1,656	4
Personnel services	1,663	5
Labor relations	1,514	23
Public relations/information	1,547	7

Source: International City Management Assoc., *Municipal Yearbook 1983* (Washington, D.C.: ICMA, 1983), p. 215.

in light of the decades-long decline in educational achievement in primary and secondary education. Private schools, by contrast, have demonstrated superior quality education despite fewer financial resources.

Moreover, the mere fact that education may increase worker productivity does not justify governmental provision of education. In fact, the opposite may be closer to the truth. If one wishes to increase worker productivity through education, the appropriate direction should be in favor of private provision of education, not public provision, given the superior quality of private schools. Thus, the reason why local governments nearly monopolize the primary and secondary education industry is not likely to have much to do with "market failure."

Table 2 lists a sample of 59 different services provided by both local governments and the private sector. As shown there, local governments are involved in many private activities, including

garbage collection, tree trimming, transportation, day care, and housing. The mere existence of private sector firms in all these categories is direct evidence that they are inherently not public goods, but private goods.

It would appear that there is no *economic* justification for governmental provision of *any* of these services. The most likely explanation for governmental provision is the natural inclination among government bureaucracies to expand their domain by whatever means possible. Competing with private business is apparently an expeditious way of doing this, given that local governments have the taxing, spending, and regulatory power to do so. By using tax revenues to subsidize local government enterprises and imposing costly taxes and regulations on private sector competitors, local governments can easily dominate many industries.

State governments also are guilty of usurping the domain of the private sector. States spend

vast amounts of money on education, highways, hospitals and health care, parks and recreation, liquor stores, and utilities—all private goods.

New York, for example, runs a transportation business, operates museums, constructs “industrial exhibits,” operates sports arenas, builds parks and other recreational facilities, finances home mortgages, and many other activities. Other states are involved in the same activities.

So why does government have its hand in all these commercial enterprises? It is certainly not because the market has “failed.” A more likely explanation is that government is the monopolist *par excellence*. By subsidizing its own enterprises and taxing and regulating its private competitors it can drive them from the market. Many other private businesses will not even become established in the first place. That’s why privatization of “public” services is more than just a means of cutting the cost of public service provision. It is a genuine anti-monopoly policy.

For nearly a century antitrust policies have been used to persecute private “monopolies,” but the real monopoly problem lies in government itself. The government’s so-called antitrust policies are only a smokescreen. Under the guise of fighting private-sector monopolies, government draws attention away from the *real* monopoly problem in America—monopoly government.

One of the reasons the American revolution was fought was to escape the economic tyranny of King George, who had implemented a system of British government monopolies to fleece the colonists. That’s why the privatization movement might properly be labeled the second American revolution. □

1. Senator S. I. Hayakawa, Statement on “Government Competition with Small Business,” *Hearings of U.S. Senate Committee on Small Business, Subcommittee on Advocacy* (Washington, D.C.: U.S. Government Printing Office, June 24, 1981), p. 1.

2. Statement by Danford L. Sawyer, Head of the U.S. Government Printing Office, *Hearings Before the House Appropriations Committee*, 97th Congress, 2nd Session, 1983, p. 14.

3. *Ibid.*

IDEAS
ON
LIBERTY



What Is Seen and What Is Not Seen

Have you ever heard anyone say: “Taxes are the best investment; they are a life-giving dew. See how many families they keep alive, and follow in imagination their indirect effects on industry; they are infinite, as extensive as life itself.”

The advantages that government officials enjoy in drawing their salaries are what is seen. The benefits that result for their suppliers are also what is seen. They are right under your nose.

But the disadvantage that the taxpayers try to free themselves from is what is not seen, and the distress that results from it for the merchants who supply them is something further that is not seen, although it should stand out plainly enough to be seen intellectually.

When a government official spends on his own behalf one hundred sous more, this implies that a taxpayer spends on his own behalf one hundred sous the less. But the spending of the government official is seen, because it is done; while that of the taxpayer is not seen, because—alas!—he is prevented from doing it.

—FREDERIC BASTIAT,
Selected Essays on Political Economy

Shipwreck Legislation: Legality vs. Morality

by Gary Gentile

Law is a reflection of society's code of morality.

It is universally agreed among the cultures of man that murder, rape, and other crimes of assault need be dealt with severely, and it is the primary purpose of government to protect its citizens from wanton abuse and foreign aggression.

As civilization becomes more complicated, it requires finer distinctions in legal process, and more exact definition of transgression against individual rights. The Ten Commandments were a good starting point for biblical man, but the evolution of society has provoked an evolution of the law that rules it. Since the latter is dependent upon the former, it necessarily lags behind the cultural ethic, and often works in direct contradiction to the precepts it is supposed to support.

Admiralty Law and Salvage

That all property is owned by someone seems a simple statement. Yet there comes a time in the existence of every piece of property when its ownership no longer can be validated. Some things are discarded, some abandoned, some lost, and some stolen.

Items thrown away can be legally and rightly picked up by anyone discovering them: trash pickers abound in every community, trucking away old furniture for resale, broken appliances for parts, newspapers for recycling. People are glad to have those things taken. Likewise, aban-

doned automobiles are towed away in order to clear the streets for traffic. No one complains, because these articles have no owner.

On the other hand, if my car experiences mechanical difficulties on the highway and I am forced to leave it to seek help, no one may take it in my absence, or help himself to its parts. By separating myself from my possessions, I have in no way given up my claim to ownership. On the sea similar rules apply, although with some necessary distinctions.

Despite beliefs to the contrary, a ship abandoned in peril is not without proprietorship. Those on board forced to relinquish control of their vessel do not give up title, any more than I do with my car on the road. On the other hand, while a disabled vehicle is in no danger from the elements, a crippled ship is at risk of wrecking or sinking, a condition which significantly decreases its value to its owner, perhaps to nothing. In this case, great latitude is permitted in the common law of salvage to encourage salvors to rescue the vessel and any floating debris from otherwise total loss.

The salvage firm makes an investment from which it can recoup its expenses only upon successful completion of its task. The adage in the business of "no cure, no pay" is a curt summary of the hazards of marine salvage. And, since the original owner of the imperiled ship would have lost everything but for the intervention of a ready and skillful outfit willing to take a chance on eventual profit, insurance syndicates and admiralty courts are generous with salvage awards. If they were not, it would not pay salvage firms to keep tugs and crews on alert. In the end, it is the

best way for underwriting agents to reduce their losses. The owner, it is understood, receives full payment to the limit of his coverage.

Taken a step further, even should the ship sink, the owner is no more dispossessed of his belongings than I would be should a rain storm surround my car with a puddle. The depth of water does not transfer title of either the ship or its cargo to an enterprising profiteer, and one who removes goods or ship's appurtenances at this stage is wrongfully relieving another of his property. Neither does a disaster taking place in international waters sanctify such action—being out of reach of a law-enforcement agency does not imply that one is beyond the bounds of morality. Theft is theft, despite venue and without gradation.

Eventually, however, property may be legally abandoned. This occurs first when the insurance underwriter concludes that the ship and cargo are not recoverable with any degree of economic feasibility, and voluntarily relinquishes ownership. At that time anyone can lay claim and attempt salvage—at his own expense, and without any obligation or responsibility incumbent upon the original owner.

Barring this, a lost or sunken ship becomes "derelict" when sufficient time has passed during which the owners have shown no intention of recovery. In the navigable waters of the United States, this period is 30 days. In international waters, the duration is somewhat nebulous. However, it is at least as long as the settlement of insurance claims. But when in doubt, the underwriter should be contacted. No response to the query can be cited as an indication of abandonment.

Within days of the loss of the *Marine Electric* off the Maryland coast in 1983, a local diver took it upon himself to perform light salvage (removing valuable electronics), claiming the ship was abandoned. Meanwhile, the insurance company was investigating the cause of sinking and the possibility of total salvage of the vessel. The actions of the local diver hindered the overall examination by the real owners. This is equivalent to a street gang's removing the tires from my car while I am gone for help, or while the police are investigating a traffic accident.

No thought was given to the rightful owner, and the myth that anything lost at sea immediately becomes the property of the finder is perpetu-

ated by the mentality of people who know that the coin can never be reversed. That is, they will never own a ship, and can never be on the losing side. So, they try to believe that they have a right to take something which does not belong to them.

In keeping with the basic premise of admiralty law, "A claim for a salvage award requires that three elements be shown:

(1) A maritime peril from which the ship or other property could not have been rescued without the salvor's assistance.

(2) A voluntary act by the salvor — that is, he must be under no official or legal duty to render the assistance.

(3) Success in saving, or in helping to save at least part of the property at risk."

Admiralty salvage laws have been enacted with much forethought as to the justice of such situations, and have been working justly for hundreds of years.

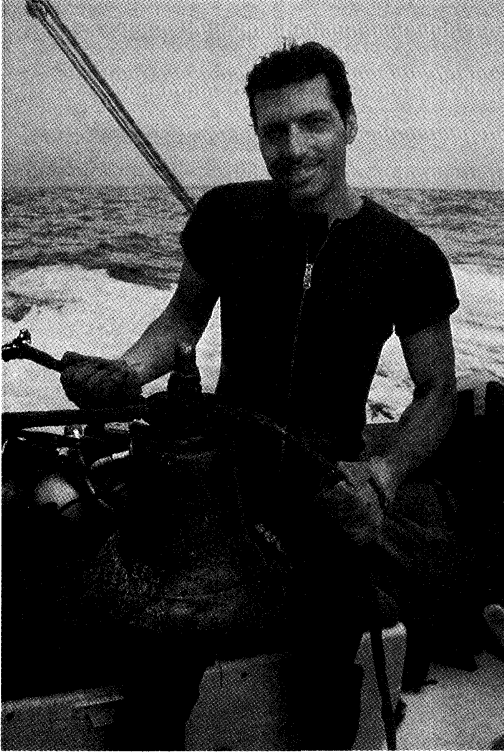
Who Owns Abandoned Shipwrecks?

Wreck diving isn't new. It goes back to before the time of Christ, when salvors practiced breath-holding to recover goods from sunken merchant vessels. They were paid according to working depth, much the same as today.

As long as man has been plying the waves he has been losing ships. And as long as valuables have been lost, divers have been willing to hazard the risks to recover them. Today, with increased technology, the danger has been reduced to an inconsiderable level, and there are millions of divers exploring the oceans. Not all of them are interested in hard-core salvage, but hardly any can conceal a certain degree of fascination with the lore of shipwrecks.

Add to this man's insatiable desire for possession, his fascination with the collection of rarities, his predilection for accumulating wealth and garnering mementos of his accomplishments, and we have an instinctive urge to assemble and exhibit the fruits of man's labor and to vaunt his prowess. Souvenir shops thrive on these basic human traits.

Man underwater continues to be the same.



Author Gary Gentile

From the reefs he collects shells, from the wrecks he collects artifacts. But what right does he have to do this?

It already has been shown under what conditions a shipwreck may become the spoils of the finder, yet there are mitigating circumstances where this is not true, as well as times when the finder's rights are usurped by government.

U.S. military vessels are never abandoned simply through the passage of time: they must be officially stricken from the Navy list. This is the procedure when a ship is scrapped, or when it is sunk and the Navy has completed or decided against salvage. Otherwise, they remain as fully commissioned ships of the fleet, a kind of limbo status that grants immunity from foreign encroachment. In such cases each vessel technically becomes a little piece of America, wherever it may lie, a steel monument honoring the dead, and is as sacred as the Arlington National Cemetery. This is also true of foreign, even enemy, ships lost in U.S. waters.

Of course, there is nothing wrong with visiting these grave sites—as there is nothing wrong with visiting the war graves at Arlington. But differences of opinion arise when the site is disturbed.

Removing bones and skeletons from a shipwreck is equivalent to grave robbing, say those who sanctify dead bodies. Recovering parts of the ship is like dismantling Arlington's fences and tombstones, say others. For some, even touching the rusted hull is like sticking your hands into the earth over a coffin. There are as many different modes of thought as there are people, including those who believe that respect for the dead is more a matter for the heart, and how one feels, than the location or condition of human remains. But this is a matter of philosophy.

The analogy breaks down when it is extended to include the thousands of nameless freighters, tankers, and sailing vessels of old. Some would have us treat every sunken ship as the final resting place of anguished human souls, and think that nothing should be disturbed. This is something like leaving every crashed car at the site of its roadside collision.

Territorial rights extend in most countries to three miles, a distance left over from a time when defensive shore batteries had limited effective range. Thus, a foreign vessel could approach enemy shores no closer without fear of being fired upon. In the U.S., the states are granted dominion over this area, while up to 12 miles is the contiguous zone under Federal control. The 200-mile economic zone is designated to keep foreign nations from fishing off American reserves. All inland lakes and waterways are state controlled.

A curious situation arises in the U.S., however. Unlike a communist society in which all land, indeed everything that exists, is held by the state, the Constitution of the United States guarantees respect for property rights. This is the basis for a free, capitalistic society: the individual maintains control over his possessions, earns the wealth that is the fruit of his labors, and retains ownership of all his discoveries, inventions, creations, and finds.

This last point is covered under the "law of finds," granting to the finder title to found property which falls, for whatever reason, under the heading of abandoned property. The law reads: "The general rule in the law of finds is that the determination of the finder's right to abandoned property is unaffected by the ownership of the land on which the property is found." In other words, a prospector who locates gold on public land stakes a claim and becomes the owner. By

the same token, if he happens across abandoned property, he still can take possession. But a problem *does* arise concerning ownership of the land.

The Diver vs. The State

Let us delve into some actual court cases to perceive how the legal system is handling specific circumstances.

In the much publicized case of *Treasure Salvors Inc. v. Unidentified, Wrecked and Abandoned Sailing Vessel*, 1981, the state of Florida confiscated all artifacts recovered by treasure hunter Mel Fisher from the site of the *Atocha*. State officials ignored the fact that the wreck wasn't within state jurisdiction: it was beyond the three mile limit. Instead, they issued warrants for the seizure of all property Fisher retrieved from the seabed, without offering any compensation. It took years of costly litigation before a Federal court finally ruled that "title to abandoned property vests in the person who reduces it to his or her possession."

In *Klein v. Unidentified Wrecked and Abandoned Sailing Vessel*, 1985, the issues were more complicated. Klein accidentally discovered a shipwreck while diving in Biscayne National Park. Subsequently he recovered artifacts, and brought action to confirm his title to the wreck and its cargo, or at least to gain a salvage award for his efforts. The judges hearing the case filed dissenting opinions.

On the one hand it was found that, first, since the United States was "the owner of the land on and/or in which the shipwreck is located, it owns the shipwreck." Second, despite the fact that the Park Service was unaware of the location or even of the existence of the wreck, "it was certainly capable of 'rescuing' the property at that time without the plaintiff's assistance." Third, and most valid, "The articles removed from the shipwreck site were not marked or identified so as to preserve their archaeological provenience," and "the plaintiff's unauthorized disturbance of one of the oldest shipwrecks in the Park and his unscientific removal of the artifacts did more to create a marine peril than to prevent one."

On the other hand, it was admitted that "the government's argument that no marine peril existed ignores the reality of the situation," since the wreck "is still in peril of being lost through

the actions of the elements," and that the "plaintiff performed a highly valuable service simply by locating the shipwreck, and should be compensated accordingly."

In *Frank Chance, Paul Chance, and David Topper v. Certain Artifacts Found and Salvaged from The Nashville a/k/a The Rattlesnake*, 1984, the three plaintiffs located the Civil War side-wheel steamer on a sand bar in the Ogeechee River. They applied to the state of Georgia for an excavation permit. Request was denied. Plaintiffs performed diving operations anyway, until caught and ordered to cease and to turn over all recovered artifacts.

The court agreed that "under general finds principles, it is well settled that in a suit between competing salvors the first finder to take possession of the lost or abandoned property with the intention to exercise control over it acquires title." However, their claim to ownership was weakened by the court's admonition that their argument did "not justify his entering upon the property of another without permission," and that "backpackers and hikers must often obtain permits before being allowed access to certain of our national parks and forests, even though that land is public and not private." In addition, "When personalty is found embedded in land, however, title to that personalty rests with the owner of the land."

These are sticky problems for the courts because they are enjoined to make a distinction between the law of finds and property laws, where embeddedness was originally intended to include mineral rights. Rulings can go either way, depending upon the circumstances. For example, if someone loses a wallet on your front yard, you don't necessarily assume ownership—it can go to the little boy who finds it. But, if he has to dig up your lawn to get to it, you can claim it as part of your property. Also involved is the adjudication of trespassing.

Contrary to the precepts of a free society, some states are setting themselves up as private landowners in order to appropriate publicly owned property. Where a shipwreck lies at the bottom of a river, they claim sovereignty in the absence of Federal regulation. The rationale is that all waterways are state owned.

Some states are using laws passed for one purpose to further ends which were not intended in

the initial enactment. Pennsylvania, for example, will arrest people caught picking up exposed Indian arrowheads on *privately* owned land, such as a farmer's field. This is certainly getting out of control. After all, the purpose of government is to govern, not to own. That is for the individual.

As a ploy for getting laws passed, state legislatures don't actually prohibit the salvaging of wrecks on supposedly state-owned land, but include the seemingly innocuous requirement of a permit. However, once the states have control, as in the *Rattlesnake* case, they can simply deny the permit. Thus, the people are tricked into giving away their rights, expecting due process which is not forthcoming. The states are taking control of the people, instead of the people being in control of their states.

Moving to the beaches and three-mile territorial waters, we find further abuses of the common law of salvage, where coastal states enact local laws to pre-empt admiralty law in an attempt to seize the hard-earned gains of treasure salvors—*after* they have found treasure.

It is interesting to note that in no instance has a state actively searched for a treasure ship. Perhaps they understand too well the immense effort and tremendous cost involved. Instead, they hug the sidelines waiting for a businessman to make a successful find, then pass laws to take away the rewards of his investment. (Remember the *Treasure Salvors* case.) This is like taking over a manufacturing firm after it has started earning profits. It would appear that right and wrong do not necessarily have anything in common with what is legal or illegal, despite constitutional guarantees of inalienable rights.

Recently, while the states have attempted to annex private property, Federal court judges have wisely and judiciously decided otherwise. The *Cobb Coin* case (1981) cost its plaintiffs a small fortune in defense, but the 50-page legal decision in the Federal Supplement examined every angle of Federal maritime laws. District Judge James Lawrence King studied the history of the 1715 plate fleet lost in a hurricane off the Florida coast, and disagreed with the state's claim of ownership, thus:

"The State of Florida is attempting to interfere impermissibly with an ongoing federal matter. Such usurpation of the proper jurisdiction of this Court cannot be tolerated."

"Florida seeks to claim ownership of the wrecks through legislative pronouncement."

"The right so to search is a fundamental adjunct to the American principle that the high seas be freely navigable to all seafaring persons to navigate for pleasure or commerce, or otherwise to ply their trades."

"This country, throughout its existence has stood for freedom of the seas, a principle whose breach has precipitated wars among nations."

"When property has been abandoned or become derelict, anyone may put himself forward as salvor."

"The requirement that one be licensed to be able to explore the ocean for abandoned property at the bottom contravenes the maritime law principle that potential salvors be free to explore the open waters."

"Florida's system of fixed salvor compensation conflicts with admiralty's flexible method of remuneration based on risk and merit. . . . The consistent policy underlying admiralty's salvage awards is that salvors will be liberally rewarded."

Judge King has written the most inclusive and exhaustive monograph in the history of shipwreck legislation, and has gone to great lengths to weigh both the legal and moral aspects of the case. His conclusions fall back to man's inviolable rights as stipulated by the Constitution of the United States, and will be precedented material for generations to come. The purpose of salvage law is to encourage salvage in order to "return to the mainstream of commerce goods otherwise buried beneath the sea."

He has stated flatly that shipwrecks rightly belong to those who find them, work them, and bring back their treasures in whatever form to the mainstream of human awareness.

Plight of the "Wreckless" Diver

Despite this costly victory for individual rights, schemes abound that seek to overthrow the status quo and to apply state dominion over all shipwrecks, whether within territorial waters or without, and to include locations where even the U.S. has no authority.

The intended victims of these machinations are not just big-time salvage operators, but millions of sport divers as well. Most are unaware of

the spears being thrust at them, and those who are don't have the backing or financial resources to protect their interests. Thus, a succession of Federal bills has been in the offing to revert maritime salvage regulations to the custody of the states who, it has already been shown, are not sufficiently responsible in matters of individual rights.

The ploy being used is the "preservation of cultural resources," a phrase with a highly debatable meaning, depending on who is using it. Perhaps better understood is "national heritage," being that part of history relating to the founding and growth of a country.

Historic sites such as buildings and battle-grounds are set aside, with interpretive centers erected nearby to guide visitors on a tour of the past. The Liberty Bell, Betsy Ross's house, and the trenches and bastions of Antietam, where so many soldiers lost their lives, serve as examples of the War of Independence and the American Civil War. Pride and tradition can be viewed at Williamsburg. The fact that tourists flock to these places is proof of the interest they maintain.

Yet, not every battlefield has been preserved, not every ancient building still stands, not every vestige of the past has survived the trash heaps. There is neither the room, nor the money, nor the concern to preserve everything. All we need are examples.

Despite claims to the contrary, the same applies to shipwrecks. Not every barge or tramp freighter has historic or cultural value. Yet the plethora of anti-shipwreck bills continually in Congressional hearings are implicitly all encompassing, and seek to put in the province of local authority every shipwreck in navigable waters, off coastal communities, and those outside the jurisdiction of the United States. This is a gigantic number of wrecks: over 4,000 off the New Jersey coast alone. What are we to do with them all? And why preserve a sunken liberty ship when some of them still ply the seas, or are being scuttled as artificial reefs?

The question is not whether we need cultural resources, but how many do we need? And how much are taxpayers willing to pay for them? While some don't like to put a value on history, a modicum of practicality must be applied. We cannot preserve every old wreck just on the chance that a previously unknown piece of infor-

mation may be retrieved from it. How important is it to the general public to learn how many strakes a Spanish galleon has, or whether the chine was curved? (What is a strake? What is a chine?) Certainly, knowledge of this kind is not going to alter the course of human events, or find homes for the needy, jobs for the poor, and clothes for the destitute. We live in an uneven society, and the merit of everything must be weighed in context.

Free enterprise is the American way, the basis on which this country was founded. Resource management needs to do more than preserve; it needs to utilize.

The locations of most major historic shipwrecks are known through the efforts of speculators diving and doing research in their spare time, and at their own expense. To confiscate a shipwreck after such diligent work is criminal. If you borrowed heavily to buy the materials for your dream house, then built it yourself to your own specifications, you would not expect the government to take it away on the pretext that it was too beautiful for one person to enjoy, and should become public property. Why should a person's claim to a shipwreck be any different? The individual should not be made to suffer at public expense, as stipulated in Amendment V of the Bill of Rights.

At the same time, archaeologists have a valid concern that valuable information is being lost due to unprofessional salvage. To quote again from the *Klein* case: "... plaintiffs have not taken adequate steps to ensure conservation of the artifacts. While some artifacts have been placed in holding bins, the water in these bins has remained unchanged, which is detrimental to the artifacts. Further, uncontradicted testimony revealed that many items not currently stored in holding cells are piled in the plaintiffs' backyard where they are subject to random and deleterious exposure to the various elements."

Yet, while we abhor on a collective level the loss of these interesting artifacts, we lose much more by abrogating individual rights.

Certainly we need to preserve for our children some of the memories and mementos of our past, but does this mean that all Civil War buffs should have their collections of guns, bayonets, uniforms, and badges confiscated in the name of the public?

Several years ago when I attempted to present my entire collection of thousands of recovered shipwreck artifacts to a maritime museum, I was met with a stern refusal. It was not a matter of capital expenditure or space allocation, but simple apathy. They had no interest whatever in preserving or displaying our underwater heritage.

The message is clear: museums are overstocked and public support is lacking. Museum basements are crammed with packaged items for which there is no display space. Consider the case of the New York museum which recently discovered in its vaults an Egyptian mummy still in the crate, waiting for over 50 years to be unpacked.

Public institutions have no need to collect more artifacts, and they have no place to keep them. Why not put them in private hands? They are just as valuable there, are more easily maintained, and they will have been returned to those people who, by their willingness to search for them, collect them, and buy them, demonstrate the most interest in their history.

To put things in their proper perspective, within the framework of the principles of this country, it is contrary to the public good to put any shipwreck or salvage operation under any form of government control, either Federal or state.

Hope for the Future

The sea is a sacrificial element: a bath of corrosive chemicals, an armory of hungry marine organisms, a morass of shifting sand, the site of toppling currents and destructive storms. Man's carefully crafted structures and products soon fall prey to the whims of nature, which seek to reduce his handiwork to the substance from which it came.

The truth of this is obvious to anyone who

dons a mask and views his first sunken wreck: he sees not a proud, shiny ship as it looked sliding down the ways, but a battered hulk vastly overgrown with coral and barnacles. From the day a ship is launched the deterioration begins, and it ends only when nothing is left. Every moment it remains in the water, man's maritime heritage is being relinquished.

There is only one solution for ultimate conservation—removal to a controlled environment. To paraphrase a real estate admonition, the best time to remove an artifact was yesterday; the next best time is today. It might not be there tomorrow. How best to meet the aims of scientist and layman, adventurer and armchair follower, conservator and souvenir collector?

Emphasis must be made toward quick recovery in some cases, plodding archaeological methods in others. The most credible way to invoke civic responsibility is to settle on the standard that best represents the American way: money.

Archaeologists get paid for salvaging shipwrecks—why then should treasure hunters be treated any differently? Or sport divers? The fundamental law of salvage is to encourage it by offering rewards commensurate with the amount of time, effort, and money invested, and with the value of the property regained. And, as Judge King noted, "every day lost in the salvaging effort means fewer artifacts recovered for the benefit of society."

While the issues are complicated, one thing is evident: individual property rights in a free, capitalist society must be maintained to uphold the integrity of that society. Legislative action should not take away those rights, and enacting laws that put one group at the disadvantage of another is not within the bounds of freedom for all.

Ultimately, what we need is less government intervention and more human involvement. □

Why Public Schools Fail

by James L. Payne

The 1980s have not been kind to supporters of public education in the United States. Early in the decade came evidence of the shortcomings of the public schools from the massive 60,000-student "High School and Beyond" survey. As sociologists James Coleman, Thomas Hoffer, and Sally Kilgore summarized this study of U.S. secondary education, "students in both Catholic and other private schools are shown to achieve at a higher level than students in public schools." Their overall finding was that, controlling for social and demographic factors, students in private schools were one full year ahead of public school students.

Now, an exhaustive study by political scientists John Chubb and Terry Moe, published in the December 1988 *American Political Science Review*, documents the theory behind this difference. Private schools are better, say Chubb and Moe, because they are better organized to deliver quality education.

Private schools face a market test: If parents and students aren't satisfied, they leave the school and stop paying tuition. This propels private schools to structure themselves so they can deliver a better product. When a public school starts deteriorating, on the other hand, the tax monies keep coming in. Hence inefficient arrangements persist.

What are the patterns of successful management that the private schools have adopted? From their survey of 500 schools, Chubb and Moe document how the private schools differ from the public ones. First, in private schools, the

higher, distant authorities like boards and supervisors have less power. In the public schools, the school boards and supervisors try to micro-manage the schools—leaving principals and teachers frustrated. This contrast, by the way, holds up even for the Catholic schools: The higher ecclesiastical authorities meddle less in their schools than public school boards and supervisors do in theirs.

Another difference is that private schools have more flexibility in personnel policies. The procedures to fire someone are less complex and take less time. Thus private school managers can more easily discharge unsatisfactory personnel. Furthermore, private schools are more focused and coherent in their orientations. Different private schools may offer different approaches, but within each school, Chubb and Moe found more clarity on goals and less disagreement among the staff than prevail in the typical public school.

Another key difference is with the principals. As documented by Chubb and Moe, the private school principals have more teaching background than public school principals. They are less interested in administrative duties than their public school counterparts, and more interested in educational philosophy. Also, private school principals are much less likely to be seeking career advancement. The result of these differences is that private school principals are educational leaders. This is less the pattern in the public schools where principals, hemmed in by higher authorities, regulations, and unions, tend to be seen as bureaucratic managers.

With the principal given so much authority in private schools, what happens to morale and staff

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relations? To hear the unions tell it, without the government and union “protection” found in the public schools, private school teachers must lead a miserable life. Well, it isn’t so. Chubb and Moe found that the work context is more rewarding for a teacher in a private school: principal-teacher relations are better; teacher-teacher relations are more cordial and more supportive; teachers have more influence in every phase of the school, from choosing texts and deciding what to teach to establishing standards for discipline and homework. Private school teachers “feel more efficacious than public school teachers. Unlike their public counterparts, they do not believe their success is beyond their control, and they do not feel it is a waste of time to do their best.”

In monetary compensation, private teachers lag behind. This, say Chubb and Moe, is perfectly understandable: “Private school teachers are

trading economic compensation and formal job security for superior working conditions, professional autonomy, and personal fulfillment. Public school teachers are doing precisely the opposite.”

What the unions and the politicians have overlooked is that job satisfaction for teachers depends on having the flexibility to accomplish the mission of education. The regulations and restraints that enmesh the public school are undermining everyone’s morale. So even though we are pouring more and more money into public schools, the quality goes down.

Of course, there are some good public schools with effective programs. What the Chubb and Moe study gives is the overall, nationwide pattern. And that picture clearly shows that the lesson of the market applies to education, too: Where consumers are free to choose, suppliers organize themselves to deliver a superior product. □

Fairness Doctrine, R.I.P.

by Jorge Amador

On August 4, 1987, the Federal Communications Commission (FCC) repealed most aspects of the "Fairness Doctrine," the regulation requiring broadcasters to cover contrasting views of important issues. With the exception of questions that are to be decided by voter referenda, Fairness Doctrine enforcement would stop.

It was the end of the civilized world, to hear some react to the prospect of unregulated debate. Without the Fairness Doctrine, predicted one Congressman, "Candidates would lose the right to reply, parties out of power would not be able to respond, radio stations could allow supporters of one candidate to dominate the news, and local and state ballot issues could no longer be covered." "I am concerned that . . . broadcasters could use the public airwaves as their bully pulpit," said another. "They could every day pound away at their point of view, with absolute, total disregard to the other point of view."

The national director of Americans for Democratic Action simply warned that "The public would be considerably less informed if the Fairness Doctrine is repealed." Supporters twice passed bills in Congress to make the FCC regulation into law, only to be frustrated by Presidential veto.

And yet, nearly two years later, the sky has not fallen. Radio and television stations did not suddenly become vehicles for one-sided debate. The opposition party is still getting its weekly reply to the President's Saturday radio message. Election-year coverage clogged the airwaves with news

and views about candidates, conventions, and issues.

However, the new administration may turn out less hostile to the Fairness Doctrine. A Federal court has been asked to review the FCC's decision to abolish the doctrine. Some background will help us understand why the old doctrine may yet rise out of its coffin.

"A Façade of Pious Theories"

The Fairness Doctrine was a cornerstone of government regulation of broadcasting. Ernest Hollings, the U.S. Senate's most eloquent proponent of the Fairness Doctrine, identifies four assumptions underpinning broadcast regulation:

1. "A valuable public resource, the electromagnetic spectrum, remains scarce relative to demand; broadcast channels are limited, despite the introduction of new video and audio services."

2. Congress in the Communications Act of 1934 "has chosen a system where a select few are licensed to utilize the broadcast spectrum in exchange for a commitment to operate in the public interest as public trustees."

3. "The doctrine has permitted those who do not own broadcast stations to have an opportunity to participate in important public debate and has provided the public with a greater range of views upon which to make informed decisions."

4. The doctrine is simply "no more than good journalistic practice that does not chill the speech of broadcasters."

Government control over broadcasting is premised on the idea that the spectrum is a limited natural resource which many more people

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want to use than it can physically accept. Without regulation, users will interfere with each other's signals and render the whole medium useless. Hence government must step in to decide who gets to broadcast; to narrow down the field, it conditions broadcast licenses on the applicant's willingness to serve the "public interest, convenience or necessity."

Around this logic has been spun a web of justifying mythology. "Before 1927, the allocation of frequencies was left entirely to the private sector, and the result was chaos," wrote Justice Byron White in the Supreme Court's 1969 decision, *Red Lion Broadcasting v. Federal Communications Commission*, upholding the Fairness Doctrine. "Without government control, the medium would be of little use because of the cacophony of competing voices, none of which could be clearly and predictably heard."

Fairness Doctrine advocates are better theorists than historians. As one author put it, "to a large extent" broadcast regulation "serves as no more than a façade of pious theories."¹

Contrary to Justice White's assertion, spectrum allocation has never been "left entirely to the private sector." Before 1927—when the Federal Radio Commission was established—frequency allocation was in the hands of government, and the result was indeed chaos.

Almost from the beginning the story of broadcasting largely has been one of market pressures slowly advancing against attempts to limit by decree the voices speaking through the airwaves.

The Radio Act of 1912

As radio's possibilities for mass, long-distance communication began to be understood, the federal government assumed control of the airwaves. In 1912, Congress passed and the President signed the first Radio Act. The Secretary of Commerce and Labor was empowered to assign frequencies and hours of operation; operators were required to pass an examination to obtain a license to transmit. Only U.S. citizens were eligible for licenses.

The Radio Act seemed necessary because the Navy complained that amateur enthusiasts were sweeping through the frequencies and interfering with transmissions between ships and onshore installations. It was the era of radio experimenta-

tion; the spectrum was a newly opened frontier where explorers roamed and the claims of settlers went largely unrecognized. Before long the government claimed the frontier for itself.

During World War I, the Navy seized or shut down all private radio operators, ostensibly on security grounds. Comfortable with the arrangement, following the war the Navy asserted that radio was a "natural monopoly," and that this monopoly should as a matter of course remain with itself. Navy Secretary Josephus Daniels argued that it would "enable the Navy to continue the splendid work it has carried on during the war," and that "we would lose very much by dissipating it and opening the use of radio communication again to rival companies." Navy Commander S. C. Hooper allowed that "either the government must exercise that monopoly by owning the stations or it must place the ownership of these stations in the hands of some one commercial concern. . . ." ² The Navy did not get its way. But when the government did begin to allocate frequencies to private operators, it did so in a manner almost guaranteed to create "chaos."

The new commercial radio industry burst onto the scene in 1920-22. In the first six months of 1922 alone, the Commerce Department issued 354 new broadcasting licenses. But, difficult as it may be to believe today, they were all assigned the same frequency, 833.3 kilohertz!

After confining them to the same channel, the government left the stations to work out time-sharing arrangements among themselves to avoid interference. Remarkably, for a few years they were able to. "When the Bamberger department store inaugurated WOR in Newark early in 1922," writes broadcast historian Erik Barnouw, "it quickly arrived at a treaty with WJZ [an older station]. On one day WOR would have sunrise to sunset, and WJZ the remaining hours; on the following day the arrangement would be reversed, and so on."

As a result, "The schedule became a checkerboard of short time patches. Some stations had an hour or two during the week. In Los Angeles, twenty-three stations shared the channel." Not surprisingly, "New arrivals were increasingly resented by earlier stations."³

Local stations, deferring to listeners' requests to hear stations from other cities, agreed among

themselves to remain silent at certain time slots. The practice became known as Silent Night. However, as the commercial value of radio time grew, so did the pressure to remain on the air, and Silent Night was abandoned in 1927.

The Commerce Department only reluctantly opened new channels to relieve the artificial congestion. In the summer of 1922, a second band was opened for broadcast at 750 kilohertz. To escape the clutter, some stations attempted to broadcast slightly above or below the assigned frequencies, but this was not tolerated for long.

Secretary of Commerce Herbert Hoover, who proclaimed the air "a national resource to be guarded," resisted proposals to treat channels as property that individuals could own, sell, and buy. Congress backed him up in 1926 with a joint resolution to require licensees to sign a waiver of property claims in the spectrum. However, the same year a Federal court ruled that the government did not, after all, have authority under the 1912 Act to regulate a station's hours, power, or frequency.

The industry was thus left in an intolerable situation. Broadcasters could not defend themselves against others intruding on their signals, yet the government would not act to prevent interference. The frontier was kept open to foragers and wanderers at the expense of homesteaders.

After encouraging this chaos on the air, government offered itself as the savior. In the Radio Act of 1927, Congress declared unequivocally that the airwaves "belong" to "the people." Instead of a no-man's land, the spectrum became public property. Regulators were given new powers to deny or revoke licenses; the landlord would decide which peasants got to use the newly established manor.

Artificial Shortage

Like any other natural resource, spectrum space is not unlimited. But government has made it more limited. "Whatever scarcity there is for commercial broadcasting and other private uses of radio is partly a man-made problem whose dimensions are defined by the executive branch."⁴

For decades the government has reserved for itself a large portion of the spectrum, which it has kept out of the reach even of regulators. Section

305 of the Communications Act exempts from the FCC's jurisdiction all "radio stations belonging to and operated by the United States." As late as 1977 government retained exclusive use of more than one-half of the spectrum, while another one-fourth was shared between government and private users. By 1925, Hoover was already declaring that "all wave lengths are in use"—all that the government would part with, that is. Since then the number of broadcast outlets has increased twentyfold. During the Carter administration the shared government-private spectrum rose to 40 percent; the frequencies available to private users, to only 35 percent.

The Federal Radio Commission, established following the Radio Act in 1927, set out to eliminate 164 of the 681 stations then in operation, even as technological developments undermined its rationale. "During 1930, broadcasting experienced 'almost a complete revolution in the type of equipment used' " which enabled stations to keep closer to their frequencies—theoretically permitting more stations to operate without interfering with each other.⁵ Nevertheless, the FRC's campaign proceeded apace, and by 1932 at least 77 stations had been abolished.

Defenders of regulation concede that the government could have allocated the spectrum differently to give more people a chance to use the airwaves. As Senator Hollings points out, instead of a smaller number of full-power stations, it could have called for a greater number of stations at less power, mandated stations to share frequencies, or treated stations as "common carriers" offering use of the spectrum to anyone at set rates and without control over programming.

But legislators instead "concluded that the public interest would be best served by fewer stations with greater power each under the control of a single owner. While the opportunity for members of the public was thereby limited, broadcasters were required by statute to act as trustees for all the public in exchange" for the privilege.⁶

Because the government allows only certain people to operate broadcast stations, the views expressed by the chosen ones are said to enjoy an unfair advantage over the rest of us who aren't permitted to operate a station. "Since all who wish to broadcast cannot do so, there is an inherent danger that the flow of information can be re-

stricted.”⁷ As part of their public interest duties, broadcasters therefore should cover issues of local interest and provide citizens with the opportunity to express their views. This is the heart of the Fairness Doctrine.

If broadcasters don't allow responses, where can the average citizen turn? When the Fairness Doctrine was in effect, anybody who felt his side had been slighted could file a complaint with the FCC, which could order stations to give free time. Broadcast regulation—and specifically the Fairness Doctrine—hence promotes public debate, say its defenders. “The genius of the Fairness Doctrine,” write Ralph Nader and David Danner, “is that it promotes debate without interfering in the editorial process. Nothing in the Fairness Doctrine ever denies a broadcaster the right to say what he or she pleases. Rather, compliance is attained by carrying more, not less, discussion of issues.”⁸

Again, Fairness Doctrine backers prove better theorists than empiricists. Rather than invigorating public debate, the Fairness Doctrine chilled it. Instead of improving citizens' access to the airwaves, it was a reason to deny them. As Representative Howard Coble put it during House debate on the doctrine, “In the abstract, ‘fairness’ is laudable. In the reality of an often expanding regulatory atmosphere, a governmental determination of ‘fairness’ will consistently fall short and fail to serve faithfully the public interest.”⁹

“Cocked Gun” Regulation

There was little objection to the Fairness Doctrine when the FCC formally adopted it in 1949. In fact, it was an improvement over the previous rule, the Mayflower Doctrine, which prohibited broadcasters from editorializing at all.

Not that they all wanted to. Broadcasters and regulators were already aware of the threat that a spirited debate could mean to the licensee. As early as 1934, it was known that “An innocuous schedule could mean prompt renewal” of the broadcast license, while “A provocative one could bring delays.”¹⁰ “Any vigorous presentation of a point of view will of necessity annoy or offend at least some listeners,” noted the FCC in its 1946 Blue Book. “There may be a temptation, accordingly, for broadcasters to avoid as much as possible any discussion over their stations, and to

limit their broadcasts to entertainment programs which offend no one.”

Nevertheless, declared the Commission, “the public interest clearly requires that an adequate amount of time be made available for the discussion of public issues.” In its report formalizing the Fairness Doctrine three years later, the FCC called on “broadcast licensees to provide a reasonable amount of time. . . to the discussion and consideration of public issues.” Avoiding “serious and provocative program content” was considered “an unfair use of broadcast facilities,” and could be grounds for revoking a station's license.

But in practice a band of regulators in Washington cannot possibly monitor every station's programming 24 hours a day, 365 days a year. It must rely on citizens to make sure that the “trustees” are fulfilling their obligations. Yet, as Senator Robert Packwood points out, “Most people are not aggravated by what they do not hear; they are aggravated by what they hear, and they think it is not fair, so they complain” to the FCC. Despite their obligations, broadcasters “simply avoid controversial issues, and nobody sues them much for that.”¹¹

It was not until 27 years after the Fairness Doctrine was proclaimed, in 1976, that the FCC cited a station for not covering a specific controversial issue of local importance.

An FCC report released in August 1985 described more than 60 specific examples where broadcasters “shied away from covering controversial issues in news, documentaries and editorial advertisements” for fear of triggering fairness complaints, and concluded that the Fairness Doctrine “chilled” speech. It resulted in a “net loss, not an enhancement, of speech,” said FCC general counsel Diane Killory in her statement announcing repeal of the doctrine. As the *Des Moines Register* observed, “The doctrine doesn't promote fairness; it promotes blandness.” Instead of getting opposing sides, listeners often ended up getting no sides of a debate.

Doctrine supporters are quick to note that complaints rarely resulted in action by the FCC, as if this were an argument in favor of the Fairness Doctrine. Colorado Senator Tim Wirth estimates that 98 percent of fairness complaints were routinely dismissed as frivolous or unfounded.

Between 1980 and 1987, the FCC received

about 50,000 fairness complaints, but found only one violation. In the 35 years 1934-1978, only 5 broadcast licenses were revoked for violations of the doctrine. For the overwhelming majority of people, then, the Fairness Doctrine in practice just didn't give us access to the airwaves.

But if so, how could the doctrine really have chilled broadcasters? Simple: it was a "cocked gun." As the Supreme Court said in another press-freedom case, "it is not merely the sporadic abuse of power . . . but the pervasive threat inherent in its very existence that constitutes the danger to freedom of discussion."

Defending against even frivolous complaints is expensive. The cost to the station averages about \$60,000 if the FCC calls a hearing. It's cheaper to keep quiet, just in case.

Nobody disputes that striving for balanced coverage is a desirable aspect of competent news journalism. Unfortunately, however, one person's "objectivity" is another's "hatchet job." A look at a list of organizations supporting the Fairness Doctrine, released by Representative John Dingell, reveals dozens of pressure groups on opposite sides of a wide assortment of emotional issues, each supporting the doctrine for its own ends: Americans for Democratic Action and American Conservative Union; General Motors and United Auto Workers; American Jewish Committee and National Association of Arab Americans; Mobil Oil and Fund for Renewable Energy; People for the American Way and American Baptist Churches; Accuracy in Media and Media Access Project.

Given the array of contending groups, each one sharply tuned to the slightest hint that the other side might have put an extra spokesman or one more statement on the air, even the most scrupulous reporter can hardly cover any controversial topic in a way that will avoid bitter charges of "bias" from one side, maybe from both. When the charges may be accompanied by demands for time under threat of referral to regulators, it is not difficult to understand why under the Fairness Doctrine broadcasters often preferred to avoid certain topics altogether. And, given the way competing ideological groups use the media for one-upmanship, it is not difficult either to understand why uninterested observers might find most fairness complaints frivolous.

For a hint of how public debate might proceed

without the Fairness Doctrine, compare television with a medium where the doctrine has never applied—cable television. In 1986, W. R. Grace & Co. had great difficulty placing on national television a series of ads attacking the Federal budget deficit. The networks were reluctant to air "advocacy advertising" that might have triggered demands for free rebuttal time. On the other hand Cable News Network, as a non-broadcast operation, did not have to offer free rebuttal time, and felt free to present strong citizen-initiated messages such as Grace's spots.

Ironically, the Fairness Doctrine thus both frequently inhibited broadcasters from covering controversy, *and* seldom permitted citizens to reply to what they perceived as "biased" programming. Broadcasters were chilled and the public ignored.

Many Ways Out

The spectrum is not as scarce as we have been told, and in any event the Fairness Doctrine, despite notable individual cases, by and large failed both to encourage vigorous debate and to provide for public participation.

What, then, can activists and concerned individuals expect now that broadcasters have been freed from fairness requirements? Is the only option to give up and tell broadcasters: "We are at your mercy; go ahead and say what you will, we can't do anything about it"?

Hardly. There may be a scarcity of broadcast alternatives in a theoretical sense, but this does not mean that there is a dearth of opportunities to utter opinion on the airwaves. Only certain people are licensed to broadcast, but they are not "few." Even today's artificially limited market offers numerous outlets to hear and express our views.

There are 1,570 television stations and 10,837 radio stations in the United States. Ninety-six percent of U.S. television households receive five or more television signals, and 71 percent receive nine or more.

Local television stations offer approximately 600 public affairs programs, 170 talk shows, and 124 "civic," "ecology," or news commentary programs. Radio stations produce some 2,200 separate public affairs programs, 1,400 talk shows, and close to 1,000 civic, ecology, or news com-

mentary programs. Every one of these airs on at least a weekly basis.

With or without the Fairness Doctrine, today's broadcast marketplace offers no paucity of alternatives for people to hear and express diverse views. Talk shows, even all-talk radio stations, have demonstrated their commercial viability. They will not go away merely because the Fairness Doctrine was repealed.

We don't need a broadcast license in order to be heard. There are literally thousands of stations and programs to which groups of various political stripes can turn to voice their opinions—at no charge. But if a station refuses to grant free air time to rebut a one-sided report, we can offer to buy time.

One of the ironies of the Supreme Court's celebrated *Red Lion* decision upholding the Fairness Doctrine is that the station airing the offending broadcast, WGCN in Red Lion, Pennsylvania, offered the plaintiff, Fred Cook, 15 minutes to reply at the regular rate of \$7.50. The offending program also had been a paid 15-minute broadcast.

Instead, Cook demanded free air time under the Fairness Doctrine. Off to the FCC and the courts they went, and he got the time—five years later. By then the issue in contention was dead, and Cook declined the offer. Had he bought the time he could have rebutted the original broadcast while it still mattered, and for a lot less trouble.

If a station refuses to sell us time, there are plenty of others in the market who'll be happy to do so, and who will air our spot as many times as we wish, often at surprisingly affordable rates.

In 1985, we could buy a full half-hour program slot on radio station WPOW in New York City for \$200; for \$85 on KAFF-FM in Flagstaff, Arizona; or for \$75 on WEUP in Huntsville, Alabama. If we didn't need that much time to tell off our opponents, we could buy a one-minute spot for \$30 in Provo, Utah; \$21.50 in Lawrence, Kansas; or \$14.75 in Salem, Oregon. Multiple airings cost even less per spot.¹²

In 1962, 66 percent of AM radio and 25 percent of FM stations reported a profit. In 1972 the figures rose to 72 and 38 percent, respectively. By 1980, the proportion of profitable AM stations was down to 59 percent, while 50 percent of FM stations made a profit.

The historical pattern for television stations is

similar, though more favorable. In 1955, 63 percent of VHF and 27 percent of UHF stations reported a profit; in 1977, 92 and 73 percent, respectively; but in 1980, profitable VHF stations were down to 89 percent, UHF to 58 percent.

The point is that, despite the market-limiting effects of broadcast licensing, having a license does not amount to "a license to print money." Broadcasting can indeed be very profitable, but there are plenty of stations which are hungry for revenue and which will eagerly sell air time to individuals or groups with something to say.

This is not to imply that all broadcasters, now freed from the strictures of the Fairness Doctrine, will automatically sell air time for political debate or cover both or even one side of an issue—any more than while the doctrine was in effect all broadcasters shied away from the issues. But on the whole we can expect, if anything, less timid coverage and more robust debate to come on the air from broadcasters and citizens alike.

The Fairness Doctrine was a questionable theory born of poor history. It both chilled broadcasters' freedom of speech and limited citizens' access to the airwaves, free or paid. What slender logic may have buttressed it in the beginning has long since given way to the proliferation of audio and video services.

Without the "fairness" gun cocked at their heads, station operators will feel a lot more comfortable airing spots on controversial issues. And we'll have a better chance to get our say. □

1. Sydney W. Head, *Broadcasting in America: A Survey of Television and Radio*, 2nd ed. (Boston: Houghton Mifflin Co., 1972), p. 461.

2. Erik Barnouw, *A Tower in Babel: A History of Broadcasting in the United States to 1933* (New York: Oxford University Press, 1966), p. 53.

3. *Ibid.*, pp. 92-93.

4. Erwin G. Krasnow et al., *The Politics of Broadcast Regulation* (New York: St. Martin's Press, 1982), p. 23.

5. Head, p. 162.

6. Senate floor remarks by Ernest Hollings, *Congressional Record*, June 23, 1987, p. S8440.

7. Letter by Morton H. Halperin and Barry W. Lynn, American Civil Liberties Union, to Senator Howard Metzenbaum, April 21, 1987.

8. Ralph Nader and David Danner, "The Need for Fairness," *The Washington Post National Weekly Edition*, December 7, 1987, p. 28.

9. House floor remarks by Howard Coble, *Congressional Record*, June 3, 1987, p. H4143.

10. Erik Barnouw, *The Golden Web: A History of Broadcasting in the United States 1933-1953* (New York: Oxford University Press, 1968), p. 30.

11. Senate floor remarks by Robert Packwood, *Congressional Record*, June 23, 1987, p. S8444.

12. Price quotes from *Spot Radio Rates and Data*, Standard Rate and Data Service, April 1, 1985.

Hunger and Farming in Black South Africa

by Frank Vorhies

Africa has some of the hungriest people on earth. In nations like Ethiopia and Mozambique, the human suffering is overwhelming. The African people are also among the least free people in the world. There are virtually no democracies on the continent. There is also generally no economic liberty. Simply stated, Africans starve because they do not have the freedom to grow or trade for the food they need to eat.

This essay focuses on black farming in South Africa. It is written in light of an emerging political and economic understanding of poverty and hunger in Africa. As noted, free people are generally not hungry. They do not starve. The question for Africans is: Why are they not free? Why do we not see African nations that are democratic and capitalistic?

The emerging view of the problem can be called a revisionist understanding of the impact of European colonialism on African development. The Marxists have long blamed the plight of Africa on colonialism and neo-colonialism. They are partially correct, but for the wrong reasons.

Africa is not starving because Europeans imposed alienating and exploiting relations of capital on the African people. Africa is starving because colonialism prevented capitalism from flourishing.

The goal of most colonial systems was not to produce, but to take. The classic examples are

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the Spanish in Inca Peru and Aztec Mexico. The Spanish conquered these peoples to extract their wealth, especially their gold. Centuries later, the Europeans went into Africa for the same purpose. The one major exception was the Afrikaners, people of Dutch, French, and German descent who came to the Cape of Good Hope to settle and to produce.

In economic terminology, the European colonialists were rent-seekers, not profit-seekers. They came to take a big slice of the African pie, not to bake more pies. They came to take and not to stay. Accordingly, the Europeans set up structures of government that maximized their ability to extract the wealth of the continent. They set up political and economic systems of rent-seeking, not profit-seeking.

When independence came to Africa starting in the 1950s, the new African leaders took over the existing structures of government. These structures had been designed to extract rents for those in power. They were not designed to promote profit-seeking activity. European colonialism was replaced by African neocolonialism.

Into this situation entered the Marxists. Following Lenin's flawed concept of capitalist imperialism, they labeled colonialism as part of capitalism. In fact, colonialism was part of the pre-capitalist system of mercantilism. Nevertheless, the Marxists, with international support, replaced so-called capitalist colonialism with African socialism. The results have been disastrous.

In Africa today, the hunger brought about by European colonialism has in many nations been replaced by the starvation brought about by



African Marxism. Angola, Ethiopia, Mozambique: they are all Marxist. Their peoples are starving. Within South Africa itself, the same problems and challenges exist. Hunger stemming from European colonialism persists. Starvation from the global effort to instill African socialism in the nation is a real possibility.

Farming in South Africa

The Republic of South Africa covers less than 4 percent of the African continent. Yet the country produces 17 percent of Africa's red meat, 20 percent of its potatoes, 27 percent of its wheat, 31 percent of its sugar, 45 percent of its corn, 54 percent of its wool, and 81 percent of its sunflower seed. The government's Bureau for Information proudly boasts of South Africa's significant agricultural exports: "Today South Africa is one of

only six net food exporting countries in the world. . . . South African food exports have become a lifeline for many countries in Sub-Saharan Africa."

With such impressive statistics, why should one focus on hunger in South Africa? Its agricultural output is indeed impressive. By African standards, malnutrition and starvation are low. The average daily food consumption is 117 percent of the U.N. Food and Agriculture Organization's recommendation. Though average levels of agricultural output and nutrition may be high, the variations are also high. The wealthiest 10 percent of households earn 39.4 percent of national income. The poorest 20 percent earn only 1.9 percent of national income. By comparison, the U.S. shares are 23.3 percent and 5.3 percent, respectively.

Hunger exists in the black regions of South

Africa. These regions are the legally separated tribal reservations or homelands ("bantustans"). The four independent homelands are Bophuthatswana, Ciskei, Transkei, and Venda. The six so-called self-governing homelands are Gazankulu, KaNgwane, KwaNdebele, KwaZulu, Lebowa, and Qwaqwa. The government has assigned approximately 40 percent of the 33 million people in greater South Africa to these districts. The additional 30 percent of the population that is black reside in the four (white) provinces: Cape, Orange Free State, Natal, and Transvaal.

Early Black Farming

Leon Louw and Frances Kendall begin their best seller, *South Africa: The Solution*, with a chapter called "Black South Africans: Their Rise and Fall." It reviews the early successes of the black farmers in the eastern Cape. Under British colonial rule, these farmers were allowed to own land and to market their products freely.

One of the more interesting stories is of the Mfengu people. In the 1830s, the governor of the Cape Colony allowed the 16,000 Mfengu to settle with their 22,000 cattle in the area now known as the Border Region. He used them as a buffer between the Xhosas and the British settlements, including Port Alfred and Grahamstown. The Mfengu took advantage of their new opportunities and developed into a prosperous farming community. Louw and Kendall explain:

On arrival . . . they entered agricultural service as cattle herders and shepherds, and were engaged in tilling, ploughing and reaping. . . . They used their wages to invest in sheep, wagons and tools, and were rewarded with land for fighting in the Cape Army. . . . By the 1840s and '50s they were selling tobacco, firewood, cattle and milk and disposing of surplus grain for cash or stock. . . . By the 1870s, black farmers in the Eastern Cape were extremely active and prosperous. The Mfengu competed against white farmers at agricultural shows and won many prizes. . . . By 1890 there were many progressive black commercial farmers who had purchased their farms outright. They invested much of their profits in fences, irrigation and improved stock breeds, and adopted the most advanced farming methods of the

time. . . . By 1890 there were between one and two thousand of these affluent black commercial farmers.

Like most colonized peoples during the last century, the Mfengu lacked political rights and civil liberties. They were, however, granted basic economic rights. The success of these early black farmers was due to a guarantee of private property and a free market.

Regrettably, the development of a free market for black farmers in South Africa did not continue. A prosperous, independent black farming community did not fit with the development plans of British colonialism. These plans included white-owned, black-worked farms and mines.

European colonialism had been successful in the western Cape, as in North America, because the indigenous population was easily eliminated. In the eastern Cape, however, the blacks were more sophisticated herders and small-plot farmers. If British colonialism was to expand there, black advancement would have to be halted. Private property and free markets would have to be taken away. Tribal land tenure would have to be reinstated.

Through a series of Location Acts passed in 1869, 1876, and 1884, the colonial government limited the rights of the independent black farmers. This was done to force them to work on the white-owned farms and mines. An empire requiring cheap black labor could not allow for independent, prosperous blacks.

In 1894, Cape Prime Minister Cecil Rhodes limited the land that each black farmer could own to ten acres, an amount barely sufficient for subsistence. In so doing, Rhodes protected white farmers from black competitors and secured a labor force for his mines.

At the turn of the century, over a million blacks were farming their own land or land leased from whites. The 1913 Land Act put an end to this by outlawing rent-paying and sharecropping farming by blacks. Blacks were required to be wage-laborers for white landowners. In the name of the British crown, the colonial government closed the free market to black South Africans.

Years before the 1948 rise of the National Party and official apartheid, blacks had lost rights of private property and free trade. Apartheid went

further. It divided South Africa into the ten tribal homelands. The State based these on traditional tribal lands and on the reserves instituted under British colonialism. The homeland governments imposed inefficient tribal customs regarding property and trade. These were further supported by the restrictive rules and regulations originally set up by the British.

The division of South Africa into white and black areas, however, had virtually been completed by 1936. The Land Act of 1936 completely outlawed black purchase of white land. During the 1960s, blacks still owning land in white areas were forced to move. Today blacks still cannot own land in more than 85 percent of greater South Africa.

In the white areas, whites own their property outright. They can buy and sell land on the open market. In the black areas, land is allocated on a tribal/colonial basis. Under tribal/colonial law, the land available to blacks is commonly not available as private land.

The effect of the lack of private farm land and of free agricultural markets is persistent hunger and poverty. Tribal chiefs allocate land for political, not economic purposes. Farming for profit is virtually impossible. Writing in *Land and People*, David Cooper explains:

In most areas landholding is based on a one-family one-plot system, with land allocated by the Tribal Authorities. . . . Since chiefs and headmen control the system and get their power and privilege from the right to allocate land, they feel no need to find a more productive system of land-use. . . . A few individuals grow crops for market, but most people produce for the home and sell only if they have a surplus. No organised market exists in most of these areas, so there is no incentive for people regularly to produce a surplus.

The inefficiencies of the tribal/colonial land tenure are not unique to South Africa. In neighboring countries, there exist similar systems of land tenure with similar disastrous results. Agricultural output in southern Africa, as in the rest of Sub-Saharan Africa, remains far below potential. Unique to South Africa is the continuation of an inefficient tribal/colonial land system for blacks alongside a system of private ownership for whites. Tribal/colonial land tenure and the

Group Areas Act of 1950 prevent the development of a system of private property for blacks. Productive, commercial black farming is still not possible.

The Socialist Position

The tribal/colonial system of land tenure has broader implications than low black agricultural output. The system reinforces the socialist view of political-economic relations in South Africa. At the English-speaking universities in South Africa, including Cape Town, Natal, and the Witwatersrand, extensive research programs study agriculture from a Marxist perspective.

South African socialists view the tribal/colonial system that has existed since the days of Rhodes as part of the overall capitalist system. It insures that the (black) workers remain dependent on (white) capitalists for their livelihood. Agrarian problems are viewed as an integral component of capitalist exploitation.

With this perspective, Marxist scholars research issues such as freehold tenure, the moves toward democracy, and the prospects for socialism. For example, in the December 1987 issue of *Africa Perspective*, J. Krikler contends that agriculture is the "weak link in South African capitalism." Breaking that link is believed to be key to a socialist revolution.

Others contend that so-called bourgeois reforms will not improve the conditions of blacks. They maintain that attempts to bring about private ownership and free markets in black farming will make conditions even worse. This view is clearly stated in a recent issue of the *South African Review*:

The establishment of a "free market" in ban-tustan land will have devastating consequences. Relations in the market are inherently unequal. The abolition of regulatory controls in favour of market forces are inherently unequal. . . . The privatisation of ban-tustan land based on free market principles will lead to an escalation of landlessness and an intensification of poverty and inequality in access to economic resources.

The socialist analysis of the agrarian problem in South Africa leads to proposals to socialize agriculture. Rather than advocating a move from

the tribal/colonial system to a free market system, the Marxists label the tribal/colonial system capitalistic. Private property reforms will only make matters worse, they claim. Black farming will be improved only through moving directly to socialism.

Socialism means nationalization of agricultural land and the central planning of agricultural production. Krikler contends that: "Expropriation without compensation remains the only feasible first step towards socialism in rural, as in industrial, South Africa." Once the land is seized by the State, it will be managed according to well-established socialist principles. Writing in *South African Review*, David Cooper emphasizes this point:

The productive core controls so much production because it owns such a high proportion of agricultural land and capital. Leaving the periphery with its poor land base and limited resources to provide for the majority of rural South Africans, will in effect extend the ban-tustans without substantially changing the pattern of poverty found there at present. . . . It will be essential to tap the resources of the productive core for any land redistribution policy to succeed. . . . An expropriation policy must therefore concern itself with the organizational forms—collectives, state farms or co-operative ventures—that will be appropriate in the productive core. Such a policy would involve intensive settlement of people from unviable areas.

The South African socialists, however, are surprisingly utopian about socializing agriculture. One effect of sanctions against the country seems to be that of isolating them from learning about the experiences of socialist countries. The historical record of collective farming shows it to be a dismal failure.

A direct transition from a tribal land tenure system to a socialist system took place in China. Mao's program differed from Stalin's collectivized farming only in that it was even more disastrous. Alvin Rabushka explains:

. . . Mao Zedong launched the most extraordinary economic adventure the world has ever seen—the Great Leap Forward of 1958. He combined agricultural cooperatives into com-

munes. . . . The government confiscated private plots, abolished rural free markets and distributed grain on an egalitarian basis. To Mao's dismay, grain output fell 20 percent in 1960 from 1957 levels, causing widespread famine and an estimated 30 million unnecessary deaths during 1958–1962.

Socialist policies that cannot work in Europe or in Asia also cannot work in Africa. The so-called African socialism in Tanzania destroyed that nation's agricultural economy. Before socialism, Tanzania had a strong agricultural sector. Over 80 percent of its exports were agricultural products. Socialist policies soon changed this. Sven Rydenfelt writes:

By 1979, five years after the enforced resettlement, domestic agricultural production in Tanzania was already incapable of providing the cities with food. Imports had to be increased to compensate for declining production, and in 1980 no less than half of the food needed by Tanzania was being imported. A decade of socialist agricultural policy had been sufficient to destroy the socio-ecological system.

The hunger perpetuated by the tribal/colonial land tenure system is surpassed by the mass starvation perpetuated by socializing agriculture. The continuation of an unproductive homeland policy supports Marxist analyses of the South African situation. In so doing, it also suggests a utopian movement that will make matters even worse. The prevention of mass starvation requires instead a reformulation of South Africa's agricultural policies to include productive black farming.

Black Market for Farming

The solution to the low productivity on black South African farms is to create a system of private property and free markets. In the tribal homelands, prosperity requires that the blacks be allowed to exercise the rights to private sector participation now available to the whites. As noted, the Mfengu tribe in the eastern Cape became productive and prosperous under a system of private property and free markets. In South Africa, this system needs to be reinstated. Tribal/colonial land tenure and the Group Areas Act must go.

Private property and free markets, furthermore, are culturally compatible with black African values. Tribal/colonial land tenure in the homelands only perpetuates inefficiencies existing in pre-industrial African customs. Socialist agriculture, on the other hand, directly conflicts with basic African values. George Ayittey, an economist from Ghana, strongly emphasizes this point:

Africa does not need more IMF loans or Western aid. The most effective aid the world can ever give Africa is to help it reinstitute its own *native* freedom of expression. The emphasis is on native. In fact, the blueprint for real reform in Africa does not lie in the corridors of the IMF or Western banks. Nor in the inner sanctum of the Soviet bureaucratic behemoth, but rather in Africa's own indigenous system. . . . A close study of Africa's indigenous system reveals the existence of the basic tenets of democracy, free markets, free trade, freedom of expression and free enterprise. . . . Instead of developing the native institutions, we destroyed them. That's why Africa starves and is enmeshed in chaos, crisis and disintegration.

A recent study by G. Feder and R. Noronha in *The World Bank Research Observer* supports Ayittey's view. The authors explain that the evolution of land rights was distorted by colonial and post-colonial governments. These interventions brought about serious inefficiencies and inequities that would not have come about naturally in African markets. They contend:

The evidence dispels some popular misconceptions about land rights systems in Sub-Saharan Africa. There is increasing individualization of ownership, and in many areas possession has always been individual. . . . The lesson from other parts of the world is that efficiency ultimately requires formal recognition of individual land rights.

The promotion of private property and free markets for blacks will do more than overcome hunger in South Africa. It will help prevent mass starvation. It will undercut the ever-growing drive for a socialist revolution in the country. At a recent conference, Professor J. A. Groenewald of the University of Pretoria looked at the strategic

aspects of the South African agricultural situation. He explained:

Many a revolution has had its stages of germination and early growth in rural surroundings. . . . It is rather obvious that a happy, satisfied rural population is of great strategic value. Revolutionaries and troublemakers find such an environment to be a completely unsatisfactory growth medium.

A happy and satisfied rural black population will be one that has the right to own farm land privately and to trade their produce freely. Those opposed to hunger in South Africa and the growing prospect of mass starvation have no choice but to support private property and free markets for all South Africans. □

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GATT and the Alternative of Unilateral Free Trade

by Pierre Lemieux

From December 5 to December 9 of last year, representatives of more than 100 national governments met in Montreal for the mid-term ministerial review of the Uruguay Round of multilateral trade negotiations under the General Agreement on Tariffs and Trade (GATT).

What Is GATT?

GATT is a commercial treaty, whose aim, as stated in its preamble, is "the substantial reduction of tariffs and other barriers to trade and . . . the elimination of discriminatory treatment in international commerce." Its main principles include: the most-favored-nation clause, according to which any advantage granted to one signatory nation has to be extended to all others (Article I); equal treatment of goods from signatory countries in terms of internal taxation and regulation (Article II); fair trade against dumping and export subsidization (Article VI); the elimination of quantitative restrictions and the exclusive use of tariffs for protection of domestic industry (Article XI); and negotiated settlement of commercial disputes (Articles XXII and XXIII).

The name "GATT" also refers to the somewhat informal association of signatory nations, called "Contracting Parties." All Western European countries, the United States, Canada, Australia, New Zealand, Japan, as well as some 70 underdeveloped countries, plus a few Communist-bloc nations (Czechoslovakia, Hungary,

Poland, Rumania, and Yugoslavia) are members. The supreme governing body of GATT is the annual Session of the Contracting Parties but, in practice, the organization is ruled by the Council of Representatives of member states. The secretariat, employing some 400 persons and headed by a Director-General, is located in Geneva.

After World War II, protectionism was widespread. Prewar tariffs and import quotas had been supplemented by wartime measures such as foreign exchange controls. Tariffs on manufactured goods averaged 40 percent in the industrialized world; in the U.S. they averaged 18 percent with peaks of 50 percent or more.

In 1945, the U.S. government started two initiatives to liberalize international trade. First, an international trade treaty, to become known as the Havana Charter, was proposed. Second, trade talks were started among 15 nations—Australia, Belgium, Brazil, Canada, China, Cuba, Czechoslovakia, France, India, Luxembourg, the Netherlands, New Zealand, South Africa, the United Kingdom, and the United States—with the purpose of immediately reducing tariffs.

The Havana Charter was finally rejected as it aimed more at managed trade and economic planning than at free trade. The second initiative, the trade negotiations, was more successful. On October 30, 1947, 23 countries—the original 15 plus Burma, Ceylon, Chile, Lebanon, Norway, Pakistan, South Rhodesia, and Syria—agreed on tariff reductions covering a significant proportion of world trade. They also rescued the commercial section of the stillborn Havana Charter and signed it under the name of the General Agree-

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ment on Tariffs and Trade, to come into effect on January 1, 1948.

GATT has remained a provisional agreement without a formal organization to supersede it. As of June 1988, the Agreement has been officially signed by 96 nations, which represent more than four-fifths of international trade. It is also unofficially applied by some 30 other nations.

Tariff Reductions Under GATT

Before the actual "round" of multilateral trade negotiations initiated in Uruguay in 1986, seven general negotiations had been held under GATT. These negotiations have presided over significant tariff reductions. At Torquay, England, in 1951, tariffs were reduced by one-fourth on average from 1948 levels. The 1964-1967 Kennedy Round and the 1973-1979 Tokyo Round, both held in Geneva, brought more general tariff reductions: in each of these rounds, tariffs on manufactured goods were reduced by an average of 35 percent.

Following the Tokyo Round, whose decisions came in full effect in 1986 and 1987, average (weighted) tariffs are 4.4 percent in the U.S., 4.7 percent in the European Community, and 2.8 percent in Japan. Average tariffs on industrial goods have thus decreased from 40 percent after World War II to around 5 percent today.

A voluntary dispute settlement mechanism was established under the Agreement. A trade complaint brought by one state against another is discussed between them. If it cannot be settled by consultation, it may be referred to the GATT Council of Representatives (or, more rarely, to the Session of the Contracting Parties) who will normally establish a special panel of three independent experts. After holding hearings and studying the contentious matter, the panel submits a report which typically includes a ruling and suggested remedies. Panel reports are generally adopted by the GATT Council.

In the 40 years of GATT, there have been about 100 complaints put before the GATT Council, only a small number of which were not finally settled one way or another. More than half of these issues could not be immediately resolved and were the object of a panel study and report. Complaints to the GATT have increased in the past few years: in the 22 months from the beginning of 1986 alone, 20 panels were established.

As with most GATT matters, decisions are reached unanimously. GATT decisions are generally obeyed, although they often require further negotiations and compromise. The only penalty provided in the Agreement against a member that does not abide by a Council ruling is authorization for other countries to suspend advantages to the offending party, but this has been done only once.

Indeed, in many instances, GATT has effectively, albeit slowly, enforced free trade. Results of its decisions over the years include: cancellation in 1961 of a British tariff increase on bananas; the 1985 liberalization by the Canadian government of a foreign investment regulation forcing foreign buyers of Canadian companies to engage in a buy-Canadian policy; abolition in 1986 of book printing protection through copyright restrictions in the U.S., following a European Community complaint.

The New Protectionism

Yet, GATT's performance has been mixed. High tariff peaks remain: the International Monetary Fund reports that on textiles and clothing, "More than half the tariff lines in Austria, Canada, Finland, Norway and the United States carry duties in excess of 15 percent" (*Issues and Developments in International Trade Policy*, December 1988). More important, and despite some Tokyo Round efforts, GATT has been quite powerless in the face of a new protectionism based on non-tariff barriers, which not only have resisted the trend to generally decreasing tariffs, but have been on the rise since the 1970s. Also, the Agreement itself has been used to legalize new tariff and non-tariff barriers. Subsidies, countervailing duties, and anti-dumping duties have increased.

Non-tariff barriers are very diversified and include import licensing, foreign exchange authorizations, minimum import prices, and a number of bureaucratic obstacles at customs points. In industrialized countries, the major barriers are technical standards, government procurement policies, and quantitative restrictions.

Technical standards and regulations. These are health, environmental, or consumer protection regulations that are often used to close the domestic market to foreign products. Recent exam-

ples include a Canadian government agency's standards barring some American plywood from being used in Canadian construction, or the European Community forbidding imports of American meat treated with growth hormones.

Government procurement policies. Government purchases often involve preferences for national suppliers. The Tokyo Round has slightly opened up this market, but many contracts by state, provincial, and local governments remain closed to foreign bidders.

Quantitative restrictions. This category includes import quotas and export restraints, and is the most important and disruptive type of non-tariff barrier. Import quotas apply on many agricultural products (sugar in the United States is one example among many). In May 1988, 261 export restraints were in effect, most of the so-called "voluntary" variety. Many nations have skirted GATT regulations by blackmailing other countries into "voluntary" export restraint agreements in such industries as steel (more than 30 agreements), electronics, and automobiles. Including textiles and clothing, voluntary export restraint agreements cover some 10 percent of world trade.

In a December 6 statement to the Ministerial Meeting of the Trade Negotiations Committee in Montreal, World Bank President Barber Conable noted that trade affected by non-tariff barriers almost doubled in the last 20 years. For example: 56 percent of iron and steel imports are hit by non-tariff barriers, nearly 90 percent of food imports by industrialized countries face such barriers, as do 21 percent of undeveloped countries' exports of manufactures to developed countries.

In fact, many forms of the new protectionism have relied on exceptions duly recognized and thus legalized by GATT, such as anti-dumping or countervailing duties, safeguards, and the Multifibre Arrangements.

Anti-dumping and countervailing duties. These measures are meant to counter so-called unfair trade. Anti-dumping duties (such as the 6 to 47 percent duties just imposed by the European Community against Japanese dot matrix printers) are recognized by Article VI of GATT as a means of protecting domestic producers against products sold in their markets at lower prices than in the exporters' own markets. If the

underselling is caused by a foreign government's subsidies, Article VI legalizes countervailing duties as a retaliatory measure. One recent example is the countervailing duties imposed by the U.S. government against Canadian soft-wood producers.

Safeguards. Even when no unfair trade practices are alleged, and notwithstanding other GATT articles, a country is empowered by Article XIX to enact emergency actions or "safeguards" against any imported products that "cause or threaten serious injury to domestic producers." Safeguards may be tariffs, quantitative restrictions, or any other measure. From 1950 to the end of 1988, 134 Article XIX actions had been taken; at mid-1987, 26 of these measures were still in force.

Multifibre Arrangements. Despite lip service about the desirability of opening up developed markets to producers from poorer nations, less developed countries have been badly hurt by the new protectionism, often with GATT's seal of approval. Protectionism in agricultural and especially tropical products is one example. But perhaps the worst case is the Multifibre Arrangements, renegotiated many times since 1974 under GATT. Under the Multifibre Arrangements and the 60 or so bilateral agreements signed under its authority, textile and clothing imports from underdeveloped countries into industrialized countries are severely restricted. This has led to a 20 to 50 percent increase in clothing prices for consumers in industrialized countries.

Other exceptions. Many other exceptions to free trade are legal under GATT, such as restrictions to safeguard the balance of payments (Article XIII), or to favor underdeveloped countries and their policies (Article XVIII and the new Part IV of the Agreement).

Subsidies. Government subsidies are often classified as non-tariff barriers but should be treated differently. On the rise mainly in agriculture but also important in other sectors (e.g., aeronautics and shipbuilding in Europe, automobiles in France), they have provided good excuses for a host of new tariff and non-tariff barriers.

Two periods may be distinguished in the post-war history of international trade. From GATT's formation until around 1970, tariff and, to a cer-

tain extent, non-tariff barriers were on the wane. Starting around 1970, a phenomenon began to parallel the decline of tariffs: the growth of non-tariff measures. According to some estimates, the percentage of U.S. imports covered by protection increased from 8 percent in 1975 to 21 percent ten years later (*The Wall Street Journal*, November 1, 1985). All over the world, this new protectionism has now cancelled much of the liberalization of the past decades.

The Tokyo Round had tried to deal with non-tariff barriers, subsidies, agriculture, services, safeguards, and so forth, but with little success. Many of the unresolved issues, which are also main contributors to the new protectionism, stood in the forefront of debates and disagreements in the recent negotiations in Montreal. Agricultural subsidies were the main contentious issue; the U.S. proposal to eliminate them by year 2000 was rejected by the European Community. Final adoption of frameworks of agreement on matters such as tariffs, services, tropical products, and better enforcement of GATT decisions were made conditional upon resolution of this issue. Moreover, no agreement could be reached on textiles and clothing, safeguards, and protection of intellectual property. The Uruguay Round negotiations are to last until 1990.

GATT's multilateral trade negotiations are based on the idea that trade liberalization requires a global approach by all sides. Bilateral agreements, as were used before (including in GATT's early history), were found to be too clumsy, slow, and inefficient. Multilateralism is now threatened again by the rise of bilateral trade actions, on the one hand, and by regional free trade areas, on the other hand. Bilateral agreements such as the Canada-U.S. Free Trade Agreement, the U.S.-Israel Free Trade Agreement, and the Australia-New Zealand Closer Economic Relations Trade Agreement were partly designed to counter the threat of the new protectionism, but they may have added fuel to it. Bilateral or regional free trade agreements do not necessarily lead to freer trade at the world level, and fears that protectionism may be actually strengthened by "Fortress Europe" and "Fortress America" are not without foundations.

But, as we shall see, multilateralism, bilateralism, and regional free trade areas are not the only alternatives.

The roots of the difficulties in achieving free trade lie in philosophical problems that are not unique to GATT, but which help to explain the recent underachievements of this organization.

In GATT's language and culture, individuals are identified with their countries which, in turn, are equated to their respective governments. This statist approach leads to a related problem. One often wonders whether what GATT tries to enforce is free trade or managed trade, i.e., its very opposite. In GATT, everything is done by or through national governments, everything is thought of in terms of state action. One GATT brochure (*Aider la croissance mondiale*) stresses that the General Agreement is "not a 'free trade charter' " but provides means for controlling protection of domestic industry. The necessity of some protection is unquestioned and, as we have seen, permitted or even encouraged under GATT. The requirements of domestic policies and planning have precedence over the principles of free trade. Has the Havana Charter made an anonymous comeback?

Another aspect of this fundamental misunderstanding is the philosophy of inter-governmental negotiations, on which the whole GATT system is based. It conveys the false idea that the less one government gives up and the more the other "contracting party" concedes, the better off people are. This approach is reminiscent of 17th-century mercantilism which viewed exports as wealth and imports as costs.

In a very real sense, freer trade does not need agreements between nations. Trade can be freed by declaring free trade unilaterally, which is basically what the British government did in the middle of the 19th century. British Prime Minister William Gladstone went so far as saying that "a commercial treaty would be an abandonment of the principles of Free Trade . . . if it were founded on what I may call haggling exchanges." The basic philosophical failure of GATT is that it may have distracted us from the advantages of unilateral, one-way free trade.

Unilateral Free Trade

Although the idea of unilateral free trade has not yet passed into popular culture, it has been generally accepted by economists since the time of Adam Smith (1723-1790), John Stuart Mill

(1806-1873), and the Physiocrats in 17th- and 18th-century France. The desirability and feasibility of unilateral free trade can be demonstrated in three steps.

First, it must be realized that advantages from international trade stem more from imports than from exports.

Individuals, not countries, are the real trading partners and the ones who benefit from trade. Now, the advantages from trade come more from what one buys than from what one sells. Advantages from trade with your butcher lie more in the meat you buy from him than from the work you do to earn the money to pay him. We trade because we think that what we get is worth more than what we give up. Similarly, we work and produce in order to consume.

This applies also to international trade, which is only inter-individual trade over a political border. As individuals produce in order to consume, and sell in order to buy, so they export in order to import. From the point of view of individual traders, importation is the goal; exports are just a way to finance their consumption. Advantages of international trade come more from the freedom to import than from the capacity to export. GATT is plagued by the same problem as governments: it is more a producers' club than a consumers' association because, as shown by the Public Choice school, the interests of the latter are less concentrated and, thus, less vocal. Maximum prosperity requires that we let consumers (and firms as intermediaries) import freely as they wish.

Would not freedom to import lead to chronic balance of payment problems? No, for the simple reason that in order to import, residents of a country must export an equivalent value. Exports necessarily equal imports. This is the second step in demonstrating the advantages of unilateral free trade.

The basic reasoning is quite straightforward. As John Stuart Mill showed 200 years ago, "an imported commodity is always paid for directly or indirectly with the produce of our own industry." An American company pays for its imports in U.S. dollars, which are nothing but titles to American production. The foreign firm receiving the dollars can sell them in exchange for domestic funds. The final foreign acquirer of these U.S. dollars will use them to import from the U.S., or

will save them to exercise later his claim to American production. Alternatively, imports into the United States can be financed by foreign loans, but these eventually will have to be repaid and thus represent titles against future U.S. production. If we look beyond the veil of money and financial transactions, then, products are exchanged only against products. Increasing imports will automatically promote exports.

This is just another way of saying that, since each trading company or individual takes care of his own balance of payments (i.e., revenues and expenditures), there can be no overall balance of payments disequilibrium. A current account balance deficit (higher imports than exports of goods and services) is financed and exactly compensated by a capital account surplus (net inflow of capital). Conversely, a capital account deficit (net capital outflow) serves to finance our partner's current account deficit, i.e., to compensate our own surplus. The correspondence need not be exact between any two countries, but the equality of all exports and imports must hold between any one country and the rest of the world.

The third step in our demonstration will be to show that domestic protectionism compounds problems.

It is true that foreign protectionism will reduce America's capacity to export. But as imports cannot exceed exports over time, foreign protectionism will also reduce American imports. Now, suppose the U.S. government retaliates with domestic protectionism. This will directly reduce the American consumers' liberty to import, adding further to the disadvantage of foreign protectionism. If Americans import less, they will not be able to export as much since their imports are somebody else's exports and revenues. It can thus be seen that domestic protectionism reduces both domestic imports and exports; it further limits two-way trade and compounds the problems of foreign protectionism.

It follows that if your neighbor is protectionist, you can limit damages to yourself by buying from him as much as it is in your interest and capacity to do. These purchases will automatically finance themselves since, by permitting foreign vendors to sell here, we also oblige them to buy from us, one day or another, a corresponding value. As a consequence, unilateral free trade represents the

best strategy for the victim of protectionism.

The argument for unilateral free trade was well-known to French economists of the Physiocratic School. Pierre Mercier de la Rivière (1720-1793) wrote about free trade: "It is obvious that a nation can implement it by itself, independently of other nations; the right of property can become a sacred right for its subjects without becoming so in all foreign countries." Another Physiocrat, Pierre Dupont de Nemours (1739-1817) added, talking about protectionism: "If some foreign power becomes guilty of one of the offenses we just talked about, let us never be led into retaliatory actions because these would be all against our nation's interest."

These theoretical considerations can be brought to bear on GATT. Let us suppose that the Uruguay Round turns out to be a failure in 1990. International markets could still be significantly opened up by any large country or any number of countries unilaterally freeing their citizens from their own import restrictions. Through unilateral elimination of trade barriers, we could obtain many of the advantages of GATT. Higher imports would result, but they would have to be paid for by increased exports, or by capital inflows which mean increased exports in the future.

Any absolute advantage poor countries have in labor costs would be counterbalanced by our advantages in capital-intensive production and/or by exchange rate adjustments. Trade would increase and flow according to comparative advantages. The economic distortions and moral disgrace of trade barriers against underdeveloped countries would be eliminated. Indeed, the best way of fostering development in these countries (besides a liberalization of their own internal policies) is to allow them to export in order to finance their imports from us.

As far as agricultural subsidies are concerned, the U.S. government is right in arguing that they must be abolished. But again, this problem could, and should, be solved unilaterally. Let's just announce (in Canada and/or in the United States) that we will abolish our own subsidies. Even if agricultural subsidies were not abolished elsewhere, unilateral liberalization would produce as high benefits for the economy as a whole as multilateral liberalization, as the International Monetary Fund correctly argues (*Issues and Develop-*

ments in International Trade Policy, December 1988).

It is quite probable that European taxpayers could not continue for long to subsidize agricultural production, at the rate of two-thirds the European Community budget. Liberalizing our agriculture would rapidly force them to follow. In the meantime, any disruptive effect of their temporarily higher subsidies would be compensated by the increase in other exports from us which would be necessary to finance our higher imports of agricultural products. Moreover, it is by no means certain that free and productive producers can never undersell subsidized and lazy ones. Boeing still sells airplanes and often wins sales against subsidized Airbus. The adjustment potential of a free-market economy has been shown in the petroleum markets for the last 15 years.

The Real World, Today and Tomorrow

But the real world is what it is and, until understanding of the advantages of unilateral free trade has progressed, we may need institutions like GATT. For the collapse of multilateral trade negotiations under GATT probably would lead to all-around protectionism instead of declarations of unilateral free trade.

First best is multilateral free trade. Second best is unilateral free trade. Third best is institutions such as GATT. Worst is unchecked protectionism.

Provided it does not yield to managed trade, then, GATT serves a useful purpose for now. One advantage of such international organizations is to impose some discipline on national governments, to prevent them from complying too easily with demands of domestic pressure groups. Paradoxically, a club of producers' clubs can dampen local protectionist pressures.

But this short-run strategy shouldn't deter us from limiting more directly the powers and trade interventions of our own governments. No one would advocate that Western governments negotiate individual liberty with Communist countries: "If you do not free your subjects, we will enslave ours equally. . . ." But isn't this exactly what negotiating free trade amounts to in the economic realm? Let's consider the alternative of unilateral free trade. □

The Other Path

by John Chamberlain

In two trips to post-Allende Chile I skipped over Peru without a decent sight of Lima. But I've seen the shacks of squatters on the hillsides in back of Caracas in Venezuela and in the land around Santiago in Chile, and it is easy to visualize the same ring of unfinished tin and cardboard huts around Lima.

The shacks are illegally situated, but nobody does much to disturb them. For where else can propertyless people go except back to the country, where life is all too hard for a mere peasant field hand? The shacks around Lima belong to what Hernando de Soto, a Peruvian who runs a fact-finding agency called the Institute for Liberty and Democracy (ILD) calls the informal, as opposed to the formal, economy. This economy, which de Soto disdains to call black, is the natural response to an impossible situation of people who, quite understandably, refuse to die. The story of "the invisible revolution in the Third World" is ably told in de Soto's *The Other Path* (New York: Harper and Row, 271 pp., \$22.95).

The older inhabitants of Lima, with legal businesses staked out and their own housing needs taken care of, don't welcome newcomers from the country, but they bow to *faits accomplis* when these come with impressive planning and power. De Soto tells how the invaders from the country move in to seize empty stretches of land on the Lima periphery. One evening there may be nothing stirring on the land. But, come morning, a whole group of invaders will have marked out their plots and set up the first approximations of scores of houses.

Normally the police look on. The police know that the invaders represent a potential political power that they may have to reckon with some day.

The invaders speak of something they call an "invasion contract" based on "an expectant property right." De Soto's ILD found in 1985 that out of every 100 houses built in Lima, 69 were governed by the extra-legal system.

After the first seizure comes the long wait. There are 159 bureaucratic steps which residents must complete in order to legalize, or formalize, their settlement. The process of formalization takes an average of 20 years.

To start a legal business is almost as forbidding. First, there must come an adjustment of land. This takes 83 months to complete. The cost of an adjustment is \$590.36, which is 15 times the monthly minimum wage. Sewage and water functions must be arranged for, and there must be access to transport, which is largely illegal. It takes 12 months to obtain documents that allow building to start. Studying cases, the ILD found that "the cost of access to formal markets, in terms of time, was an average of seventeen years, from the formation of a minimarket until the market proper comes into operation." The difficulties of building their own markets explains why so many people decide to become street vendors. Even when one has a legal, or formal, business going, 40 percent of an administrator's working hours are used up by bureaucratic procedures.

It is small wonder, then, that newcomers to Lima are inclined to say to hell with formal

procedures. They choose "the other path." Their time is their own, though they may have to pay an occasional bribe. And their money is their own.

There are, however, certain costs of being informal. One is that the contracts between buyers and sellers are not enforceable in law. People must trust each other. Another cost is that credit to buy expensive machinery is hard to come by.

De Soto's theory is that Peru, and much of the rest of Latin America, is still living in the seventeenth and early eighteenth centuries, when the system of mercantilism governed business dealings. Mercantilist economies ultimately stagnated because, as de Soto puts it, "their elite entrepreneurs specialized in exploiting regulations which favored them over new methods of production." The changes in England came relatively peacefully as Parliament, impressed by Adam Smith, passed some good laws. In France there had to be a violent revolution followed by Napoleonic dictatorship. Napoleon's wars smashed mercantilist practices in most of Western Europe.

Michael Novak, Zbigniew Brzezinski, Senator Bill Bradley, and Jean François Revel are among those who are quoted on the jacket of *The Other Path*. Their laudatory comments are not surprising. What is surprising is to find Richard Nixon, who once imposed price controls, leading a chorus of praise for what Nixon calls "the clarion voice of economist Hernando de Soto, whose book . . . is a pivotal study of the extraordinary entrepreneurial dynamism of Peru's underground economy."

De Soto says of his book that there is nothing in it "that needs to be confirmed by complex laboratory experiments. You have only to open the window or step into the street." What you will encounter in the Lima streets besides the illegal bus lines are 91,000 street vendors who "maintain a little over 314,000 relatives and dependents." Besides the street vendors there are 39,000 proprietors of informal market stalls whose businesses are valued at \$40 million. So it is really a misnomer to speak of Peru's "underground economy." It couldn't be more in the open. The "visibility" of it all mocks de Soto's own subtitle, "The Invisible Revolution in the Third World."

American readers of *The Other Path* will find it exciting enough even though de Soto tosses the names of unfamiliar Lima mayors and Peruvian military dictators and civilian presidents into his text with no effort to specify what they stood for individually. For native Peruvians who know their own history and have a detailed map of Lima in their heads the book must be incredibly exciting. □

ADVERTISING AND THE MARKET PROCESS: A MODERN ECONOMIC VIEW

by Robert B. Ekelund, Jr., and David S. Saurman

Pacific Research Institute for Public Policy, 177 Post Street, San Francisco, CA 94108 • 1988 • 212 pages • \$29.95 cloth, \$12.95 paperback

Reviewed by Robert W. McGee

Professors Ekelund and Saurman take the neo-Austrian view that advertising promotes human welfare by providing market information and lowering search costs. They see this view as a minority perspective, but one that is growing in popularity.

The majority perspective, espoused by Alfred Marshall, John Kenneth Galbraith, and others, sees advertising as wasteful at best and monopoly enhancing at worst. The authors show that the majority view of advertising is incorrect on several counts, and present one of the most thorough cases yet written for the neo-Austrian view. Rather than verging on the unethical and manipulative, advertising helps consumers to discover what goods and services are available.

The book starts with a foreword by Israel M. Kirzner, one of the leading exponents of Austrian economics. The first chapter traces the historical development of advertising and discusses the modern criticisms of mass marketing. As far back as the Middle Ages, advertising was regulated by government, which gave monopoly powers to those who were permitted to advertise. In France, for example, only town criers who were franchised by the government could advertise a Parisian tavern keeper's wine. In England, the advertising tax helped retard the spread of literacy because it made newspapers more scarce.

Where advertising has been unhampered, consumers have benefited and markets have been more open. Restrictive practices, on the other hand, have tended to help established producers at

the expense of newcomers. Far from being a barrier to entry, advertising is one of the principal means by which new competitors can enter a market.

For example, before cigarette advertising was banned from television in 1970, an average of one new brand a year successfully penetrated the market. Between 1970 and 1974, no new brand was successfully introduced. The beneficiaries of the ban were the firms with established brands. The losers were the companies that couldn't introduce their products and consumers who never learned of the new products' existence.

The theories that advertising raises overall profits and increases concentration ratios also are dismantled by Ekelund and Saurman. (Concentration ratios measure the sizes of the leading firms in an industry, versus the size of the entire industry.) Unrestricted advertising makes it easier to enter markets, which leads to increased competition and lower prices.

Ekelund and Saurman offer some telling examples: When Mattel started advertising toys on the Mickey Mouse Club television show in the 1950s, some toy prices dropped by 30 to 40 percent in areas where advertising was relatively frequent, while prices remained relatively stable in areas where advertising was infrequent or nonexistent. The prices of eyeglasses are lower where eye doctors haven't been able to push through bans on commercial advertising. Legal services are cheaper where advertising is permitted. Unrestricted advertising also reduces the prices of drugs, gasoline, and numerous other products and services. There is even some evidence that the qualities of goods and services improve when restrictions on advertising are lifted.

The chief beneficiaries of advertising restrictions are established firms that already have a share of the market. They often defend these restrictions by claiming that advertising bans protect the consumer, who presumably isn't capable of making rational decisions. But as Ekelund and Saurman point out: "There is no validity in the notion that consumers can properly evaluate proposed national policies when selecting officeholders but are somehow unable to choose between and evaluate the merits of two different cans of beans."

Professor McGee teaches accounting at Seton Hall University.

ROBERT LEFEVRE: "TRUTH IS NOT A HALF-WAY PLACE"

by Carl Watner

The Voluntarists, Box 1275, Gramling, SC 29348 • 1988 • 236 pages • \$14.95 paperback

Reviewed by K. E. Grubbs Jr.

Among libertarian philosophers, Robert LeFevre was *sui generis*, one of a kind. That is how the self-proclaimed autarchist would want to be remembered, of course: as an individualist who packed several careers into one life, and who made his mark on his times by teaching an ethical code defiant of the prevailing collectivism. Consider those careers. He had been a failed actor, a radio announcer, a struggling hotelier, an innovative television newscaster, a newspaper editor, and the founder and president of a small college.

I remember Bob, who died in 1986 at the age of 75, as the most stimulating lecturer I had ever heard, vastly more thought-provoking than my college professors. He vaguely resembled Mark Twain, and his wry humor could keep a class's attention for twelve hours a day, five days a week. Seriously. Freedom Newspapers, the nationwide media chain that employs me, would periodically send its editors through his course, which he called "The Fundamentals of Liberty." Uninitiates, hearing about the regimen, would imagine a scene from *A Clockwork Orange*: strapped into a chair, eyelids pinned back, attention fixed on the lecturer, who would ladle The Truth into the now-robotized participant's brain.

No such nightmare. Bob simply drew on his multitude of experiences as a communicator and sustained our keen interest. He never took any courses in educational methodology; indeed, he possessed no college degree. Had he such a credential, or had he suffered through the pedagogical techniques stressed in the teachers' institutions, his considerable capability would surely have been spoiled, his students reduced to snores.

As a teaching phenomenon, he awakened us to the competing natures of man and political government, the latter coercively hobbling all creativity in the name of some collective good. He explored the alternatives of voluntarism, even challenging us to imagine how seemingly necessary functions of the state could be conducted without taxation or force. Come on, we would

think. Could interstate highways be constructed without taxpayers' money or the invoking of eminent domain? You bet they could, if we but disciplined our imagination and our morality. Such, of course, were the exercises of the ideological purist, but I daresay such kernels, planted back at "Freedom School," a.k.a. Rampart College, blossomed into the privatization movement of today.

It is well that someone should write a biography of this man, this exceedingly gentle man. (Bob was a pacifist, though he shunned the word.) One of his dedicated students, Carl Watner, has produced a biography, a project authorized by LeFevre himself, who cooperated by furnishing papers and an oral self-history. LeFevre also led Watner through several revisions before his death. Perhaps because the writer had such an unfree hand, *Robert LeFevre: "Truth is Not a Half-way Place"* suffers drastically.

Alas, if one wanted one's moral philosophy taken seriously, this is not the sort of introduction to it one would want published. Or so I should think. Though again, perhaps it is to Bob's credit (and I can well imagine him being so brutally honest with himself) that he wanted it all out, warts and all. Here is a man who spent about the first third of his life deeply involved in—or trying to extricate himself from—a truly odd religious cult, the "I Am" movement.

Bob, it seems, allowed a couple of peripatetic charlatans to explain, in terms of a gnostic formula that fueled their enterprise, some astonishing mystical occurrences that he had experienced in his early years. Somewhere in this world or the next, or both (if I have this right), there existed "masters" who possessed true wisdom; they possessed such wisdom by being in touch with "St. Germain," who benevolently guided the earnest seeker's life. Bob was an earnest seeker, indeed some thought a "master"; but he pursued "St. Germain" at the cost of considerable autonomy, becoming an acolyte of the "I Am" founders. It was not until he was nigh middle-aged that Bob was able to shake the mental tropisms of a cultist; he brought a small circle of his followers, mostly female, into the freedom movement with him.

Then there were the touching romances and the messy divorces, not just his own but that of a fellow cultist he'd promised to marry, and then didn't, if she would obtain her own divorce. And there were the philosophical squabbles and the

broken friendships or estrangements with other libertarian leaders, among them Leonard Read, F. A. Harper, and R. C. Hoiles. Winningly and charmingly, Bob would allow that these unhappy developments made him learn and grow. Perhaps so, perhaps not.

Read tried to warn him that funding for his venture in the Colorado mountains, Rampart College, would suffer unless he eschewed his more extremist tendencies, which looked awfully like anarchism (a word Bob really eschewed, in favor of the more curious "autarchism," which some dictionaries define both as "self-sufficiency" and "despotism"). Bob pressed on, refusing to compromise his belief that all coercion, both initiated and defensive, is immoral. When Read, embracing the necessity of defensive force, wrote his *Government: An Ideal Concept* (an eminently sensible book, by the way), LeFevre reacted as if it were the height of naivete. Harper, who agreed with him on the impossibility of an ideal government, would eventually turn down a leadership role at Rampart College—where such luminaries as Milton Friedman, Frank Chodorov, and Rose Wilder Lane lectured—for fear that it would damage his academic standing.

The most troubling break of all was with R. C. Hoiles, the patriarch of Freedom Newspapers whose son, Harry, publisher of the Colorado Springs *Gazette-Telegraph*, hired Bob as his editorial page editor. LeFevre happened on one occasion to be staying at R. C.'s Santa Ana, California, home when out of the blue (in Watner's version) the senior Hoiles, using some stern language, threw him onto the street. Harry, who to his father's disappointment had accepted Bob's arguments against the death penalty, assured the stunned LeFevre of continued employment (later conferring on Bob the title of editor-in-chief).

Here Watner dabbles, ever so briefly, in psycho-biography. He speculates that R. C., to whom a close-knit family was sacrosanct, simply could not abide the intellectual power Bob seemed to exert over Harry. Hence the explosiveness of R. C.'s encounter with LeFevre. I have known (and admired) all three men, and I suspect there was more to this rocky event. R. C., in addition to being a pioneer in the libertarian movement, was a savvy businessman; I think, in his dealings with LeFevre, he smelled a poseur, at least suspected one. And R. C. did believe gov-

ernment could be an agent of defensive force. Bob, philosophically at least, would treat the most heinous criminal as a Hindu would a cow.

The story tells us much about the nature of wisdom and the nature of ideology. For all his unbending (some say dogmatic) morality, you always got the sense that R. C. Hoiles was thinking, forever re-examining his positions, right up to his death in his nineties. In Bob LeFevre's case, you could sense sometimes an evasiveness (even though he encouraged questions during his lectures), a promotion of the idea that he had sorted out a complete, non-contradictory belief system, case closed. If I might myself dabble in psycho-biography, it is possible Bob carried over this variation of gnosticism from his "I Am" days, unconsciously setting himself up as a cult leader.

Still, Bob was if anything politically liberating. To his resumé one must add disappointed politician, for he once ran, in a Republican primary election for Congress, against Richard Nixon. He felt the mud slung at him and left political activism forever, prompting some to connect his antagonism to politics to a psychological source. But he also contended, compellingly, that political attempts to regulate behavior, whether from the left or the right, were equally destructive.

"Left and right," he would chuckle, "are but two wings on the same bird of prey." Surely, it hardly matters to a victim of torture if his tormentor is a lieutenant of Pinochet or a minion of Gorbachev. And attempts to regulate personal behavior in the interest of traditional morality can be as counter-productive as regulation of economic behavior.

A useful metaphor, this bird of prey, but it is ultimately specious because so symmetrical a view of history seldom occurs in reality. It is like the guy who always answers "Fifty-fifty" when you ask about the odds of rain. Anyway, the left wing may well be flapping with vastly more force and velocity than the right wing, as indeed it seems to be doing in the late 20th century. I don't know if Bob really understood that.

Where Bob was fundamentally liberating was in helping us to fathom that man is, by nature, a volitional creature, and that attempts to substitute political decision-making for individual choice would always come a cropper. Where Bob might have been deficient was in the spiritual realm, a stuntedness that might have grown out of his miseducation in the "I Am" movement. He rightly twitted the atheists because, as he would point out logically, negatives cannot be proved. But he would settle on describing himself as either an agnostic or, curiously, a deist.

I well remember a poignant essay Bob wrote, in his *LeFevre's Journal*, on the passing of his longtime friend Ruth Dazey. She had been with him since the "I Am" days and had recently gone in for more orthodox enthusiasms, concerning which he wrote approvingly. Still, he held back—sophistically, I thought. I sent him two books, Malcolm Muggeridge's *Jesus Rediscovered* and J. B. Phillip's *Your God Is Too Small*, with the thought that they might reach into his iconoclastic heart.

In what seemed like the next mail, I received what I thought would be a gracious, multi-paged letter. Alas, it was neither acceptance nor rebuttal, but the same old skeptical territory covered, as it were, by someone who wanted to keep the case closed. Watner's book gives us few clues about that dimension of Bob's life, perhaps at Bob's insistence. My contacts with Bob after that were not so engaged, and I subsequently went off to Washington, D.C., the heart of the monster, where I was when I learned of his death. In a Georgetown restaurant I ran into a friend who had also been through one of Bob's courses, a decade and a half earlier, and who had ignored Bob's injunction against government activism by going to work in the White House.

"I hope he made it," my friend said fondly. Indeed, I hope he has more enriching company than "St. Germain." □

K. E. Grubbs Jr. is editorial and commentary director of the Orange County (California) Register.

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JULY

1989

VOL. 39

NO. 7

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

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The Freeman is the monthly publication of The Foundation for Economic Education, Inc., Irvington-on-Hudson, NY 10533. FEE, founded in 1946 by Leonard E. Read, is a nonpolitical educational champion of private property, the free market, and limited government. FEE is classified as a 26 USC 501 (c) (3) tax-exempt organization. Other officers of FEE's Board of Trustees are: Thomas C. Stevens, chairman; Ridgway K. Foley, Jr., vice-chairman; Paul L. Poirot, secretary; H.F. Langenberg, treasurer.

The costs of Foundation projects and services are met through donations. Donations are invited in any amount. Subscriptions to *The Freeman* are available to any interested person in the United States for the asking. Additional single copies \$1.00; 10 or more, 50 cents each. For foreign delivery, a donation of \$15.00 a year is required to cover direct mailing costs.

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Bound volumes of *The Freeman* are available from The Foundation for calendar years 1969 to date. Earlier volumes as well as current issues are available on microfilm from University Microfilms, 300 North Zeeb Road, Ann Arbor, MI 48106.

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.

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Why the Soviet Economy Is Still in Trouble

Recent reports from the Soviet Union indicate that the Soviet economy has faltered under Mikhail Gorbachev's perestroika, or restructuring. The news is puzzling to Western journalists, as it must be to the Soviet governors themselves. After all, the regime has promoted more efficient management of the economy and waged a major campaign against the corruption that affects every level of Russian life. But instead of the expected flowering of production, distribution, and consumption, things have gone from bad to worse. Today, even in privileged Moscow, such basic items as beef, sugar, tea, coffee, toilet paper, and gasoline are usually scarce and often nonexistent, at least in the stores open to ordinary people.

Such a development, however—or rather, such a lack of development—will not surprise the economically alert. It is the essence of perestroika to be a restructuring of the Soviet managerial economy, an assertion of power from the top down. Indeed, perhaps to facilitate his task, Gorbachev has been increasing the already tremendous powers granted to him under the system inherited from his predecessors.

The Soviet leaders and their legions of Western admirers do not see, however, that they are taking precisely the wrong actions to achieve prosperity. The fundamental problem of the Soviet economy is that it is too heavily centralized, too thoroughly managed. The spontaneity needed to meet consumer demand, introduce new products, and adjust prices to each other simply cannot happen under these circumstances. In fact, one of the few things that keeps the Soviet economy running at all is corruption, for, in a society where nearly all economic activity has been made criminal, corruption is almost the only way in which goods and services can be freely exchanged. So, by cracking down on corruption, perestroika has chilled the only area of Soviet life in which genuine economic behavior is possible.

At the same time, the few "market-oriented" reforms tried have been half-hearted and enmeshed in threats against those who seek to

“profiteer.” In a nutshell, people are terrified to start businesses, for they never know when even the slight incentives offered might be revoked, and those who have taken advantage of them persecuted as criminals.

Gorbachev may or may not be a good man who sincerely desires to improve the lot of the peoples of the Soviet Union. What is certain is that Gorbachev is wholly on the wrong track with the policy of perestroika both as stated and as implemented. What the Soviet economy needs is not “restructuring” but destructuring; not more government control over the economy, but less. If Gorbachev and his henchmen could bring themselves to simply leave the Soviet people alone to grow, to produce, to invent, to buy, and to sell, they would soon find themselves sitting on top of an economic colossus, and it wouldn’t take a penny of Western aid.

—NICHOLAS DAVIDSON

Why the Russians Didn’t March

There is a joke in which an American and a Russian argue about who has more freedom. The American says, “I can come up to the White House and yell, ‘Down with the President of the United States!’” The Russian says, “Well, I can come up to the Kremlin and yell, ‘Down with the President of the United States!’ too!”

This joke is a completely inaccurate reflection of Soviet realities: Soviet citizens do not even have that kind of freedom. Here is a typical episode.

In the year of the fiftieth anniversary of the founding of the USSR, the Party organizer at one of the departments of Moscow State University declared at a meeting that Communist enthusiasm was waning in our society: no one had even thought of organizing a parade to mark an event of such importance. The Party organizer called on the department to fan the dying flames by holding a march, on their own initiative, in honor of the anniversary of the Soviet state. Signs and posters had already been prepared, and the time

was set for the march to begin. But the procession did not take place. When the dean’s office found out about the proposed unauthorized event, they were horrified. The march was banned, the posters confiscated, and the Party organizer reprimanded.

Why were the authorities so horrified? The hapless Party organizer had unwittingly violated one of the chief principles of Communist rule: a doctrine that contains absolute truth cannot give the individual any freedom at all, not even the freedom to support the doctrine on his own free will.

—GLEB ANISHCHENKO, writing in *Glasnost*, a dissident publication founded in Moscow in 1987. Translation provided by the Center for Democracy in the U.S.S.R., 358 W. 30th Street, Suite 1-A, New York, NY 10001.

Social Security

Today’s workers should keep in mind that the payroll taxes they pay will not finance their social security benefits. Rather, tomorrow’s workers will pay for these benefits through payroll, or other taxes. Furthermore, in order to pay currently promised benefits, tax rates will have to rise. Depending upon future economic and demographic conditions, payroll tax rates may well have to double or triple to cover social security benefit payments.

Future workers, however, may object to ever-rising taxes. Faced with opposition, politicians will alter the structure of social security, as they did in 1983 when social security benefits were taxed for the first time and the retirement age was raised. Because social security is neither an annuity nor a legal guarantee, today’s workers may well find that the social security benefits they actually receive will be less than what is currently promised. Moreover, because of the detrimental economic effects of higher tax rates, today’s workers will face a lower standard of living all along the way.

—ALDONA E. ROBBINS, writing in *The ABCs of Social Security*, published by the Institute for Research on the Economics of Taxation.

Crime and Consequences

by Robert James Bidinotto

Part I: Criminal Responsibility

During the past Presidential campaign, the issue of crime loomed large—due, in part, to this writer's *Reader's Digest* article on the now-infamous Willie Horton case.¹ That story offers a fitting introduction to the subject of America's seemingly intractable crime problem, and what's wrong with our criminal justice and correctional systems.

Horton was a habitual criminal, sentenced in Massachusetts to "life with no possibility of parole" for the savage, unprovoked knife slaying of a teen-age boy. However, like many other alleged "lifers" in that state, after only 10 years in prison he was transferred to an unwallled, minimum-security facility. There, he became eligible for daily work release, as well as unescorted weekend furloughs, from prison.

Following the example of 10 other "life-without-parole" killers over the years, Horton decided not to return from one of his furloughs. Instead, months later, he invaded the home of a young Maryland couple, where for nearly 12 hours he viciously tortured the man and raped the woman.

Not even a "life without parole" sentence for a gruesome murder had been enough to keep a killer off the streets—a fact which incensed

enough Americans to become a major election issue. It also reopened the public debate about the criminal justice system in America. For as the campaign rhetoric grew heated, many citizens began to discover that the Horton episode was not an isolated exception. Instead, they learned that, in today's criminal justice system, justice is the exception.

Now that public awareness of, and concern about, such matters is intense, it seems an opportune time to reconsider the way in which we approach the problem of crime.

Permit me to begin on a personal note. My work on the Horton story put me in touch with police, parole and probation workers; with politicians, prosecutors, and prison reformers; with judges and jurists, therapists and theorists, corrections officials and—most important—crime victims. The faces of victims have haunted me for over a year. So at the outset, let me declare my bias without apology: it is for them. Today, they are too often the forgotten people in our legal system; and their cries for justice must be heard and answered.

For months, the more I learned, the more I realized that what happened in the Horton episode was symptomatic of a whole approach to crime which has gained sway during the past three decades. In this article, and those in the next two issues of *The Freeman*, that approach will be explored in its many facets:

- the reasons for the surge in criminality during the past three decades;
- the various theories which purport to "explain" crime;
- the nature of criminals;

Copyright 1989 by Robert James Bidinotto. Mr. Bidinotto, who has written several articles for The Freeman, is a full-time writer and lecturer specializing in political and cultural topics.

- the criminal justice system which confronts them;
- the correctional system which tries to reform them; and
- the ways in which our approach to crime might be changed.

The Crime Explosion

Across the nation, our system of dealing with crime has utterly broken down.

To put things in perspective, we must first grapple with some numbers. Crime itself continues to increase, with no end in sight. The number of crimes reported in 1987 was 12 percent higher than in 1983 and 21 percent higher than in 1978.²

Not only is the number of crimes increasing; so is the crime *rate*—the number of reported crimes per 100,000 people. From 1964 to 1980, the property crime rate increased nearly 2.5 times, while the rate of violent crime tripled.³

Though these rates declined somewhat during the first half of this decade, they have been rising steadily since.⁴

Such statistics tend to depersonalize the issue. It's quite another matter when you are personally assaulted or robbed; when your wife or daughter is raped; when your neighbor's home is burglarized; when an employee embezzles funds from your business. Such things happen to us more frequently than we realize. In 1986 alone, about one household in four was touched by some kind of crime—meaning that at least someone in each of those homes fell prey to a criminal.⁵

Another gauge of the crime explosion is the rapid growth of prison populations. In 1960, there were some 200,000 inmates in Federal and state prisons; by 1987, there were 581,609.⁶ This might seem proof of a growing "get-tough" attitude toward crime. Yet the percentage of serious crimes committed which resulted in imprisonment actually fell sharply throughout the 1960s and 1970s. In 1986, the ratio of prison commitments to total crimes was 32 percent lower than in 1960.⁷ This means that a third fewer of total crimes were being punished with imprisonment. It also means that, despite rapidly increasing prison populations, the crime rate is growing even faster than we've built cells to hold all the new criminals.

And in fact, even these statistics paint too rosy a picture.

The Federal Bureau of Investigation (FBI) announced that, in 1986, 13.2 million serious crimes, from murder to auto theft, were reported to local authorities.⁸ However, the FBI's statistics cover only eight specific "index crimes." Moreover, its numbers reflect only those incidents reported to police. In fact, the FBI's annual Uniform Crime Reports grossly understates the total number of crimes which actually occur.

In an effort to get more reliable numbers, the American Bar Association (ABA) recently compiled information from various sources, including crime-victim surveys. The ABA estimated that, in reality, about *34 million serious crimes* had been perpetrated nationally during 1986—some 2.5 times what the official numbers indicate.⁹

This means that other official data—such as computations of arrest and imprisonment rates—do not begin to convey how serious the crime problem is. For example, FBI statistics show that only one of every five serious crimes reported to police are "cleared" by an arrest.¹⁰ But if the ABA is correct, we must multiply by 2.5 to account for *unreported* serious crimes. This reveals that there is actually *only one arrest for every 12.5 serious crimes committed*. Put another way: only eight serious crimes in 100 result in so much as an arrest.

What are the chances that even this small percentage of arrested criminals will ever see the inside of prison? Consider now what happens within the criminal justice system.

"Criminal Justice": An Overview

Of the eight felons per 100 serious crimes who are arrested, one or two are teenagers who are routed to the juvenile justice system (which is far more lenient than the adult system). This leaves only six or seven adults apprehended for every 100 serious crimes committed. Of these, many are released for lack of sufficient evidence or on technicalities; a few are acquitted after standing trial. Of the tiny number remaining who plead guilty or are convicted, most receive dramatically reduced sentences, or are allowed simply to "walk" on probation, thanks to "plea-bargain" arrangements.

The results? According to the federal government, for every 100 serious crimes *reported* in 1986, only 4.3 criminals went to prison.¹¹ But ad-

justing once again to account for *unreported* crimes, we find that in 1986, only 1.7 percent of the most serious crimes were punished by imprisonment. In other words, only 17 perpetrators were put behind bars for every 1,000 major felonies.

In calculating his chances of being punished, then, any would-be criminal would logically conclude that the odds are definitely on his side—that today in America, crime *does* pay.

Hence the phenomenon of the career criminal. Most crimes are committed by repeat offenders, often arrested but rarely imprisoned. For example, in 1986, Massachusetts state prison inmates each had an average of 12.6 prior court appearances. Since, as we have seen, the typical criminal gets away with 12.5 felonies for his every arrest, simple multiplication (12.6 X 12.5) suggests that, on average, many of the Massachusetts inmates had committed well over 100 crimes. Few of these inmates were teenagers: their average age was 31. Yet despite their status as career criminals, 47 percent of them had never before been incarcerated as adults.¹²

The career criminal knows, too, that even in the unlikely event he's ever sent to prison, all is not lost. If he's been convicted of multiple felonies, he stands a good chance of getting "concurrent sentences," to be served simultaneously instead of consecutively. This greatly reduces the time he'll spend behind bars. And he also knows that prison sentences almost never mean what they say.

In most jurisdictions, parole eligibility comes after serving only a fraction of the nominal term handed down by a judge. In addition, from the time he enters prison, the inmate is offered a *de facto* bribe of *automatic deductions from his sentence* for each day of good behavior (called "good time"), as well as additional deductions for blood donations or participation in various rehabilitation programs. These may count either against his prison term itself, or his post-release parole supervision time.

Furthermore, virtually every state offers the inmate a wide array of outside release programs. After serving only part of his sentence, the inmate can become eligible to leave prison walls and work at a job (work release), or attend classes (education release), or simply visit his family and friends for several days at a time (home fur-

loughs). The public's image of the hardened criminal leaving prison handcuffed to an armed guard is many years out of date. In many current release programs, even dangerous killers (such as Willie Horton) are simply turned loose without any prison escort—presumably in the "custody" of a family member or friend.

In summary: even among that small percentage of hardened, repeat offenders who are apprehended, convicted, and imprisoned, few will spend very long under lock and key. And within a short time after release on parole, most resume their criminal careers. Proof of this lies in many studies showing that paroled inmates have high rates of "recidivism" (or relapse into crime). Depending on how recidivism is measured, fully a third to half of all paroled inmates are returned to prison within a year or two—and this despite the very low chance of being arrested for any of their subsequent crimes.

As every criminal knows, the "criminal justice system" is a sham. As we shall later see, the consequences are undermining the motivation and integrity of those who man the institutions of the law. Worst of all, millions of victims, who hope for justice, find that some of the worst crimes against them are perpetrated *after* they go to court.

Irrationality of this magnitude doesn't "just happen." Nor would it long be tolerated, without a complicated framework of abstract rationalizations to soothe, confuse, and dismiss critics. Like most compromised institutions, today's criminal justice system is the handiwork of what I call the "Excuse-Making Industry."

The Excuse-Making Industry

This industry consists primarily of intellectuals in the social-science establishment: the philosophers, psychological theorists, political scientists, legal scholars, sociologists, criminologists, economists, and historians whose theories have shaped our modern legal system. It also consists of an activist wing of fellow-travelers: social workers, counselors, therapists, legal-aid and civil-liberties lawyers, "inmate rights" advocates, "progressive" politicians and activists, and so on.

It was this industry which, in the 1960s and 1970s, initiated a quiet revolution in the criminal justice system. Its proponents managed to rout

the last of those who believed that the system's purpose was to apprehend and punish criminals. Instead, the Excuse-Making Industry was able finally to institutionalize its long-cherished dream: not the punishment, but the *rehabilitation* of criminals.

Prisons were renamed "correctional facilities," and state bureaus of prisons became "departments of correction." Many aspects of the legal and prison systems, outlined above, were implemented about this time. These reforms dovetailed with other products of the industry: massive government spending programs to eradicate what it called "the causes of crime." Welfare programs mushroomed; academic standards declined so as not to "discriminate" against the "disadvantaged"; "elitist" moral standards were scorned by various "liberation" movements.

Summing up the unintended consequences of these efforts, Charles Murray has written: "The changes in welfare *and* changes in the risks attached to crime *and* changes in the educational environment reinforced each other. Together, they radically altered the [social] incentive structure." This became especially evident in the area of crime: crime rates began to take off while penalties for crime lessened. Soon, "a thoughtful person watching the world around him. . . was accurately perceiving a considerably reduced risk of getting caught. . . . It was not just that we had more people to put in jails than we had jails to hold them. . . ; we also deliberately stopped putting people in jail as often. From 1961 through 1969, the number of prisoners in federal and state facilities—the absolute number, not just a proportion of arrestees—dropped every year, despite a doubling of crime during the same period."¹³

Clearly, it wasn't the intention of the social-science establishment that crime rates soar. The Excuse-Making Industry is no diabolical, centrally directed conspiracy, harboring some warped, unfathomable desire to foster criminality. Rather, it's a sprawling intellectual consensus, consisting of many diverse, competing, and often conflicting elements—but united in a single premise: that the criminal isn't responsible for his behavior.

There are many variations on the theme that binds the Excuse-Making Industry.

There are sociologists, who hold that environmental, racial, social, and economic factors have

"driven" the criminal to his anti-social behavior—a view echoed by economists, usually of a Marxist inclination, who argue that criminals are formed by their membership in an "exploited" economic class.

There are Freudian psychologists, who contend that criminals are helpless pawns of emotional drives rooted in childhood; and behavioral psychologists, who believe criminals are clay, shaped by "negative reinforcers" in their families and neighborhoods.

There are biologists, who cite the alleged correlation between criminal behavior and possession of a so-called "mesomorphic body type"; other biologists and geneticists, who think criminality is caused by genetic, physiological, or biochemical deficiencies; still others, who believe there may be a racial or ethnic "propensity" to criminality.

There are eclectics, who think a combination of such "causes" can "explain" crime.

But whatever the variation, the theme is a constant. The criminal is not responsible for his actions, because man is not a causal agent in any primary sense. Forces and circumstances outside his control "cause" him to behave as he does. He should be forgiven, or treated therapeutically, or placed in a better environment, or counseled to "cope" with his uncontrollable inner demons. But he must not be held accountable for his actions—and, under *no* circumstances, punished for what he "couldn't help."

For all its internal bickering, the Excuse-Making Industry's common theme may be summed up in a single cry: "He couldn't help it, because. . ." Arguments arise only in answer to the question: ". . . because *why*?"

Consider some of the commonly advanced "explanations" for criminal behavior.

The Sociological Excuse

In the musical *West Side Story*, one juvenile delinquent incisively satirizes the sociological theory of crime, telling the local cop, Officer Krupke: "We're depraved on accounta we're deprived."

Former U.S. Attorney General Ramsey Clark offered a more formal summary of the view that crime is "caused" by external social and economic factors:

If we are to deal meaningfully with crime, what must be seen is the dehumanizing effect on the individual of slums, racism, ignorance and violence, of corruption and impotence to fulfill rights, of poverty and unemployment and idleness, of generations of malnutrition, of congenital brain damage and prenatal neglect, of sickness and disease, of pollution, of decrepit, dirty, ugly, unsafe, overcrowded housing, of alcoholism and narcotics addiction, of avarice, anxiety, fear, hatred, hopelessness and injustice. These are the fountainheads of crime. They can be controlled. As imprecise, distorted and prejudiced as our learning is, these sources of crime and their controllability clearly emerge to any who would see.¹⁴

This is probably the most widely held view of criminal causation—and probably the easiest to refute. Whatever might be said of the prevalence of unsavory social conditions today, surely they were even more prevalent in decades and centuries past, and are more prevalent today in Third World nations. Yet despite the fact that conditions and circumstances have been constantly improving for the vast majority of people, crime today is *increasing*; and it is increasing faster in America and other developed countries than in most poorer parts of the world.¹⁵

The sociological excuse (of which Marxist “class warfare” theory is a subset) flies in the face of common sense and empirical evidence. Even within the same poor, inner-city families, some youngsters become criminals, while the majority do not. Sociology (including Marxism), based on the collectivist premise that men are interchangeable members of undifferentiated groups, cannot account for such obvious diversity in individual behavior under identical circumstances.

Or consider the following example: “During the 1960s, one neighborhood in San Francisco had the lowest income, the highest unemployment rate, the highest proportion of families with incomes under \$4,000 per year, the least educational attainment, the highest tuberculosis rate, and the highest proportion of substandard housing of any area of the city. That neighborhood was called Chinatown. Yet in 1965, there were only five persons of Chinese ancestry committed to prison in the entire state of California.”¹⁶ Clearly, factors other than economics and ethnic

status affect the propensity toward criminality.

How, then, do we explain the disproportionate numbers of poor and black inmates in prisons?

For one thing, those who are better-off financially can afford better lawyers, and manage to “beat their raps” more consistently than those forced to rely upon court-appointed attorneys or legal-aid lawyers.

We might also consider a heretical thought: not that “poverty causes crime,” but that *criminality causes poverty*.

While most poor people behave responsibly and work hard to better themselves, some do not. The majority’s responsible behavior has a much greater likelihood of leading many of them out of poverty; but the minority’s irresponsibility is an almost sure path both to continued poverty, and to criminality. Irresponsible youths tend to be self-indulgent and short-range in their thinking. They disrupt their classes, drop out of school, develop criminal associations, drink, gamble, get involved with drugs, malingering on the job, or simply refuse to work at all. These are hardly habits that lead to upward mobility or which keep one out of trouble. Also, the ranks of the poor are infused daily with new members: people who were once better-off, but whose irresponsible attitudes and actions have caused them to lose their jobs or families, to become addicted to drugs, or to associate with people of bad character.

If good people have a much greater likelihood of ascending from poverty, and if bad people have a much greater likelihood of sinking into or remaining in poverty, is it any wonder that the ranks of the poor contain a disproportionate number of criminals? Character, it has been said, is destiny. It should come as no surprise that prisons are filled disproportionately with people who are both criminal *and* poor. But it was their criminality which caused their poverty, not the other way around.

There is empirical evidence to support this hypothesis. In a classic study of male criminality, Sheldon and Eleanor Glueck conducted in-depth surveys of 500 young delinquents, matching them with 500 non-delinquent boys of similar ages, ethnic backgrounds, I.Q.’s, and housing in comparable slum neighborhoods. Even so, the delinquent boys’ homes were more crowded and less tidy, and had lower average family earnings, fewer breadwinners, lower educational levels for par-

ents and grandparents, greater histories of family discord, higher incidences of public welfare support. . . and crime.¹⁷

These facts may be characterized as symptoms of *irresponsibility*. Since the boys' impoverished environments were virtually identical, the chief differentiating factor between the two groups seemed to be exposure to differing sets of attitudes, values, *morals*. Even though all the boys came from the slums, the "bad boys" more frequently came from homes in which irresponsibility and criminality were prevalent; and those factors were correlated with even lower income and living standards. This bears out the "crime causes poverty" hypothesis.

Moreover, these influences by no means had a uniform impact on the boys: plenty of the "good boys" were exposed to bad moral influences, too; and many of the "bad boys" came from better moral environments. This is a telling argument against the collectivist premises of the sociologists. "Influences" are not the same as "causes": one's response to his environment (these facts seem to say) is *individual*.

As for the reasons why members of racial minorities constitute a disproportionate share of the inmate population, the facts lead to interpretations other than "racism."

As mentioned earlier, Charles Murray has presented overwhelming evidence that welfare-state programs increase incentives for irresponsible behavior among their presumed beneficiaries.¹⁸ Historically, such programs have been directed toward the poor, particularly blacks and other minorities. Murray shows that during the 1960s and 1970s, when government programs for these social groups expanded enormously, a host of symptoms of irresponsible behavior among these same groups followed—including a virtual explosion of criminality.¹⁹

Based upon such evidence, we can safely conclude that the disproportionate incarceration rate of minorities is caused, not by their having some "racial predisposition" to criminality, nor by a "racist" legal system singling them out for arrest and imprisonment. It stems, rather, from the pernicious, unintended consequences of welfare-statism, which has increased incentives for irresponsibility among targeted minorities—most notably, urban blacks.

The sociological "deprivation" theory of crime

also cannot explain the fact that "white-collar" crimes are increasing as fast as street crimes. From 1978 to 1987, forgery and counterfeiting went up 23.5 percent, fraud soared 41.8 percent, and embezzlement skyrocketed 56.3 percent.²⁰ Such crimes are not typically perpetrated by those languishing in the social environment lamented by Mr. Clark. The bookstores are currently loaded with similarly sordid tales of "high society" crimes, crimes by doctors and Wall Street con artists, crimes by high-living drug lords. One wonders how sociologists would have accounted for the crimes and perversions in the courts of Nero and Caligula: clearly, these folks weren't "depraved on accounta they're deprived."

As Robert M. Byrn put it: "Not all criminal offenders come from a deprived background, and only a small portion of our disadvantaged citizens become criminals. Organized crime was not reformed when it moved into legitimate business. White-collar offenders frequently hold good jobs and live in respectable neighborhoods. Could it be, after all, that the problem is moral as well as social?"²¹

The point is simple. In various places at various times, there may arise a statistical correlation between crime and any number of socio-economic factors. But criminality cannot be *causally* attributed to external social and economic factors alone. To excuse criminals because of poor social environments leaves unexplained the crimes of those from good social environments. And the sociological excuse is an insult to millions of others from the poor backgrounds, who have *not* turned to crime.

The Psychological Excuse

Where the sociological excuse for criminality blames forces *outside* the criminal, the psychological excuse blames forces *inside* the criminal. Both, however, share the view that whatever these forces are, the individual has no power to resist or control them.

Whether we treat criminals punitively or therapeutically depends upon the issue of "criminal responsibility"—whether the individual has control of his actions. This issue is at the core of the debate over punishment vs. rehabilitation. For if the individual is not responsible, then we should not

engage in what famous psychiatrist Karl Menninger denounced as "the crime of punishment." Such psychological determinists believe "the idea of punishment must be completely eliminated."²²

Freudian Psychoanalysis. Most of us would agree that some people are so mentally impaired they shouldn't be held accountable for acts normally regarded as criminal. But the notion, promoted by many psychological theories, that virtually *all* people are driven to act by inner forces beyond their control, undermines the very premise of criminal responsibility.

This notion is the legacy of the father of psychoanalysis, Sigmund Freud. Freud authored the view that the individual "can't help himself" because he is driven by dark inner forces beyond his control, that frustration of these basic inner "drives" is the source of mental illness.

"I feel," he wrote, "that the irrational forces in man's nature are so strong, that the rational forces have little chance of success against them." To Freud, *human nature* was, at root, virtually criminal. "Every individual is virtually an enemy of civilization. . . . Men are not gentle creatures who want to be loved, and who at the most can defend themselves if they are attacked; they are, on the contrary, creatures among whose instinctual endowments is to be reckoned a powerful share of aggressiveness. As a result, their neighbor is for them not only a potential helper or sexual object, but also someone who tempts them to satisfy their aggressiveness on him, to exploit his capacity for work without compensation, to use him sexually without his consent, to seize his possessions, to humiliate him, to cause him pain, to torture and kill him."²³

Freud's influence on American psychiatry, and on the culture in general, has been nothing short of enormous. In a society groping for meaning and direction, his explanation of human behavior became dominant. By the late 1960s, a national survey found that "Sigmund Freud's is the only doctrine that has had any wide acceptance in psychiatry today. . . ." Another psychiatrist wrote in the *International Journal of Psychiatry* that "as far as the large segment of educated opinion in the United States is concerned, the attitude of acceptance of Freud's theory has won out." Likewise, Richard LaPiere, a Stanford sociologist, wrote in 1959 that the Freudian ethic is "the ethic that is most commonly advocated by

the intellectual leaders of the United States," and described it as "the idea that man cannot and should not be expected to be provident, self-reliant, or venturesome, and that he must and should be supported, protected, socially maintained."²⁴

This ethic remains a cornerstone of the Excuse-Making Industry's efforts to rehabilitate criminals (and, incidentally, to replace American capitalism with a paternalistic socialism). Yet how effective has the theory of psychological causation been in actually rehabilitating psychiatric patients?

In 1959, psychologist Hans J. Eysenck analyzed 19 reports covering 7,000 psychiatric patients from 1927 to 1951. He found that the rate of improvement or cure was only 64 percent. The spontaneous recovery rate for patients receiving no psychotherapy was 66 percent. In another study, Canadian psychiatrist Raymond Prince spent 17 months with Nigerian witch doctors—and concluded that their rates of therapeutic success rivaled those of North American clinics and hospitals.²⁵

More pertinent is the effectiveness of psychotherapy in rehabilitating criminals. In the most ambitious effort ever made to evaluate criminal rehabilitation efforts, Robert Martinson, Douglas Lipton, and Judith Wilks surveyed 31 different programs between 1945 and 1967. These employed individual or group psychotherapy (Freudian psychoanalysis as well as other techniques) to reduce criminal recidivism rates—the percentage of inmates who, once released, return to crime.

Their conclusion: "With few and isolated exceptions, the rehabilitative efforts that have been reported so far have had no appreciable effect on recidivism." For group therapies in particular, there were "few reliable and valid findings concerning their effectiveness." Individual psychotherapy only seemed to improve certain criminals who had been judged "amenable" to treatment; but in other cases, criminality actually *increased* after treatment. These findings have been confirmed in a number of other studies.²⁶

Theories are only as good as their demonstrable relationship to the facts of reality. Most psychological theories are based upon sweeping inferences drawn from dubious causal assumptions. The main problem is that these can't be demon-

strated. At root, the psychological excuse simply boils down to the truism that all actions are motivated. But this doesn't tell us much. It doesn't tell us whether those motives are causal primaries, or simply the results of something else, over which we have a measure of volitional control. And it doesn't tell us whether those motives, once they arise, can be overridden or channeled by the individual.

We're often tugged by competing emotions. To say that somebody had an impulse or inclination to commit some crime, tells us no more than the fact that "he felt like it." Well, we already know that. The existence of civilization, however, is evidence that we do have some power, at some level, to choose which emotions will prove decisive.

But the psychological excuse assumes that emotions are causally irreducible and irresistible. In effect, it equates all desires with *compulsions*.

Another problem with the psychological explanation is that it isn't one explanation. There are many psychological theories, each contradicting all the others. In practice, this means that no two psychologists or psychiatrists seem to agree on the specific "causes" of any given person's actions.

In a review of the relevant literature on the reliability of psychiatric diagnoses, Wisconsin Circuit Court Judge Ralph Adam Fine reported the following:²⁷

In one study, pairs of psychiatrists diagnosed 427 psychiatric patients, and were able to agree only 50 percent of the time; in another study, 54 percent of the time.

Case histories of 34 patients at the UCLA Neuropsychiatric Institute were given to 10 staff psychiatrists, 10 psychiatric residents, and 10 untrained college students with diverse backgrounds. There was no statistical difference in the rates at which any of the groups selected the right diagnosis.

Two University of Oklahoma researchers filmed an actor playing a happy, problem-free scientist. They showed the film to 156 undergraduate students, 40 law students, 45 graduate students in clinical psychology, 25 practicing clinical psychologists, and 25 psychiatrists. Each group was told that the man looked normal, but had been previously diagnosed as "quite psychotic." Result: the actor was diagnosed as mentally ill by 84 percent of the undergraduate students, 90 per-

cent of the law students, 88 percent of the graduate psychology students and clinical psychologists, and 100 percent of the psychiatrists. Later, five identically composed groups were shown the same film of the same actor—but were told that he "looked like a healthy man." *All of them* diagnosed the actor as free of mental illness.

A final example. Eight normal volunteers, led by a Stanford psychology professor, presented themselves to 12 psychiatric hospitals in five states, complaining of hearing voices that said "empty," "hollow," and "thud." Except for their identities, they answered all other questions truthfully. All were admitted, at which point they behaved normally. Their hospitalizations lasted from seven to 52 days, upon which time they were released with diagnoses of "schizophrenia in remission." However, 35 of 118 actual mental patients in the same hospitals voiced suspicions that the eight were utterly sane people sent to "check up on the hospital."

These anecdotes make some serious points. If supposed "experts" in the psychiatric field cannot even tell if a person is basically sane or insane, how can they tell what subtle "forces" cause him to act as he does? If they cannot reliably or objectively "explain" the causal antecedents of any given individual's actions, on what grounds do they justify their general theories purporting to "explain" so complex a thing as criminal behavior? On what grounds do they presume to offer "expert testimony" in courtrooms concerning the motives of defendants, or to design "rehabilitation" programs for criminals?

At present, psychological theories of causation have more in common with demonology than science: they excuse outrageous behavior, but explain little.

Behaviorism. Thanks to the failure of Freudian and neo-Freudian therapies, there has been a flourishing of competing theories of causation—the most notable being behaviorism. In its most pure form (as in the theories of B. F. Skinner), behaviorism proposes an almost mechanical model of human action—that man is little more than a stimulus-response machine, like a rat or pigeon, instead of a conscious, thinking entity with some power of choice. This billiard-ball approach to human causality, say behaviorists, is "objective" and "scientific," unlike the "subjective" approach of psychoanalysis.

Behaviorism thus ignores the "inner state" of an individual or his past history, concentrating on altering his present behavior strictly by "conditioning" him with rewards and punishments (called "reinforcers"). It is not going too far to say that the behavioral approach to human change is essentially the same as that used by dog trainers.

Whereas Freudian psychology is the foundation for the "therapeutic" approach to crime, behaviorism "reinforces" the sociological approach. It lends weight to such environmental excuses for criminality as poverty, "peer pressure," racism, and the like. Behaviorists believe that people will change their "responses" if we change the "reinforcing stimuli" in the external environment. (Some have taken this to mean the eradication of the profit motive and capitalism.)

But proceeding on the premise that individuals are no more complex than pigeons apparently has its limitations. For one thing, so-called "behavior modification" programs don't seem to have much more lasting impact on criminals than do those based on conventional psychology.

One study examined 24 such programs between 1965 and 1975, all aimed at altering the behavior of institutionalized delinquent youths by use of rewards and punishments. Almost all succeeded—while the youths remained in the institutions. But when four of the programs followed up on their subjects after they were returned to the community, three reported no significant, lasting reduction in the young criminals' recidivism rates. The fourth program reported such a reduction, but it wasn't a carefully controlled sample. Other similar studies have been unable to demonstrate any lasting impact of behavior modification.²⁸

It seems, then, that even criminals are more complex than dogs. Behaviorism, in refusing to consider that an individual's thinking and values might play a role in his motivation, joins conventional psychology as another failed theory of human action. While both provide a wealth of excuses for criminal behavior, neither helps us understand, alter, or prevent it.

The Biological Excuses

This last group of excuses for criminality consists of variations on the "bad seed" theory: the

view that one is genetically or constitutionally predisposed toward criminality. In fact, these theories have more empirical support than do sociological and psychological theories.

There are certain physical attributes which repeatedly have been shown to correlate statistically with increased criminality: being male, having lower-than-average intelligence, having certain temperamental traits (such as hyperactivity), having a certain body type (heavy-boned and muscular). In addition, evidence from the studies of twins tends to show that the likelihood of finding a criminal twin, if the other twin was criminal, was statistically significant—and even greater for identical twins than for fraternal twins. This held true even in studies which discounted for environmental factors. A systematic Danish study of over 14,000 adopted children also showed that adopted children whose biological parents had been criminals had a measurably greater likelihood of becoming criminals themselves—even more than if their adoptive parents were criminals. This held true even for adopted siblings raised apart.

The best summary of such evidence appears in James Q. Wilson and Richard J. Herrnstein's comprehensive examination of criminal causation, *Crime and Human Nature*. They conclude that while "the average offender tends to be constitutionally distinctive," he is "not extremely or abnormally so." But as moderate behaviorists, they believe such "predispositions toward crime. . . are expressed as psychological traits and activated by circumstances."²⁹

In fact, these interesting correlations are far from being causally decisive. Even in the studies cited by Wilson and Herrnstein, the correlations occurred in only a small minority of cases. Whatever effect such traits have on personality, the link to criminal behavior is statistically weak. Inherited factors, for example, may predispose someone toward aggressiveness, a high degree of physical energy, and a short temper. But why do some individuals with such traits become professional football players, while others become street criminals? A family argument might "cause" one short-fused man with a heavy, muscular body to storm out of the house, cursing, and "let off steam" by chopping wood—while another similar man will begin to batter his children.

Personality traits only define general capaci-

ties. There's no evidence that what one *does* with those capacities is predetermined. Hence, even the "biological explanations" do not pose convincing excuses for criminal behavior.

Determinism, Free Will, and Criminal Responsibility

Like the characters in the fable of "The Blind Men and the Elephant," each member of the Excuse-Making Industry grabs onto one part of human nature, then assumes it constitutes or explains the whole. Psychologists focus on a person's emotional life; biologists focus on his brain, genes, or anatomy; sociologists and behaviorists focus on his family and neighborhood. Each of these does so in the name of "science," rejecting free will—the premise that the individual can make some primary, irreducible choices about his thoughts, feelings, or actions—as "unscientific" or mystical.

The Excuse-Making Industry is premised on the philosophical doctrine of *determinism*. Determinists hold that, in any given moment, there's only one action that an individual can take—an action determined by the sum total of all the causes operating on him up to that point. To a determinist, human thoughts, feelings, and actions are all necessitated by antecedent factors; the individual has no choice about them. By contrast, a free will theory posits that some action, or choice, or thought is *not* necessitated by antecedent factors, but is under the direct, volitional control of the individual.³⁰

This is no digression. The issue of free will versus determinism is *the* key to resolving any argument about the causes and cures of crime. If determinism is true, then man truly "can't help" what he is or does; he is not the sculptor of circumstances, but the clay. Then, the entire idea of criminal responsibility—and of a criminal justice system to punish wrongdoers—is absurd. If, on the other hand, man has some measure of irreducibly free control over his thinking, feeling, or behavior, then he *does* ultimately bear responsibility for what he does—and the quest for justice makes sense.

Determinism certainly *sounds* scientific: it seems firmly rooted in cause-and-effect thinking. Everything requires a cause; thus human thoughts, feelings, and actions require antecedent

causes. By contrast, at first blush, free will (or volition) sounds "causeless"—hence, unscientific. How can any human decision be "causeless"?

As many philosophers have noted, however, the apparent conflict between "causality" and "free will" rests upon a dubious view of causality—what has been called the "billiard-ball" theory. By this view, certain *events* are caused by preceding *events*. The action of one billiard ball hitting another causes the second to move. Likewise, the action of a man stabbing someone is caused by preceding events—in his childhood (the psychological excuse), in his neighborhood (the sociological excuse), or in his biochemistry (the biological excuse). In the first case, the struck billiard ball had no choice but to move; in the second case, the "affected" man had no choice but to stab.

There is, however, an alternative view of causality. By this view, it isn't actions which cause subsequent actions; rather, *entities* cause actions. This leads to a much more complex interpretation of causality, in which "external forces" acting on an entity are only one element "causing" subsequent events. The most important cause, however, is *the nature of the entity itself*: its matter, form, properties, and potentialities, in conjunction with outside forces.

This theory of causality, then, would hold that there are a number of forms of causality in nature. Inanimate objects respond passively; organisms are goal-directed from within; animals act on the basis of perceptual-level consciousness, showing psychological causation; while man has the additional abilities to think, introspect, and direct his awareness.

By this theory, man has final self-control in certain areas. This doesn't violate the law of cause-and-effect, since we act completely in accord with our nature as conscious, reasoning entities. Human volition, then, isn't an affront to the law of causality: it's an instance of it.³¹

There are various doctrines and theories of free will, of course. Some posit total control over thoughts, feelings, and actions; some suggest that only thoughts might be under direct control; still others argue for a more narrow control, over the level and focus of consciousness. For our purposes here, resolution of this question doesn't matter. What does matter is whether determinism is a respectable intellectual alternative. It is not.

No, free will cannot be "proved." That's because *proof presupposes free will*. It's impossible to prove or to know anything if one's thinking processes aren't free—if the outcome of our thinking is predetermined by forces beyond our control. Volition lies at the starting point of all knowledge and proof—not at the conclusion of some logical chain. It doesn't need to be "proved," because it's a building block of proof itself.

This poses a fatal dilemma for determinism, and for the whole Excuse-Making Industry which stands upon it. Knowledge presupposes the freedom to validate or refute a belief by a self-directed thinking process. However, those who claim to know that determinism is true must logically concede that they, too, "can't help" what they think, feel, or do. Yet if that is the case, then they can't claim to "know" that determinism is true—because *they were forced to believe in its validity*.

The dilemma is inescapable: the excuse-makers are slaves to their own theory. To claim knowledge of the validity of determinism, or to try to persuade others, presupposes a freedom which their own theory denies them. Determinists want to have their free will, while eating it.

It's therefore no wonder that the Excuse-Making Industry has failed dismally in its efforts to reform criminals. By not taking into account the free will of the criminal, it's ignoring the very factor which is *decisive* to his criminality: his responsibility for his actions. Instead, it has shaped the institutions of the law to excuse him from justice—as we shall see in the next segment. □

Next month, Mr. Bidinotto examines the criminal justice system.

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3. Charles Murray, *Losing Ground* (New York: Basic Books, 1984); from data on p. 256, Table 18.
4. *Crime in the United States*, p. 41, Table 1.
5. Bureau of the Census, *Statistical Abstract of the United States*, 1988 edition, p. 163.
6. *Ibid.*, p. 154, Fig. 5.2.
7. Bureau of Justice Statistics, *Bulletin*, "Prisoners in 1987," April 1988, pp. 1, 5.
8. *Crime in the United States*, p. 41.
9. American Bar Association, *Criminal Justice in Crisis*, November 1988, p. 4.
10. *Crime in the United States*, p. 155.
11. Bureau of Justice Statistics, *Bulletin*, p. 5; shown as 43 imprisonments per 1,000 of the following reported crimes: murder, non-negligent manslaughter, rape, robbery, aggravated assault, and burglary.
12. Massachusetts Department of Correction 1986 Annual Report, Appendix E, p. 20.
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14. Quoted in Melvin D. Barger, "Crime: The Unsolved Problem," *The Freeman*, February 1980, p. 98.
15. James Q. Wilson and Richard J. Herrnstein, *Crime and Human Nature* (New York: Simon & Schuster, 1985), Ch. 17.
16. *Ibid.*, p. 473.
17. *Ibid.*, pp. 175-179. The Glueck study had many other far-reaching conclusions, and has been savaged by sociologists for decades.
18. See also Robert James Bidinotto, "Paying People Not to Grow," *The Freeman*, October 1986.
19. Murray, especially chapters 8, 12, 13, and 14.
20. *Crime in the United States*, p. 168, Table 27.
21. Robert M. Byrn, "The Morality of Punishment," *America*, Jan. 15, 1972. Quoted in J. Weston Walch, *Debate Handbook On Criminal Justice* (Portland, Me.: self-published, 1976), p. 89.
22. Richard X. Clark, quoted in Walch, p. 52. Also Wilson and Herrnstein, pp. 489-90.
23. Quoted in Frank Goble, *Beyond Failure: How to Cure a Neurotic Society* (Ottawa, IL: Green Hill Publishers, 1977), pp. 37-8.
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25. *Ibid.*, pp. 41, 43; also Wilson and Herrnstein, pp. 378-79.
26. Stanton E. Samenow, *Inside the Criminal Mind* (New York: Times Books, 1984), p. 193. Also Wilson and Herrnstein, pp. 377-79.
27. Ralph Adam Fine, *Escape of the Guilty* (New York: Dodd, Mead & Co., 1986), pp. 203-208.
28. Wilson and Herrnstein, pp. 381-384.
29. *Ibid.*, pp. 102-103. See especially chapters 3-7.
30. David Kelley, "The Nature of Free Will," recorded lecture given in Toronto, Canada in October 1986. (Published by Uncommon Sense Services, 59 Poplar Crescent, Aurora, Ontario L4G 3M4.)
31. The author is indebted to David Kelley for the general argument presented in this section.

Section 89: Tax Code Limits Workers' Choices

by Roy E. Cordato

Over the last decade workers have come to benefit by an invigorating dose of competition and choice with respect to health insurance plans. While most companies once offered their employees one health insurance policy—take it or leave it—most workers now have the opportunity to choose among dozens of options. Workers can now make trade-offs between higher or lower wages and more or less extensive health care insurance coverage. They can tailor their compensation packages to their own needs. If they are young, single, and at low risk, they have the opportunity to accept more of their compensation in the form of wages and less in the form of extensive health care insurance coverage. Conversely, if they have a family or are older workers who may be at higher risk, they can make other trade-offs. Clearly, these kinds of options have helped the average wage earner.

One section of the Internal Revenue Code threatens to take a good part of that freedom away by penalizing both employers and employees in workplaces where these kinds of options are available. The justification for Section 89, instituted as part of the Tax Reform Act of 1986, is based on knee-jerk egalitarianism. The tax system is being used here to reduce “employee-benefit discrimination,” i.e., to see to it that lower paid workers get the same health care coverage as higher paid workers. In order to comply with Section 89, employers will have to correct disparities in health care coverage that is freely chosen

by lower and higher paid workers. If these disparities are not corrected, those higher paid workers with more extensive plans will have to pay a tax penalty. The virtues of free choice are turned into vices by the tax code.

There are many problems with the Section 89 requirement, not the least of which is the underlying assumption that all employees within a workplace should have the same level of health insurance coverage. The fact is that when free choice is allowed, it is likely that equality of result will never be achieved. People make choices based on their own needs and preferences, which always differ from one person to another. Policies that attempt to force equality of result at the expense of free choice can never make people better off. Section 89 is no exception.

But even from an egalitarian perspective, this provision in the tax code doesn't make much sense. Its intent is not to ensure that everyone's level of compensation is the same, but to equalize one component of everyone's compensation package in a given workplace. In fact, however, the after-tax dollar value of workers' compensation packages isn't likely to be any more “equitable” after than before Section 89's leveling process takes place.

If lower paid workers are forced to take more extensive health insurance coverage, it will be at the expense of money wages or some other benefits. The issue for employers is how much it costs them to compensate labor, not what form that compensation takes. The value of a worker's compensation package is determined by how much the worker contributes to the production process. Without an increase in productivity from

the worker, there is no reason to expect that the dollar value of his compensation package would be increased.

This would be especially damaging to very low paid employees, working at or near the minimum wage. Since their wages could not be lowered, those whose productivity does not justify a higher valued compensation package would lose their jobs. In cases where higher paid workers have to take less extensive coverage, wages or other benefits would have to be increased in order for employers to retain their services. Section 89 would neither make compensation among workers more equitable nor make workers better off.

Obviously Section 89 is no deal for employers either. Many companies offer their employees hundreds of health insurance options. Remember, simply offering health insurance plans in a nondiscriminatory way is not good enough for the social engineers who crafted Section 89. Companies will have to determine if the dollar value of the insurance plans that their employees actually choose is distributed among them in such a way that lower paid employees do not have lower valued plans. As with nearly all government programs, free choice is the enemy of Section 89.

Given that the administrative costs of this process will be very high, it may be cost effective for companies to take what might best be called the noncompliance option. If a company decides not to put itself through the battery of tests that the IRS requires, or if the IRS determines that inequities still exist, those employees earning over \$75,000 (as low as \$45,000 under some circumstances) who have higher valued plans will be taxed on a portion of those benefits. Since this would be tantamount to a pay cut for these workers, it is likely that employers, in order to retain them, would increase their wages to compensate for the added tax burden. It may be less expensive for an employer to do this than to bear the costs associated with strict compliance. Of course the Treasury is hoping that many employers will take this option because it is these tax penalties

that are supposed to make Section 89 a \$300 million revenue raiser for the government.

This suggests that Section 89 was put in the tax code more for its possibilities as a revenue raiser than as a means of achieving social justice. The government benefits from Section 89 to the extent that it is not complied with. This could provide the logic behind why it has been made so complicated.

Section 89 also might be a back-door method of implementing a mandated health insurance program. As with proposals to mandate health insurance, the formula that is used to determine if the values of health insurance policies are distributed equally includes part-time employees working more than 17.5 hours per week. This means that many part-time employees, who typically haven't qualified for health insurance benefits, must be provided with the same plans as full-time workers.

This could impose real hardships on these workers. In particular, it would create an incentive for employers to offer part-time employment that entails less than 17.5 hours of work per week. Workers who desire less than full-time employment, but more than just a few hours a week, may have to piece together an income from several different sources. Those employees who remain part-time, but work more than 17.5 hours per week, will probably have to trade off lower wages in exchange for their health insurance benefits. Since most people who work at part-time jobs do so for the extra cash, not for the benefits, this kind of trade-off would clearly make them worse off.

As social policy, Section 89 of the IRS Code has no justification. It presumably is meant to improve living standards for lower paid workers. But in reality it will make workers in all income categories worse off by restricting their liberty to choose the compensation package that best fits their needs and to freely negotiate labor contracts. In addition it will raise labor costs to business, which will mean slower growth and job creation rates for the economy as a whole. □

Deposit Insurance Déjà Vu

by Kurt Schuler

The mess in the savings and loan industry is the worst thing to happen to the American banking system since the Great Depression. As an indication of how severe the problem is, government estimates of the cost of bailing out bankrupt savings and loans, which were \$30 billion a few months ago, rose to \$60 billion, then to \$160 billion. And the cost is rising by \$1 billion for every month that the federal government lets 350 bankrupt savings and loans stay open because it hasn't budgeted the money to pay off their depositors.

American taxpayers will be footing the bill for this because the federal government guarantees almost all bank deposits. The rationale of deposit insurance is that it is cheaper than the banking panics that supposedly would result without it. But the history of deposit insurance in the United States and other countries indicates that it is neither necessary nor desirable. Outside the United States, deposit insurance, even where it exists, has not been needed. Competition has forced foreign banks to develop nationwide branch networks and to diversify into lines of business forbidden to American banks. This has resulted in the creation of large banks that are very secure because they spread their risks among many regions and types of activity.

In the United States, deposit insurance has been rarely self-financing because government regulation has prevented competition from evolving the strongest banks possible. Indeed, deposit insurance crises are almost as old as deposit

insurance itself. The Federal Savings and Loan Insurance Corporation's current problems have many precedents. Besides Federal deposit insurance, the United States has had about 30 state deposit insurance schemes. Nearly half operated before the Great Depression, and half since. Their experience has been dreadful. All but a few have gone broke. A brief look at their history shows what we can expect again if Congress doesn't use the current Federal bailout as an opportunity to free our financial system from the stranglehold of regulation.

New York State started the first deposit insurance system in 1829. Banks paid a tax of 3 percent of their capital into a common "safety fund." New York City banks, which were among the largest and most stable in the nation, opposed the fund. However, the more numerous rural banks influenced the state legislature to establish it. The safety fund's purpose was to instill public confidence in bank notes, although it also covered deposits. (Apparently, the legislature did not intend deposits to be covered, but they were because the law it enacted was careless on that point.) The safety fund benefited rural banks most, because their profits depended more on note circulation. Five other states imitated New York in setting up compulsory bank insurance systems before the Civil War.

The first to fail was Michigan's. It had been in operation only a year when the panic of 1837 dragged down most of the state's banks. Payments into Michigan's insurance fund barely covered supervisory costs, so creditors of failed banks got nothing. A few years later, 11 bank fail-

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ures depleted the New York fund. The state government eventually issued bonds to bail it out, much as the Bush administration has proposed doing for the FSLIC. But some creditors waited as long as 21 years for payment. A single failure was enough to bankrupt Vermont's fund in 1857. Creditors there got less than two-thirds the value of their claims.

Michigan, New York, and Vermont effectively closed their insurance funds when the funds went broke. Indiana, Ohio, and Iowa had funds that stayed solvent. Oddly, the solvent funds had more potential for causing trouble than the others. Healthy banks were liable for paying failed banks' creditors if the insurance funds should be exhausted. Hence, severe losses at a few banks could have wiped out all banks in the state. However, strong industry pressure counteracted the temptation, in effect, to play fast and loose with other banks' capital.

In contrast to the systems that went broke, where bank examiners were government employees, in the solvent systems examiners were largely chosen by and responsible to the banks. The number of banks was small — 41 in Ohio, 20 in Indiana, and 15 in Iowa. That made group action against imprudent banks possible. Today, when Federal deposit insurance covers thousands of banks, savings and loans, and credit unions, this element of the successful state systems would be impossible to duplicate. Ohio and Iowa also reduced the risk to their funds by guaranteeing only notes, which were being eclipsed by deposits as the chief type of bank liability.¹

By 1866, changes in Federal banking law induced most banks to switch from state charters to Federal charters. Despite a Federal prohibition on branch banking, Federal charters were attractive because they allowed banks to continue issuing notes. State-chartered banks, in contrast, faced a 10 percent tax on note issue that made it prohibitively expensive. The Indiana, Ohio, and Iowa insurance funds closed still solvent when their members got Federal charters. The savings and loan industry began in earnest at the same time, as a product of a provision in the same law that severely restricted Federally chartered banks' ability to make mortgages. (These restrictions lasted until the 1970s. Since then, most of the other legal barriers separating banks from savings and loans have fallen as well.)

Bank notes effectively carried a Federal guarantee from the 1860s until Federal Reserve notes replaced the last of them in 1934. Issuers had to back notes 100 percent or even 110 percent with Treasury bonds, kept in a Treasury vault. But notes were becoming decreasingly important compared to deposits as the main form in which almost everybody held money.

“Honesty Taxed to Pay for Dishonesty. . .”

The federal government did not insure deposits, despite many proposals in Congress from 1886 onward that it do so. William Jennings Bryan and other populist politicians favored deposit insurance as a way of protecting small depositors and small banks. Leading bankers thought differently. Near the turn of the century, the First National Bank of Chicago's president expressed their objections to deposit insurance in these words: “Is there anything in the relations existing between banks and their customers to justify the proposition that in the banking business the good should be taxed to pay for the bad; ability taxed to pay for incompetency; honesty taxed to pay for dishonesty; experience and training taxed to pay for the errors of inexperience and lack of training; and knowledge taxed to pay for the mistakes of ignorance?”²

Such arguments deterred the federal government from insuring deposits, but not some states. Oklahoma established deposit insurance in 1908. Seven southern and western states followed suit within the next decade. Their systems insured from 100 to 1,000 banks apiece.

Washington's, the last started, was the first to crack. The depression of 1921 depleted its insurance fund. Since the system was voluntary, many healthy banks deserted it rather than suffer the high fees it would have imposed, and it shut down. The same happened to the other voluntary fund, in Kansas. In the other states, where deposit insurance was compulsory for state-chartered banks, low crop prices throughout the 1920s broke many rural banks, leaving depositors clamoring for their money. By 1930, all the funds were bankrupt. Texas's system eventually paid off depositors in full, but elsewhere depositors lost at least 15 percent of their claims. The North Dakota fund, the worst of the lot, paid only \$1 of



every \$1,000 in claims, and even after a tax-financed bailout, depositors lost three-quarters of their money.³

Despite the unfavorable experience of the state deposit insurance systems, the federal government established nationwide deposit insurance in 1934. The failure of nearly 10,000 banks since the Great Depression had begun in 1929 put pressure on the federal government to do something. Many prominent economists and bankers advocated branch banking as the best cure for the American banking system's instability. They pointed to foreign systems that allowed branch banking, where failures had been few. In particular, they saw Canada, where no banks failed during the Depression, as a model for the United States to emulate.

However, the political clout of small banks and the worse than usual public image that big business had at the time kept branch banking from getting political consideration commensurate with its economic merits. Federal deposit insurance, once established, seemed to stabilize the banking system. The banking panic of 1933 was responsible for much of the good reputation that Federal deposit insurance enjoyed. It wiped out the weak banks that would have put the greatest strain on Federal insurance funds had they begun in 1933 instead of 1934, when the panic was over.

Since 1934, 14 states have chartered deposit insurance systems for certain banks and savings and loans not covered by Federal insurance. Though nominally private, most state insurance systems have been so enmeshed in local politics

as to be in reality off-budget government agencies designed to shelter members from the rigors of competition. Their history has been as blighted as that of their predecessors.

New York and Connecticut closed relatively short-lived funds intact decades ago when their members voluntarily switched to Federal insurance. Funds have failed in half of the remaining states — Hawaii, Nebraska, Ohio, Maryland, Colorado, and Utah. The 1985 Ohio and Maryland failures required millions in tax money to pay depositors in full. The aftershocks prompted most states with solvent insurance systems to require all participants to switch to Federal insurance by 1990. Only three funds still offer insurance for banks lacking Federal coverage. One, in Kansas, is winding down as its members leave it. The others, in Pennsylvania, cover just a handful of tiny banks. State deposit insurance is in effect dead.⁴

Success in Massachusetts and North Carolina

The only truly successful state funds were those of North Carolina and Massachusetts. Their good performance was the result of incentives more closely resembling those of the free market than other state systems faced. The story of North Carolina's Financial Institutions Assurance Corporation is particularly interesting because the fund started in 1967 as "a good old boys' hideout from Federal regulation," as one of its officers later recalled. A new president appointed in 1977 brought in a new management philosophy. The law governing the fund was changed to require a majority of its board of directors to be unaffiliated with member institutions. (The lack of such a provision in the Ohio and Maryland deposit insurance funds encouraged self-dealing. Unlike the pre-Civil War Ohio fund, the latter-day Ohio and Maryland funds had no counterbalancing liability features to make their members keep an eye on each other's operations.)

The North Carolina fund began basing the premiums it charged its members on the riskiness of their portfolios. It increased the minimum net worth for members to qualify for insurance from it. Furthermore, it closely monitored members' lending practices. For instance, it induced mem-

bers to reduce their investment in fixed-rate mortgages several years before the rest of the savings and loan industry began having problems with fixed-rate loans. In every respect, the North Carolina fund's actions contrasted sharply with those of the FSLIC, which was vulnerable to political pressure from members, did not adjust insurance premiums for risk, had lower net-worth requirements, and did little to prevent members from making reckless loans.

The North Carolina fund's record was outstanding. Its stress on preventative measures, and the incentives it gave for its members to avoid making overly risky loans, kept any of them from failing. However, the Ohio and Maryland collapses cast a pall over all state deposit insurance systems. The North Carolina fund closed voluntarily, without losses, when many of its members decided to get Federal insurance. At about the same time, the Massachusetts funds, which benefited from that state's long tradition of conservative banking, switched roles from substitutes to supplements to Federal deposit insurance.⁵

Of all state deposit insurance systems, then, few have been really successful. The others have existed too briefly to undergo a true test of strength, have folded up at signs of trouble, or have failed. Now Federal deposit insurance is duplicating state deposit insurance's sorry record. The cause is the same: too many insured banks, mostly small, unable to withstand bad luck and bad management.

Deposit Insurance in Other Countries

Other countries, by allowing nationwide branch banking, have gained the stability the U.S. hasn't been able to achieve. Competitive pressures have resulted in very large banks, so solid that they have not needed deposit insurance and, in most places, have not had. It is true that West Germany's small Bankhaus Herstatt failed in 1974 and Italy's scandal-ridden Banco Ambrosiano failed in 1982. But there have been no other noteworthy bank failures in developed nations. Britain, which has had nationwide branch banking longer than almost any country, has not experienced a major bank failure since 1878.

Every large Western country except Italy has deposit insurance. But in all except the United

States, deposit insurance is a recent innovation, dating from the 1960s or 1970s. The banking systems of those countries took their present shape, and enjoyed stability, long before they got deposit insurance. Furthermore, foreign deposit insurance systems encourage depositors to monitor the health of their banks, which the American system does not. In some countries — notably West Germany — the systems are voluntary, so banks that fear that imprudent rivals are trying to take advantage of the system can quit it. In Britain and Switzerland, insurance doesn't pay for the full amount of depositors' losses, but only for, say, three-quarters.

Common to all foreign deposit insurance systems is that they have much lower maximum limits than the American system — from one-half to one-tenth as much — and that foreign governments are more serious about imposing those limits in practice than the American government has been. The possibility of suffering losses encourages depositors to entrust their money only to well-managed banks. Depositors abroad rely mainly on the quality of the banks themselves rather than on government insurance for protection.⁶

The exception that proves the rule occurred in Canada, whose federal deposit insurance system is most like that of the United States. In 1985, two Canadian banks went bust in Alberta — that country's equivalent of Texas. Previously, no bank had failed since 1923. The Alberta firms, both founded in the oil boom of the mid-1970s, were small and undiversified, resembling U.S. banks more than the five nationwide giants that have 80 percent of Canadian deposits.

Canada instituted compulsory deposit insurance in 1967 despite the protests of its large banks, who foresaw that it would be their premiums that would pay for small rivals such as the Alberta banks. The government guarantee helped convince depositors to let the Alberta banks take imprudent risks with their money. The failure of the Alberta banks threatened to deplete the deposit insurance fund. To prevent a run on the two banks, the Canadian government pressured the big banks to take them over. When losses turned out to be larger than expected, the government backed out of its previous assurances to the big banks (which technically were not binding), causing them to bear the costs of the

small banks' bad management.

Unrestricted nationwide branch banking, such as Canada and other countries have, is scheduled to arrive in the United States in 1991. That will be too late to save hundreds of ailing banks and thrifts. Congress should remove barriers to branching now. In particular, it should allow any bank to buy any savings and loan. (Currently, banks can buy only ailing savings and loans.) Small banks and savings and loans would oppose such a step, because it would make them takeover targets for expanding money-center and "super-regional" banks. But the alternative for many of them is to go broke, putting further strain on the Federal deposit insurance system and on taxpayers.

Deposit insurance has repeatedly proven not to be self-financing under our artificially fragmented banking system. On the other hand, it wouldn't be necessary under a less regulated banking system. Ultimately, Congress should set a date — say, ten years hence — to abolish deposit insurance. At the same time, it should tear down the walls it has erected separating banking from securities, insurance, and commerce. Banks should be allowed to spread risk across lines of business just as branching enables them to spread risks across regions.

American banks are suffering at home and in world competition because they cannot engage in many profitable lines of business open to their foreign competitors. Given freedom, the U.S. banking system can become strong and flexible enough not to need deposit insurance. The alternative is to suffer another crisis when changing economic needs run up against outmoded regulations.



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2. James B. Forgan, "Should National Bank Deposits Be Guaranteed by the Government. . . ?" Address to the Illinois Bankers' Association, June 11, 1908. (Chicago: First National Bank of Chicago, n.d.), p. 3.

3. FDIC, *Annual Report*, 1952, pp. 59-72; Eugene Nelson White, *The Regulation and Reform of the American Banking System, 1900-1929* (Princeton: Princeton University Press, 1983), pp. 188-222.

4. FDIC, *Annual Report*, 1950, p. 67; Victor L. Saulsbury, "The Current Status of Non-Federal Insurance Programs," *Issues in Bank Regulation*, Spring 1985; *FDIC Regulatory Review*, Sept.-Oct. 1987.

5. Catherine England, "Private Deposit Insurance That's Worked," *Wall Street Journal*, June 18, 1985, p. 30.

6. William M. Isaac, "International Deposit Insurance Systems," *Issues in Bank Regulation*, Summer 1984, p. 80.

Privatize Deposit Insurance

by Jeffrey Rogers Hummel

Amidst all the groping and furor over the savings and loan crisis, no public official has pointed a finger at the ultimate culprit. The Bush Administration admits that the nation's ailing S & L industry will cost the government at least \$90 billion. That would be the most expensive bailout in U.S. history—bigger than those for Lockheed, Chrysler, New York City, and Western Europe (through the Marshall Plan) combined, even after adjusting for inflation. But contrary to popular perceptions, the crisis stems not from too little regulation, but too much. It all can be traced to the perverse influence of government deposit insurance.

The federal government first insured deposits in reaction to the Great Depression. A scramble for currency among depositors had led to runs on nearly 10,000 banks. This liquidity crunch forced otherwise solvent institutions into emergency sales of their assets. Unnecessary bank failures, a one-third collapse in the money supply, and deflation were the result. To protect the economy from future panics, the newly established Federal Deposit Insurance Corporation (FDIC) guaranteed small depositors against any losses.

Comparisons with other countries now suggest that the regulations already existing in the 1920s were responsible for the precariousness of the American banking system. Canada, for example, permitted its commercial banks to open branches nationwide and had yet to set up a central bank. Not one Canadian bank failed during the Great Depression.

However plausible the justification of deposit insurance for U.S. commercial banks, it certainly

did not apply to savings and loan associations. Unlike banks, S & L's at that time didn't offer checking accounts or any other deposit that served as a medium of exchange, nor were they plagued by runs. Yet S & L's got similar guarantees with the establishment of the Federal Savings and Loan Insurance Corporation (FSLIC) in 1934.

Government deposit insurance may have dampened the danger of bank runs, but only at the cost of incurring another danger. Private insurance companies have long been aware of what is called "moral hazard." If you protect someone from the painful consequences of risk, he will have less incentive to avoid risky actions. Insurance against fire or automobile accidents thus can be so complete that it fosters carelessness and leads to more fires and accidents.

One way insurance companies get around the moral-hazard problem is with a deductible, which makes the insured bear some of the cost of risky actions. Private insurance companies also vary premiums according to actual risks; otherwise they lose money. Government deposit insurance, in contrast, ignores these sound principles. It therefore subsidizes risk-taking by depository institutions. They pay the same premium regardless, and their depositors have no financial reason to impose market discipline by doing business elsewhere.

Not until the 1980s, however, did this moral-hazard time bomb explode. Pervasive government regulation protected banks and S & L's from competition while simultaneously restricting their portfolios to safe assets. Only after the inflation and climbing interest rates of the 1970s required these institutions to bid actively for de-

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posits did the government initiate financial deregulation. Unfortunately, deregulation did not go far enough. By leaving deposit insurance untouched (except to raise coverage), it rewarded the managers of banks and S & L's who gambled with their depositors' money. All the colorful headlines about cowboy bankers and corporate swindlers overlook the way that the regulatory environment distorts the normal market curbs against such behavior.

Government favoritism for insolvent banks and S & L's aggravates the crisis. If the FDIC and FSLIC were truly interested in protecting the small depositor, they would close insolvent institutions and pay off the depositors directly. Instead, they usually arrange purchase and assumption agreements that merge failed institutions with healthy ones. Big depositors are protected as well as small in a short-term solution that merely compounds long-term difficulties.

The crisis has reached such epic proportions among S & L's that the FSLIC no longer has enough resources even to arrange bailout mergers. Growing numbers of bankrupt institutions continue to compete with sound S & L's, driving the interest paid to depositors still higher. Genie Short and Jeffrey Gunther of the Federal Reserve Bank of Dallas point out in a recent study that "such policies penalize the more conservatively managed institutions over the more aggressive ones."

Indeed, no regulatory sleight of hand can magically transform bad loans into good. Without enough income from these loans, the failed but still operating "zombie" institutions can pay interest to their current depositors only with money from new depositors. The regulators thereby sanction an escalating chain letter that makes the final accounting ever more expensive. When they take over an S & L themselves, the regulators still are powerless to do anything else without outside funds.

None of the Administration's proposals address the root cause. Attempting to re-regulate the S & L industry by imposing, for instance, higher capital requirements, will simply destroy it. Market forces already are unleashed. The competitive survival of banks and S & L's compelled financial deregulation. The regulatory haven that gave banks and S & L's a tidy market-sharing arrangement cannot be reconstructed.

If Congress increases insurance premiums, the sound institutions will be the ones to pay. This will further punish the very kind of management that should be encouraged. Nor can government ever adequately administer variable premiums. "A rational system of risk-based insurance premiums offered monopolistically by a public agency is simply impossible," argues Gerald O'Driscoll of the Federal Reserve Bank of Dallas. Without the feedback of profit and loss, bureaucrats have neither the information nor the incentive for matching premiums to risk.

And foisting the cleanup bill on the taxpayer is not merely unjust but also tempts politicians and bureaucrats to try the same scam again. How much longer will the taxpayer be expected to cough up the cash for the government's self-serving and disingenuous pledges? How much higher will the price tag have to soar? Unfortunately, some undeserving group must take the hit for the irretrievable S & L losses, but the depositors at least voluntarily assumed a risk when they accepted fabulous political promises at face value. If the depositors want compensation, let them turn not to the much-abused and long-suffering taxpayer but to the managers of the failed S & L's, perhaps to the sale of government assets, and ultimately to the personal liability of the politicians and bureaucrats who perpetrated this outrage.

Only one solution can overcome moral hazards in the banking and thrift industries: private deposit insurance. The government must dissolve the FDIC and FSLIC and remove all remaining regulations upon depository institutions. The first step would permit the competitive forces of the market to arrange actuarially sound insurance that protects depositors without subsidizing insolvency. The second step would help depository institutions gain the geographical and asset diversity necessary to shore up liquidity during runs.

The S & L crisis is just the tip of the moral-hazard iceberg. Although not yet visible, deposit insurance creates the same perverse incentives for commercial banks. The FDIC already rates 10 percent of these institutions in the problem bank category, within an industry with \$2 trillion worth of deposits. Unless deregulation proceeds to the privatization of deposit insurance, the nation soon faces a larger crisis throughout the banking industry. □

Personal Responsibility: A Brief Survey

by David C. Huff

"Freedom cannot be separated from responsibility."

— HENRY GRADY WEAVER

The idea of personal responsibility lies at the heart of a free society. When responsibilities are shunned at the individual level, there is an eventual impact on all those around us.

Let us examine some examples from key areas of public policy. In each case it should be clear, as Henry Grady Weaver has noted, that "Any attempt to give to government the responsibilities which properly belong to the individual citizens works at cross-purposes to the advancement of personal freedom. It retards progress—morally as well as along the lines of greater productivity."¹

Before the beginning of government-supported education, parents fulfilled the duties of training their children in a variety of ways. While home schooling and church-based schools were common, education was also available through educational missionary societies, especially for the poor.

Interestingly, private and home schools haven't been eradicated by today's massive network of state-controlled education. One reason is that private education is responsive to the demands of the market—its survival is dependent upon its performance. If a particular school isn't educating students effectively, it will be replaced by one of better quality.

Educators in private schools tend to have more time to devote to teaching, meeting the requirements of parents rather than those of the

education bureaucracy. Such a focus will always produce a better product—in this case, a quality education.

When parents began to delegate educational responsibilities to the government, a decline soon followed. A variety of educational options were lost through standardization; academic excellence gave way to decreasing quality; freedom of mobility and choice became hindered by such tactics as busing.

Probably the most sobering aspect of what happens to freedom when the personal responsibility for education is handed over to the state is the issue of authority. As Gary North has written:

Naturally, parents have to delegate responsibility to someone. Few parents have the time or skills to educate their children at home. But the fundamental principle of education is the tutor. . . . Parents hire specialists to teach their children along lines established by parents. The private school is simply an extension of this principle, with several parents hiring a tutor, thereby sharing the costs. But the parents, not the tutor, are institutionally sovereign. Since sovereignty must bear the costs, education should be parent-financed. Anything else is a transfer of authority over education to an imitation family.²

Since the transfer of authority involves the transfer of control, the impact of our decisions in the area of education warrants serious examination.

Our prisons, and indeed our entire criminal justice system, would benefit greatly from a

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stronger emphasis upon personal responsibility. A philosophy of offender rehabilitation which simply attributes criminal acts to the "environment," while concentrating resources primarily on building more prisons, misses the crucial issues of responsibility and restitution. This helps explain the failure of most prisons to reform their inmates for a successful return to society.

The weaknesses inherent in such environmental determinism should be replaced by policies that require convicts to make adequate restitution to their victims whenever possible. Financial restitution, for instance, could be paid by the prisoner from his earnings through work in some type of prison industry. Coupled with sentencing that accurately reflects the degree of offense, thereby teaching accountability, such a program would encourage lasting rehabilitation based on personal responsibility.

As Charles Colson has pointed out: "... working with the purpose of paying back someone you have wronged allows a criminal to understand and deal with the real consequences of his actions. . . . Studies of model restitution programs demonstrate that they greatly reduce the incidence of further crime, since they restore a sense of individual responsibility, thus making the offender more likely to be able to adjust to society."³

The trend away from personal responsibility has also become evident in the health care and social service fields, where the state is increasingly viewed as a surrogate parent owing benefits to its citizen-children. Attempting to fulfill these demanding expectations, governments at all levels churn out program after program—Social Security, welfare, food stamps, Medicare, and the like.

This effort also generates an array of legislation aimed at businesses, forcing them to bear an increasing share of the costs of many forms of employee protection and benefits. In turn, these added expenses are passed along to consumers, both through outright price increases and bureaucracy-induced inefficiencies.

As with other services, health care and social welfare programs are most effectively provided by the private sector. Cotton Lindsay has written: "Long before governments took an active role in

this area churches and charitable groups cared for the poor. I have seen no evidence that their health or anyone else's is better served now by our own or any other form of government medicine."⁴

Few areas of public policy impact our daily lives in so many tangible ways, and yet are more misunderstood and debated, than the broad field of economics. But it is here that the principle of personal responsibility has especially wide application. For instance:

- One of the foundations of free enterprise is the incentive of profit, as well as the risk of loss, for the entrepreneur. The entrepreneur's success or failure in the marketplace hinges on how responsibly he controls costs, manages workers, and guides his business toward satisfying the consumer. Government intervention or redistribution, in whatever form, hampers the accurate measure of a businessman's effectiveness in these areas. This allows marginal businesses to stay afloat by avoiding the market's consequences for their inefficiencies.

- Government unemployment programs are rife with abuse, allowing people to live off the state while taking an excessive amount of time to find employment. Such a situation rarely encourages workers to gain new, marketable skills, but it does allow responsibility to slip from the individual to the state.

- Taxation makes it difficult for many citizens to meet their personal financial responsibilities. As time passes, more and more families adopt an attitude of resignation, and fall back on government aid.

The concept of personal responsibility pervades every area of our public lives. Those who would promote the principles of freedom should always be alert to this concept, and seek to understand the importance of its application. □

1. Henry Grady Weaver, *The Mainspring of Human Progress*, (Foundation for Economic Education, 1953), p. 61.

2. Gary North, *Unconditional Surrender: God's Program For Victory*, 2nd ed. (Tyler, Texas: Geneva Divinity School Press, 1983), p. 95.

3. Charles Colson, "Crime and Restitution," *Policy Review*, No. 43 (Winter 1988), p. 18.

4. Cotton Lindsay, Clemson University, quoted in "Medicare and the Myth of Equality," by Mark D. Hughes, *The Free Market* (Ludwig von Mises Institute, September 1988), p. 3.

Thomas Erskine: Advocate of Freedom

by Sean Gabb

Though largely now forgotten, the name of Thomas Erskine (1750-1823) deserves a place in the heart of everyone who values freedom and the rule of law. But for his resolute stand in a moment of crisis, the subsequent course of English history might well have been very different—and very much less an inspiration to other peoples.

I speak of England, though Erskine, in fact, was a Scotsman. He was born the youngest son of the tenth Earl of Buchan. His father's title was grand, but his life was otherwise. The family lived, on £200 a year, in an upper apartment in one of the less fashionable areas of Edinburgh.

Taught at home, and then in various local schools, Erskine received what, by the standards of his day, was a patchy education. From his earliest boyhood, he read both widely and deeply in the English classics. But his Latin was never more than moderate, and he had no Greek. For a while, he studied mathematics and natural philosophy at St. Andrews University, but left before he could matriculate.

Though he wished to enter one of the professions, his father was too poor to assist him. Unable even to afford a commission in the army, in March 1764 he joined the navy as a midshipman aboard the *Tartar*. He sailed at once for the West Indies, and didn't see Scotland again until he was an old man.

He passed four years stationed in the West Indies, where he continued to read widely. He left the navy on failing to gain a promotion, and, his father now dead, laid out his entire legacy on a

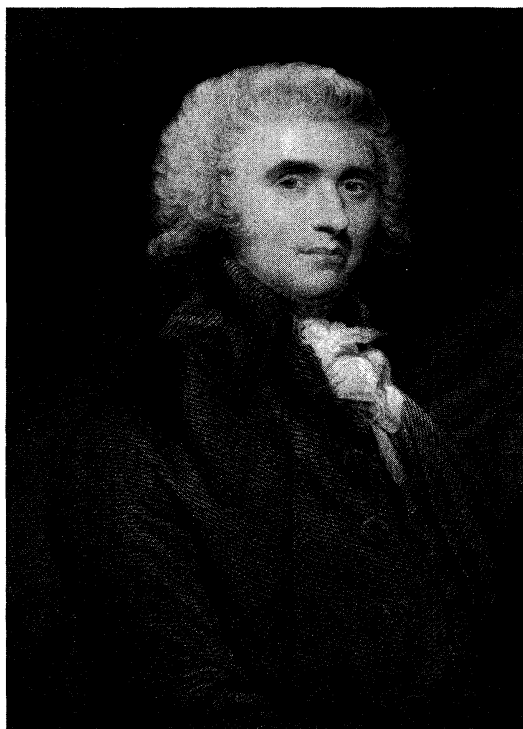
Mr. Gabb, a civil servant in London, writes for several British journals.

commission in the army. About this time he married. The next two years he spent with his wife on garrison duty on the island of Minorca, then a British possession.

In 1772 he went on leave to London. There, through his noble connections and engaging manner, he gained easy entry into polite society. He became acquainted with Samuel Johnson, James Boswell, Edmund Burke, Edward Gibbon, and the other great names of what was perhaps the most brilliant age of English prose. Shortly after, however, he made an acquaintance no less grand, but of infinitely greater importance to his future career.

One day, acting on a whim, he strolled into a courtroom where Lord Chief Justice Mansfield was presiding. Mansfield no sooner looked on Erskine than was captivated by his appearance. He went so far as to invite the young man to sit beside him on the bench and have the case in progress explained. His interest aroused, Erskine decided to take to the law. He enrolled in one of the Inns of Court, which are the ancient law schools situated on the north side of the Thames between the cities of London and Westminster. In spite of financial hardship and a growing family, he pressed forward with his studies, being called to the English bar in July 1778.

Within a few months, poverty was behind him. This occurred quite by chance. One Thomas Bailie had accused Lord Sandwich, a Government minister, of corruption. Sandwich began a suit for criminal libel—a type of civil action that could end not only in damages but also in imprisonment. Out for an evening walk, Erskine was caught in a rain shower. He took refuge at the



THE BETTMANN ARCHIVE

Thomas Erskine, 1750–1823

house of a friend, where Baillie was part of the company sitting down to dinner. The two struck up a friendly conversation. The next day, Baillie retained Erskine as one of his defending counsel.

The trial opened badly. Baillie's other counsel had advised settling out of court. Told by Baillie to fight the case to a finish, they used up an entire day in raising fine points of law. Next day, as the Solicitor General was about to reply, Erskine got to his feet. He found courage, he later said, by thinking of his children about him, plucking at his gown and crying for bread. In any event, he made a ferocious, if not entirely regular, attack on Lord Sandwich. His eloquence and bearing were such as to throw the court almost into a trance of amazement. Against all expectations, Baillie won. Erskine had achieved instant fame. Work flooded in, and he was a made man.

In 1779, he defended Admiral Lord Keppel on a charge of incompetence in the face of the enemy. (Great Britain at this time was at war with its American colonies and a coalition of European powers.) His defense succeeded, and he was given £1,000 by Keppel, an enormous fee.

Two years later, he defended Lord George Gordon on a charge of high treason. Gordon,

whose mental state varied between the eccentric and the insane, had raised the London mob against the Government for having brought in a bill relieving Roman Catholics from some obsolete penal laws. Crying "No Popery," the mob had gone on a three-day looting and burning spree, which came to an end only with the arrival of armed troops diverted from embarking for the American War. Gordon's fate seemed assured. The court had sat all day and all evening, and, when Erskine opened to the jury, it was past midnight. But his speech, together with his manner of delivery, was so persuasive that he secured Gordon a complete acquittal.

Erskine continued his spectacular progress through the 1780s. He specialized in commercial law and—there being no regular divorce law until 1857—actions for adultery, or what then was called "criminal conversation." In 1783, Lord Mansfield's influence ever behind him, he was made a King's Counsel, receiving the coveted silk gown at an unusually early age. In the same year, he was appointed Attorney General to the Prince of Wales, a personal friend of his. By 1791, his annual income had reached an incredible £10,000. He was the highest paid counsel in the history of the English bar. It is not, however, on these successes that his claim to immortality rests.

The French Revolution

The French Revolution is an event too well known to need retelling. Everyone knows how it began with the fairest hopes, and slid into the frenzied bloodbath of the Terror. Certainly, the Old Regime was radically bad, and, when its financial collapse in 1788 showed the world exactly how bad, it was plain that only drastic reconstruction would do. But, of all conceivable groups, what became the French political class was perhaps the least suited to carry through any kind of reconstruction. Its collective head was stuffed with theories of absolute natural rights, applicable without regard to circumstances. As for practical wisdom, there was none. No institution that had existed before 1789 was left standing.

The results perhaps were inevitable. An established order, whatever its intrinsic merit, usually commands a certain respect. New ones have no such advantage. Approval depends on estimates of personal benefit. If everyone approves, all is

well and good. But anyone who disapproves has no restraining sense of loyalty. Given enough disapproval, the seeds are there for civil war. So it was in France. What consensus there was broke down over reform of the Church. At the same time, relations with the other European states drifted into war. This gave the extremists their chance, and what they called saving the Revolution involved butchering 370,000 French civilians.

The effect of this outside of France was to kill the European Enlightenment stone dead. For nearly half a century, it had been increasingly the fashion among the continental monarchies to preach, if not always to practice, a rather timid liberalism. After 1789, the mood changed. If as a practical doctrine the Rights of Man were a failure, their abstractness made them supremely portable. Wherever there were intellectuals able to read French, the revolutionary doctrines found an audience—and there were governing classes ready to take fright. Censorships were toughened, spies and informers encouraged, secret police established or reformed.

The intellectual tone of the old age had been set, in large degree, by Voltaire and his followers. The intellectual tone of the new, when it finally emerged, was set by the sonorous, if vapid, Chateaubriand, by the fanatical de Maistre, by the various Germans. Unless we are to see the metric system as sufficient reward, the French Revolution must be accounted an unmitigated disaster for European civilization.

The reaction in England, if less extreme than elsewhere, was nevertheless considerable. For some 30 years there had been a movement within the British Dominions dedicated to making government more responsive to the wishes of the governed. Its American branch had grown powerful enough to bring about a successful war of independence.

Efforts in England were concentrated on a reform of Parliament. The electoral system had evolved over three or four centuries, and now showed no obvious rationality. Manchester and Sheffield, towns fast growing wealthier and more populous than many foreign capitals, were unrepresented. Old Sarum, with seven electors, and Gatten, with two, each returned two Members.

Elections were usually an occasion for spectacular corruption. In some places, candidates bid openly against each other for votes. In others,

seats were the virtual property of the wealthiest local family. The reform movement was widespread. In 1785, the Prime Minister himself, the younger William Pitt, introduced a modest Bill to redistribute seats. It failed, but the general idea, before 1789, seemed to be on the practical political agenda.

Events in France at first encouraged the reform movement. Here, after all, was a people casting off the chains of a thousand years, and advancing further toward liberty than the English had moved in a century. In their enthusiasm, the more radical reformers not only began a habit of fraternal correspondence with the French political clubs, but sometimes of following the new French habit of calling each other Citizen this and Citizen that.

This, however, was about the limit of approval for things French. Leaving aside an insignificant minority, the reformers knew that a revolution in England was neither necessary nor possible. Everything they wanted already was in the Constitution, only waiting until successful persuasion could bring it out. But, French veneer or none, advocacy of reform was fast going out of fashion.

Seeking Out “The Enemy Within”

Open hostility was first articulated by Edmund Burke. He saw on what wretched foundations the new order in France stood. In exposing them, he created the first great masterpiece of English conservative thought. As his predictions of the course of French events came true, the possessing classes took alarm. The reformers increasingly fell under suspicion of plotting revolution. After France declared war on England early in 1793, alarm ripened into panic, and the cry went up for suppression.

Pitt's Tory government found all this highly convenient. Arguments over France and domestic reform already had split the Whig opposition. Giving in to public opinion would only consolidate the Tory position. The radical reformers already were harried and spied upon. Now, defeat of “the enemy within” became a priority.

In the middle of 1794, the Government pounced. The reform leaders were arrested and their papers seized. The Habeas Corpus Act was suspended. Charges were made of high treason.

This was defined as having distributed the works of Tom Paine and the other radical philosophers, of having corresponded with the French Assembly before the outbreak of war—and therefore of being men of violent intention.

Anywhere else in Europe, the accused no sooner would have come under suspicion than been arrested and thrown without charge into prison. Any trials would have been held in secret, and for no better purpose than gathering names for other arrests. Those arrested in Scotland, for example, which had a legal system based on Roman law, and where juries were chosen from the bench, had the merest pretenses of trials.

In England, however, the accused had full benefit of the law. They were allowed counsel. Packing juries was difficult. Court proceedings were reported in the press. But, as some modern instances bear witness, even the best safeguards of justice can be ineffective against a general panic. By 1794, the mob had turned “patriotic,” and assaulted anyone so much as suspected of radical intentions. There was perhaps only one man alive capable of taking on the prosecutions for high treason and defeating them.

Erskine was a Whig by birth and by conviction, and the close friend of Whig leaders Charles Fox and Richard Brinsley Sheridan. He had entered Parliament in 1783. Strangely enough, he never shone there. In court matchlessly eloquent, in the Commons, he was a wretched speaker—on one occasion even breaking down so badly that another had to continue for him. But he contrived to serve his ideals at the bar. In libel suits, he continued to submit that the question of whether or not a publication were libelous was for the jury and not the judge to decide. This led to the passing of Fox’s Libel Act in 1792.

In Defense of Tom Paine

Erskine had visited France in 1790, and returned to England favorably impressed by the Revolution. His opinion of the Revolution changed over time, but his hatred of persecution never wavered. In 1792, he undertook the defense of Tom Paine on a charge of seditious libel. The second part of Paine’s *Rights of Man* had come out earlier that year. The first part was left to circulate freely. But its sequel was alleged to insult the Constitution and the Royal Family, and

moves were begun to suppress it. The trial began in December, the Attorney General prosecuting.

Erskine’s speech for the defense had been a month in preparation, and was the greatest he had delivered so far. “[E]very man,” he asserted, “not intending to mislead, but seeking to enlighten others with what his own reason and conscience, however erroneously, have dictated to him as truth, may address himself to the universal reason of a whole nation, either upon the subject of governments in general, or upon that of our own particular country.”¹

For all its magnificence, his speech was an utter failure. He was heckled throughout by the jury. As soon as he sat down, the foreman rose and stopped the trial. The Attorney General could reply if he wished, the foreman said contemptuously. But nothing more was required. A guilty verdict was brought in immediately. For his part in the proceedings, Erskine was dismissed from the Prince of Wales’ service.

He had no better success with his defense the next year of John Frost, a lawyer who had uttered seditious words while drunk. Again, the jury convicted. If, in some other cases, he defeated the Crown, the balance was tilting steadily against the defense in state trials. Erskine knew, when he agreed to defend the reform leaders, that this was a last stand. If he should fail, and the accused be convicted of high treason, the whole principle of limited constitutional government would come into doubt.

The trials opened on October 28, 1794, at the Old Bailey, Lord Chief Justice Eyre presiding. First for hearing was the case against Thomas Hardy. A shoemaker by occupation, Hardy was a comfortable, quiet man just entering middle age. Though not a great writer or speaker, he had helped found a group called the London Corresponding Society in 1791. Its end was parliamentary reform. For this, he stood accused of compassing the King’s death.

Sir John Scott, the previous year made Attorney General, and subsequently known as Lord Chancellor Eldon, prosecuted. He opened with a tremendous speech nine hours long. Hardy’s acts were examined in minute detail, and treasonable intents deduced from them—a desire to import into England all the squalid horrors of the French Terror. Seized papers were read out, and the worst construction put on them. Scott

then examined the Crown witnesses—Government spies, informers telling evidence as they were paid. Set out over five days, the prosecution case had an obviously strong effect on the jury.

Erskine opened for the defense in what seemed an even weaker position than in Paine's case two years before.

His speech is beyond description. It must be read. He tore the Crown's case in pieces. Treason, he reminded the jury, was strictly to plot against the King's life, not simply to offend his government. Much had been said about Hardy's "further intentions" beyond reform, but a court of law had to proceed on facts, not on probabilities. "I am not vindicating anything that can promote disorder in the country," Erskine said, "but I am maintaining that the worst possible disorder that can fall upon a country is, when subjects are deprived of the sanction of clear and positive laws."²

The seized papers, Erskine pointed out, indicated a desire to reform Parliament, not to overthrow it. As for the oral evidence, it was worthless. Erskine paid particular attention to the testimony of George Lynam, a Government spy: "He professed to speak from notes, yet I observed him frequently looking up to the ceiling. When I said to him, 'Are you now speaking from a note? Have you got any note of what you are now saying?' he answered, 'Oh no, this is from recollection.' Good God Almighty! Recollection mixing itself with notes in a case of high treason."³ He spoke for seven hours, his voice finally dying away to a near whisper. He had done his absolute best, and it was enough. All that remained of the trial was secondary. The jury was out for three hours, but returned with an acquittal.

The Government persevered. John Horne Tooke was tried next. An elderly clergyman, he was a friend and colleague of the Whig leaders, and had been working for parliamentary reform for 20 years. That he could have been a traitor was absurd. The proceedings sank from high drama to farce. Erskine let Tooke largely conduct his own defense. At one point, the Prime Minister was compelled to attend on a writ of subpoena. Had he and Tooke once collaborated in bringing forward a reform bill? Pitt twisted and equivocated. The public gallery rocked with laughter. It was a very sullen William Pitt who went back to Downing Street and the conduct of the war

against France. The jury was out eight minutes, then returned another acquittal.

Still the Government persevered. John Thelwall, a young agitator, was the next to go on trial. He genuinely admired the French extremists. Had he been tried first, rather than Hardy, the prosecutions might have gone differently. But he came after, and Erskine already had shattered all belief in the Crown case. The Lord Chief Justice is said to have slept through the prosecution speech. The jury acquitted nearly automatically. The other radicals were released, all charges dropped. Certain of gaining convictions, the Government had drawn up 800 arrest warrants, of which 300 were signed. These were now scrapped.

Hardy's defense costs amounted to £25. In this, as in the other two cases, Erskine had given his services free of charge.

He lived nearly another 30 years, but his later career was an anticlimax. He became Lord Chancellor in 1806, but, ignorant of equity law, failed in the post. Thereafter, he passed his time in often unhappy idleness. His total earnings from advocacy had amounted to £150,000. His Chancellor's pension was £4,000 a year. But, ever careless of money, Erskine invested much of his fortune in very bad American stock, and lost every penny. He was reduced first to embarrassment, then to actual poverty. He died in Scotland, on a visit to his elder brother, the eleventh Earl, and is buried in the family tomb at Uphall, Linlithgow.

But whose life would not be an anticlimax after the glories of 1794? The Government remained firmly in power. It brought in new laws against conspiracy and seditious libel. It did its considerable best to suppress the reform movement. It had also learned that, whatever the situation abroad—or even in the other two kingdoms of the British Crown—power in England was confined within certain impassable limits. Panicked by the example of France, the Government had opened the Pandora's box of proscription. Singlehandedly, Thomas Erskine slammed that box shut so tightly that it has never yet been reopened. The debt owed him by the English people is incalculable. □

1. *A Complete Collection of State Trials*, various editors, London, 1809-1826, vol. xxiii, col. 414-415.

2. *Ibid.*, vol. xxiv, col. 936.

3. *Ibid.*, col. 962.

Racial Tensions: The Market Is the Solution

by David Bernstein

“Relations between ordinary white and black Chicagoans, measured by the everyday small talk of people crossing paths, seem, if anything, to have become more cordial in the years since this city began pitting white candidates against black candidates. But in local politics . . . this city seems clearly to be moving closer and closer to a two-party system. And it is not the Democrats against the Republicans.”

So concludes an article in *The New York Times Magazine* (February 19, 1989) about the racial animosities stirred up by the mayoral race in Chicago, which pitted a white candidate against a black candidate in the Democratic primary.

Similar troubles are expected this year in New York City, where Mayor Ed Koch, who is white, will face off against Manhattan Borough President David Dinkins, who is black, in the Democratic primary. Both cities' elections have been further complicated by the fact that in each city the black candidate needs the votes of liberal Jews to win, yet in each city black-Jewish political tensions also are on the rise.

There is no question that race relations have improved tremendously in the United States over the past 20 years. Indeed, the *Times* article acknowledges that interpersonal race relations even have improved in Chicago in recent years, despite the political tensions.

So if race relations generally are on the mend, why is this trend not reflected in the political news emanating from our major cities? The an-

swer has to do with the coercive nature of politics.

Politics is a zero-sum game. The winning side gets the spoils, the losers get nothing. Of course, the typical voter actually gains little; indeed, he loses the tax money that goes to pay off the politicians' friends and supporters. Perception, however, is more important than reality when it comes to voting. Voters believe that candidates of their own race will “take care of their own,” so they vote accordingly. Racial tensions therefore are inflamed when an election pits a white candidate against a black candidate.

It is important to contrast the divisive nature of politics with the integrating nature of free markets. In recent mayoral elections in Chicago, the majority of blacks voted for the black candidate, and most whites voted for the white candidate. But in their daily shopping, how many people patronize only members of their own race — or restrict themselves to goods that were made by a particular ethnic group? Any person who makes such a choice will deprive himself of an opportunity to get better products or services from merchants of another race.

The integrating effects of markets can be observed every Sunday and Tuesday during the summer at Aqueduct Race Track near my home in Queens, New York. On those days, the parking lot of the race track is host to a huge flea market. The track is located in a racially troubled area of South Queens, 10 minutes from Howard Beach, site of a racial attack in December 1987.

Yet, every Sunday and Tuesday, people gather from all over the area to buy a wide variety of merchandise. Customers and merchants repre-

sent just about every racial, religious, and ethnic group, and are drawn from every social class. Immigrants from India and Korea mix freely with native blacks, Jews, Italians, and others. The merchants haggle with the customers over prices, and the exchanges sometimes get heated, but in the many years that I have been going to the flea market, I have never seen anything more than harsh words exchanged, and security is minimal.

The Mutal Benefits of Exchange

Why are such diverse people able to get along so well? Could it be that people who go to flea markets are drawn from a more tolerant group than the public at large? Of course not. The flea market brings together about as random a cross section of the population as you can possibly find. I have no doubt that many of the people who frequent the market harbor deep racial hatreds. So why don't these tensions ever blow up? The answer is that the flea market, unlike the political arena, brings people together for their mutual interest.

In a free market, exchanges are made only when each side believes that the exchange is in his best interest. The fact that everyone at the flea market, black and white, rich and poor, benefits from being there is a powerful incentive for people to forget their differences and get along. In the process, racial tensions are reduced, as a wide variety of people are able to observe each other close up and see how foolish stereotypes and hatred are.

Contrast the natural amity of the market to the natural discord of politics. In politics, the side with majority support wins, and forces the unwilling minority to go along. This can't help but cause bitterness and resentment on the part of the minority towards the majority. Moreover, be-

cause politicians have so much power over the everyday lives of individuals, minor political incidents can cause major upheaval.

For example, Steve Cokely, a black resident of Chicago, publicly claimed that Jewish doctors are infecting black babies with the AIDS virus. Normally, Mr. Cokely would be dismissed as a crank, and that would be the end of it. Unfortunately, Cokely was an aide to Acting Mayor Eugene Sawyer, who is also black. Jewish spokesmen demanded Cokely's dismissal. Segments of the black community, wishing to express their defiance off the "white power structure" urged Sawyer not to "give in." After some hesitancy, Cokely was fired, but not before black-Jewish relations were soured, at least in the public sphere. Thus, Cokely's speech, which would have gained little attention if he had been a private citizen, had grave consequences because of the divisive nature of power politics.

It is unfortunate that most of the leading advocates of improved race relations in the United States have been proponents of increased government intervention in the marketplace. As we have seen, free market forces naturally lead to integration and color blindness, because individuals find it in their self-interest to put aside their prejudices. When it comes to politics, however, that same self-interest leads to racial tensions, as each group tries to improve its standing at the expense of other groups.

Relations among individual members of diverse groups are steadily improving, as people see the foolishness of discriminating in the private sphere. But as the public sphere grows ever larger, those gains are limited by political tensions. The shrinkage of government in favor of markets would do much to increase racial harmony in American cities. If you don't believe it, come to the parking lot of the Aqueduct Race Track this Sunday. □

Readers' Forum

To the Editors:

Clint Bolick is warmly to be congratulated on his exceptionally lucid review of Ellen Frankel Paul's *Equity and Gender*, a most timely book (*The Freeman*, February 1989). He is also right to point out—as his sole reservation about the book—that it fails to “claim the moral high ground for adversaries of comparable worth.” In one case, however, even the remedy he proposes concedes too much of that ground. I would like to address this point at the risk of nit-picking with an otherwise exemplary review.

Mr. Bolick suggests that “defenders of the market must . . . expose comparable worth as a paternalistic theory that assumes women are incapable of succeeding on the level playing field guaranteed by the present anti-discrimination laws.” However, if you concede the moral legitimacy of “the present anti-discrimination laws,” I suggest that you have already surrendered the high ground—and consequently undermined your case by accepting the opposition's premises. In reality, the present “anti-discrimination” laws should be repealed as well. It is completely indefensible that an employer who wishes to support the embattled traditional family by favoring married men is now a criminal. Similarly, if an employer believes that women's well-being will be facilitated by deliberately hiring more female employees, he (or she) should be entirely free to do so.

We forget too easily that modern economics was born in the eighteenth century as an outgrowth of a belief in natural law, which led to the conclusion that there are certain things best left to natural processes, including economic decisions. Employment decisions in a



free society—as, except for state oppression of blacks, the United States has always largely been—cumulatively reflect authentic individual choices. Very simply, the crucial reason that men make considerably more (on average) than women is that—as, for instance, a 1982 Harris Poll conducted for Virginia Slims demonstrated—approximately nine out of ten women (in contrast to men) do not desire full-time employment outside the home.

If those who believe that most women do not properly understand their own interests would limit their efforts to persuasion, one could simply address the plausibility of their belief. One could demonstrate its similarity with the Marxist notion of “false conscious-

ness,” and note the contradiction that those holding this view often claim to represent the majority of women. However, when feminists add to persuasion the pervasive coercion of “anti-discrimination” legislation—whether it is called “equal pay for equal work,” “affirmative action,” or “equal pay for work of equal value”—that eternal vigilance which is said to be the price of liberty obliges liberty’s defenders to take a stand, as both Clint Bolick and Ellen Frankel Paul have so eloquently done. I would only caution that this battle cannot be won if one concedes one’s opponents’ premises—and in this case, there is no need whatever to do so, on the contrary, they should be called to account.

NICHOLAS DAVIDSON

New York City

(Note: Mr. Davidson is the editor of *Gender Sanity: The Case Against Feminism* [University Press of America, 1989].)

Ellen Frankel Paul Replies:

Both Clint Bolick and Nicholas Davidson agree that I have somehow failed to “claim the moral high ground for adversaries of comparable worth.” I really thought that I had, but apparently my statement in the Introduction that “justice and equity must triumph over efficiency” was too sketchy to convey my intent. What I meant was that even if the market is most efficient—which nearly everyone concedes—this wouldn’t be enough, in the sense that if comparable worth carried the moral argument that would trump the efficiency case for the market. The final chapter of the book was written to demonstrate that, indeed, comparable worth cannot carry the moral argument, and therefore both considerations of morality and efficiency weigh in on the side of the market. I hope this clarifies my intent, at least, and I will have to leave it to others to judge whether I

succeeded in making the case.

I must confess, though, that I am still puzzled by Mr. Bolick’s criticism that I did not succeed in claiming the high ground, when in the very next paragraph he outlines what I should have argued to claim that ground, and this sketch turns out to mimic precisely the arguments that I did make in *Equity and Gender*, namely “expose comparable worth as a paternalistic theory,” an “elitist concept, denigrating the value of blue-collar jobs,” and “raise the Orwellian specter of a commission of ‘experts’ determining wages in some mystical fashion and supplanting the will of individuals.” Perhaps I’m losing my touch as a writer, but then why did Mr. Bolick commend my “superb ability . . . to take complex issues and translate them into English.” It’s undoubtedly petty of me to carp about a highly favorable review, but I am genuinely mystified by this line of criticism.

With Nicholas Davidson’s point that Mr. Bolick, by implying that the present anti-discrimination laws create a level playing field, has himself conceded the high ground, I am in total agreement. In fact, I am in the process of writing a much more ambitious and comprehensive book than *Equity and Gender* on precisely this topic of the moral legitimacy of anti-discrimination laws. I expect that Mr. Davidson will find this book much to his liking.

ELLEN FRANKEL PAUL

Bowling Green State University

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The Poverty of Communism

by John Chamberlain

Nick Eberstadt calls his challenging book *The Poverty of Communism* (New Brunswick, N.J.: Transaction Books, 315 pages, \$29.95 cloth). For the most part he trains his spotlight on China, Cuba, the Soviet Union, and the satellite countries of eastern Europe, all of which have been under Marxist-Leninist-Stalinist rule for decades. There are, however, plenty of references to countries such as Panama, Chile, Uruguay, Jamaica, and Guyana that have been brushed by Marxist doctrine. This is a wide-ranging book that realizes ideologies go beyond physical boundaries, and it is the better for it.

But Eberstadt is confusing in the way he jumps from eyewitness evidence of poverty in Communist nations to the statistical averages of mortality tables. The eyewitness stuff, which takes us to Solzhenitsyn's Gulag, is dramatic and irrefutable. But the statistical evidence, to my mind, is unreliable.

To do Eberstadt justice, he himself is careful to indicate his skepticism about reliance on official numbers. He says the official Soviet life expectancy figure of 69 years would be lower than the most recent numbers quoted by the World Bank. Moreover, the countries that Eberstadt concentrates on are definitely not above playing politics with health and literacy figures. The Castro regime in Cuba is concerned with AIDS, the incurable disease that has jumped boundaries in sub-Saharan Africa. Since some 300,000 to 400,000 Cubans have been rotated through Africa between 1975 and 1985, there must have been considerable contact between Cubans and blacks in Ethiopia, Angola, and elsewhere. Eber-

stadt says that for "reasons of state" the Castro regime "might well wish to downplay AIDS' source of contagion. . . ."

While Eberstadt is to be commended for his distrust of the Communist use of mortality statistics, there are ironies that he ignores. One irony is posed by the arbitrary notion that fetuses are not living human beings. This allows governments that run their economic systems by top-down planning to exclude abortions from their figures bearing on life expectancy. The Chinese, at the moment, have decreed that their women must be limited to one child per family. Forced abortions are common, much to the dismay of the women. Dismaying or not, they enable the Peking government to make a good stab at controlling the population.

What population control of this drastic sort does is to make the life expectancy figures practically meaningless. If only one child per family is allowed to live, that child might easily have a favored life expectancy. He will get the best available nutrition. If he hits 70 years it will be no surprise. The average of such favored life expectancies would be high. But if the abortions of unnumbered fetuses were to be included in the averages, we would be dealing in negatives.

Skipping to the Soviet Union, Eberstadt says Russian women have an average of six to seven abortions. If these were to be factored into the general statistics, we would get minus-quantity life expectancies.

Despite the prevalence of epidemic diseases in Cuba, the mortality statistics offered in Havana seem to be in line with the general figures for the Caribbean region. But who should get the credit

for this? As Eberstadt knows, the conquest of yellow fever and malaria was a hard-earned by-product of the efforts to make it possible for the U.S. to build the Panama Canal. The French had been defeated by yellow fever. But President Theodore Roosevelt and George Goethals persisted in fighting the yellow fever and malaria mosquitos as the French had been unable to do. Once the scientific knowledge of mosquito control had become common, it was easy for local Havana hospital authorities to move in. Actual credit for finding the cause of malaria belongs to an English physician named Ronald Ross, who had addressed the problem of mosquito control in Secunderabad, India. The "poverty" of Castroite Communism would have been far greater if British and North American capitalism hadn't cleaned up the Canal Zone first.

Eberstadt is chary of making foreign policy recommendations beyond a broad caution that the West must stop "subsidizing the Soviet imperium." He is worried by the fact that "Japanese, European, and even American corporations and government bodies make the Soviet task of controlling its allies far easier than it might otherwise be by granting Moscow financial room to maneuver."

Eberstadt singles out Angola, where Soviet proxies are making "the jungles safe for . . . 'socialism.' This is an expensive task: by some estimates, it costs as much as \$3 million per day. The U.S.S.R. has been spared the necessity of footing this bill. Instead, Gulf Oil has stepped smartly into the breach, and is currently paying \$5 million a day in royalties to the Luanda government." Cuba, in short, has been allowed to spread itself in Africa by a capitalist American concern.

The Poverty of Communism is a combination of essays written at different periods for publication in a variety of magazines. While this gives a disjointed quality to the whole, the general tonal effect is not unduly impaired. The inevitable repetitions are acceptable in their various contexts.

Overall, the book is reassuring to the West. The "poverty" of Communism, described in detail by Eberstadt when he gets away from analysis of statistics that he himself distrusts, is so obvious that one can be sure that Gorbachev in the U.S.S.R. and Deng in China will continue with their cautions, meanwhile allowing capitalistic motivations and incentives to creep in. □

THE THEORY OF MARKET FAILURE

Edited by Tyler Cowen

George Mason University Press, 4400 University Drive, Fairfax, VA 22030 • 1988 • 384 pages • \$21.75 cloth

Reviewed by Jeffrey A. Tucker

Economists favoring government intervention often base their views on "market failures." These alleged failures occur when the free market appears unable to overcome certain barriers preventing goods or services from being satisfactorily provided through voluntary means. Some of these barriers are "externalities," "high transactions costs," or are inherent "public" qualities of the good or service.

The theory of market failure, it seems, has always been with us, but it wasn't until the 1950s that Keynesian economist Paul A. Samuelson, along with other elaborators, defined and formalized it. The argument they gave sounded compelling at the surface, but many scholars later showed it to be, in many respects, fallacious.

"Externalities" are a key part of the theory. They occur when an economic exchange affects someone not party to the original exchange. These can be positive or negative effects. For example, factory pollution creates a "negative externality," but when a neighbor improves his land and your property value goes up, you get a "positive externality."

Not all externalities are cause for worry, however: only those that create a large "divergence between private and social cost" which diminishes, in some mechanistic sense, social welfare at large. The free market can't solve this divergency, some economists say, because the "transactions costs" are too high. The factory, for example, cannot work out a satisfactory deal with every person in a city to correct the negative externality because of the costs involved in contracting, bargaining, and enforcing agreements. Government is therefore needed to correct the problem.

Similarly, the existence of transactions costs also plays a part in creating what economists call public goods, that is, those goods (or services) that everyone wants, but that the market "fails" to provide, because of the good's "special characteristics." Some traditional examples are nation-

al defense, fire departments, roads, and schools.

The lighthouse is a common example of a good that supposedly embodies all the problems associated with public goods. The lighthouse service can't be restricted to paying customers since when the beam is on, every ship in the harbor can see it. This is the condition of "non-excludability"; non-subscribing boaters receive the benefits of the lighthouse (a "positive externality") courtesy of the subscribing boaters. If the service is provided to one boat, it becomes useful to all. This creates what is called "non-rivalrous consumption," which in turn leads to the problems of shirking and free-riding.

Why should some lighthouse customers pay, while others receive a light they are not paying for, that is, when they can free-ride? And as long as there is the chance for free-riding, why shouldn't everyone try to shirk in hopes that someone else will pay for the service? Faced with these problems, say some economists, the market won't provide lighthouses. The only alternative, it appears, is to have the government provide the lighthouse and charge everyone equally for the service through taxation.

Fortunately not all economists accepted the theory of market failure at face value. The classical liberals had long provided critiques of the logic underlying market failure. But the newly formalized neo-classical theory of market failure called forth a formal response. Starting in the mid-1970s, and continuing to the present, a string of brilliant scholars have taken the model apart piece by piece. As a result, this once invincible case for government interference has severely malfunctioned. Some say the theory now stands on the verge of intellectual collapse.

In *The Theory of Market Failure*, Tyler Cowen has collected primary critiques of market-failure theory, most of which appeared in economics journals during the last 30 years, and organized them into an accessible volume. He also includes some previously unpublished essays that are especially notable. Cowen's excellent introduction details the important points of each article, explains the contribution each makes to the literature, and makes suggestions for further research. Contributors include Robert Axelrod, James M. Buchanan, Earl R. Brubaker, Steven N. S. Cheung, Ronald H. Coase, Harold Demsetz, Jerome Ellig, Kenneth D. Goldin, Jack High, Robert W.

Poole, Jr., and Robert J. Smith.

As the contributors demonstrate, the market has an array of ways to overcome its alleged failures. The "special characteristics" of public goods turn out to be not so special, as Goldin points out, since most if not all goods can be supplied with either "restrictive access" or "equal access," which brings into question the inherent "publicness" of some goods over others. Demsetz shows that when "non-excludability" is not in question, as in a movie theater or park, entrepreneurs can charge consumers different prices based on differing consumer values. This allows public goods to be supplied privately. Similarly, Buchanan explains in a now-classic article how private clubs and social groups can provide public goods in ways never imagined by the market-failure economists.

But what about cases where the service of the public good cannot be excluded from nonpaying consumers? As a private solution, these goods can be connected, through tie-in arrangements, to other goods that *are* excludable.

For example, the lighthouse beam is not excludable but space in the harbor is. Harbor owners can charge a fee to boats entering the private port which can pay for the lighthouse. In fact, Coase shows that contrary to the assertions of economists, prior to 1842 British lighthouse services were provided privately through a port-entry charge. Coase concludes that "economists wishing to point to a service which is best provided by the government should use an example which has a more solid backing."

Another example of market failure debunked in these pages is that of the beekeepers and the apple-growers, whose services create externalities for each other (bees both eat and fertilize the apples). Economists use this example to illustrate how taxation and subsidies are the only way to correct some externalities. Cheung, however, demonstrates that beekeepers and apple growers have been arranging private contracts with each other for many years, with no apparent failures in the market.

The same is true for education, another alleged public good that government must provide. High and Ellig show how before the advent of government schools, in both Britain and the U.S., private enterprise did a fine job of providing education, even to the poor. Of special note, their

article describes how the government used public schools to crowd out competitive private ones. The contributions of Poole and Smith show how the “market failures” of fire protection, public parks, and nature conservation also have been privately provided.

As a caveat, most of the contributors to this volume are neo-classical economists and therefore assume the postulates of “perfect competition” and utility scales that are interpersonally measurable, both of which are untenable in a world of action. For a more fundamental critique of market failure, one that takes into account the insights of subjectivism, readers must look toward economists writing within the tradition of Austrian economics.

Cowen’s volume is nonetheless an outstanding research tool. Many economists will continue attempting to justify government intervention by pointing to “market failures.” But this collection puts them on the defensive. Their claims will not be regarded as self-evidently true, as they were only a few years ago. □

Mr. Tucker is a fellow of the Ludwig von Mises Institute.

MONOPOLY MAIL: PRIVATIZING THE U. S. POSTAL SERVICE

by Douglas K. Adie

Transaction Publishers, Rutgers University, New Brunswick, NJ 08903 • 1989 • 197 pages • \$34.95 cloth, \$19.95 paper

Reviewed by Melvin D. Barger

Once a venerated and honored government institution, the U.S. Postal Service is steadily losing public favor and support. With amazing speed, private competitors have outgunned it for market share in package and bulk mail, while the resourceful overnight services have created a new industry out of time-sensitive letters. The Postal Service has a last bastion of defense in its legal monopoly of first-class mail, but even that position is now under sustained attack. Either the Private Express Statutes that protect this monopoly will be repealed, or new electronic technologies may simply bypass the USPS and leave it with a shriveled husk of its former empire.

How did this come about? *Monopoly Mail*,

sponsored by the Cato Institute, traces the major currents of change that are converging on the Postal Service. Author Douglas K. Adie, an Ohio University economics professor who took his doctorate at the University of Chicago, leaves little doubt that the current USPS is in great peril. And he insists that there’s virtually no alternative but to change the organizational structure of the Postal Service. The only really workable solution is some form of privatization that will enable the service to survive and compete.

Professor Adie also offers convincing evidence that the legal mail monopoly—a seeming advantage—has been the Postal Service’s Achilles’ heel. The traditional justification for a government postal monopoly was its “public service” status and the need to bind the country together with effective communications. Whether this reasoning was sound or not in earlier days, Professor Adie shows that it’s certainly outmoded in this day of multiple communications systems. He also shows that early private postal ventures were widely patronized and had the healthy effect of forcing the government service to improve its practices.

Private postal companies eventually disappeared, however, with passage and strict interpretation of the Private Express Statutes. The postal monopoly also prevailed because it had strong Congressional support that only began to wane in the 1960s. With the Postal Reorganization Act, which became effective in 1971, an exasperated Congress tried to shed its responsibility for the service and to make it a self-supporting government corporation.

Though it resembles a private corporation in form, the new USPS has never functioned like one. While losing ground in other classes of deliveries, the USPS still holds a monopoly on first-class mail which enables it to shift a large part of its costs to this group of users. Postal managers also have been either unwilling or unable to innovate, and efforts to improve or speed mail handling often fail. The worst malady is soaring labor costs which now comprise about 84 percent of postal expenses. The postal managers have been ineffective in opposing the demands of the powerful postal unions or were undercut later when arbitrators granted liberal increases. As a result, according to Professor Adie, USPS employees now get about 35 percent more pay than they

would receive in comparable private sector employment.

While the postal unions are still powerful enough to resist direct cuts and changes, they cannot prevail indefinitely. Professor Adie believes, for example, that the Reagan Administration's success in facing down the air traffic controllers' (PATCO) illegal strike set a new pattern in labor relations for Federal employees. Any President with enough backbone now has the public's support in resisting high pay discrepancies and refusing to support useless institutions.

There are also some excellent lessons for the Postal Service in the AT&T divestiture, in the deregulation of airlines, and in Canadian and British experiences with privatization and/or deregulation. Professor Adie shows how each change has been beneficial in its way.

The use of the AT&T example for monopoly divestiture is a bit ironic, because some of us once cited the Bell system as a standard while criticizing the poor performance of the Postal Service. We know today, however, that AT&T looked good only in comparison with government communications systems around the world. Once shed of its monopoly, AT&T could no longer force one class of telephone users to subsidize other classes. Market realities also force AT&T and others to move more quickly with innovations that will cut costs and improve service.

If the government finally elected to divest the Postal Service, how could it be done? Professor Adie does not propose selling the Postal Service as a single unit, because he feels its very size would make it too much of a competitive threat (as others feared AT&T would be if deregulated and left intact). He suggests spinning off its five regional divisions as independent Postal Operating Companies (POCs). This would precede the repeal of the Private Express Statutes, and might give the POCs breathing time to become competitive with the new delivery systems and technologies that would arise to challenge them in the market. Professor Adie goes on to suggest other methods that might characterize the new POCs and their processes for working together. He also argues that a privatized Postal Service would offer tremendous opportunities for profits. This prospect, of course, would tend to enhance the share prices of the new POCs following initial offerings.

What's most needed, however, is not a detailed plan for carrying out privatization, but simply a decision to do it. The postal unions and other vested interests still have some power to block a direct Congressional move to privatize the Postal Service. What they don't have is the muscle to block new technologies that are coming on-stream as alternatives to first-class mail deliveries. The USPS and its unions also are in deepening trouble with the public, which is tiring of disproportionate increases in first-class mailing rates. And now they face the reality of new books, like Professor Adie's, that deal with private mail as an idea whose time has come. □

Mr. Barger was a business writer associated with Libbey-Owens-Ford Company and one of its subsidiary firms for nearly 33 years.

THE AMERICAN JOB MACHINE

by Richard B. McKenzie

Universe Books, 381 Park Avenue South, New York, NY 10016
1988 • 274 pages • \$24.95 cloth, \$12.95 paperback

Reviewed by Robert W. McGee

The issue of "jobs" has become a sacred cow. Politicians, business and labor leaders all advocate creating more of them, yet nobody dares advocate destroying them. But this outlook is shortsighted, as Richard McKenzie points out. Creating jobs is easy—just outlaw farm machinery. If the health of an economy is measured by the number of jobs its citizens have, then China should have the strongest economy on earth. Yet it does not, partly because of an absence of farm machinery.

Economies grow stronger through what Joseph Schumpeter called creative destruction. Some firms go out of business while others are born. By not allowing some companies to fold, government prevents resources from being freed for more productive uses. This book points out some unrecognized advantages of job destruction. The central message is that job creation and job destruction go hand in hand.

McKenzie destroys a number of myths about the U.S. economy. The pace of economic change is not accelerating, although increases in productive efficiency have enabled more workers to go into the service sector. Concern over the expansion of the service sector is mostly unwarranted

and misplaced. We are not becoming a nation of hamburger flippers.

Part of the problem lies in how we classify goods and services. Hamburgers are goods when purchased in a supermarket, but they are services when bought in a fast food restaurant. Computers are goods when they are purchased, but are part of a service when leased. Truck drivers are classified as manufacturing workers when they move their company's goods from one site to another, but are service workers when they work as independent contractors to transport the same goods.

America is not de-industrializing. Manufacturing output has varied between 20 and 24 percent of GNP rather consistently over the past 40 years. Yet manufacturing jobs, as a percentage of total employment, have been declining because companies can produce more goods with fewer workers, and because businesses have been changing the way they produce goods. For example, some accounting, payroll, and data processing functions that formerly were done internally have been contracted out to independent providers. The result is that jobs in the "goods" sector have declined while jobs in the "service" sector have increased. Yet the same jobs are being performed for the same companies. Furthermore, the relative decline in goods-producing jobs has not caused a general downward shift in income.

Government officials in recent years have stated that the displaced worker problem is large and that government should play a more active role in reducing this problem. Yet an analysis of the statistics shows that most displaced workers soon find jobs. Attempts to alleviate the problem, such as plant closing laws, may actually make matters worse.

The proliferation of low-income employment is generally seen as bad. But McKenzie shows that such a view is simplistic. One reason for the increase in low-income jobs is that the baby boom generation has entered the work force, and

they had to start at the bottom, just like everybody else. Also, many students and housewives have entered the job market on a part-time basis, and older workers are cutting back to part-time work rather than retiring completely. The result is often that family income has improved, although the statistics show that more individuals are earning low pay.

The trade deficit "problem" may not be a problem at all. The trade deficit is measured by the difference between imports and exports, so a decline in exports will increase the trade deficit if imports remain constant. Yet exports may decline because an expanding internal economy has siphoned domestically produced goods away from world markets. American producers are selling to other Americans rather than to foreigners. So a trade deficit can be caused by an expanding domestic economy—which is a sign of economic health rather than sickness. McKenzie points out that attempts by government to restrict imports also have a tendency to hamper exports, so restrictions on trade tend to be self-defeating.

Many jobs in the textile and apparel industries have disappeared in recent years. But few of the job losses, especially in textiles, have been caused by imports. Mechanization and increased productivity have caused most of the job losses, and increased productivity has come about partly because of worldwide competition. Reducing the pressure of foreign competition by imposing trade restrictions will reduce the incentive to find additional ways to be more productive. In short, imposing trade restrictions is counter-productive.

In the final chapters, McKenzie exposes some fallacies in the popular thinking on minimum wage laws, government retraining, and mandated fringe benefit programs. The common thread that runs through each chapter is that government intervention and "tinkering" in the economy retard rather than expand employment. □

Professor McGee holds a law degree and teaches accounting at Seton Hall University.

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AUGUST

1989

VOL. 39

NO. 8

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

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The Freeman is the monthly publication of The Foundation for Economic Education, Inc., Irvington-on-Hudson, NY 10533 (914) 591-7230. FEE, founded in 1946 by Leonard E. Read, is a nonpolitical educational champion of private property, the free market, and limited government. FEE is classified as a 26 USC 501 (c) (3) tax-exempt organization. Other officers of FEE's Board of Trustees are: Thomas C. Stevens, chairman; Ridgway K. Foley, Jr., vice-chairman; Paul L. Poirot, secretary; H.F. Langenberg, treasurer.

The costs of Foundation projects and services are met through donations. Donations are invited in any amount. Subscriptions to *The Freeman* are available to any interested person in the United States for the asking. Additional single copies \$1.00; 10 or more, 50 cents each. For foreign delivery, a donation of \$15.00 a year is required to cover direct mailing costs.

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Bound volumes of *The Freeman* are available from The Foundation for calendar years 1969 to date. Earlier volumes as well as current issues are available on microfilm from University Microfilms, 300 North Zeeb Road, Ann Arbor, MI 48106.

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.

FAX: (914) 591-8910

The Johnstown Flood

This year marks the 100th anniversary of the great flood that inundated Johnstown, Pennsylvania, on May 31, 1889, killing 2,209 people. Donald Dale Jackson, writing in the May 1989 issue of *Smithsonian*, describes the relief efforts:

"At a time when federal disaster relief didn't exist, Johnstown's recovery was achieved through one of the greatest private charity campaigns ever mounted. The American Red Cross, only recently founded, won renown as a national disaster relief agency for its work in Johnstown. . . .

"By . . . June 2, railroad crews had repaired the tracks connecting Johnstown to Pittsburgh, 55 miles west. By then the press and the initial detachment of relief workers were in town, Americans were starting to read the first shrill dispatches from Johnstown and a cavalcade of help was on the way. . . .

"The exhaustive press coverage stimulated a rush of private benevolence that eventually threatened to overwhelm Flood City. Food, clothing, medicine and other provisions began arriving immediately. Morticians came—Johnstown's first call for help requested coffins and undertakers. Demolition expert 'Dynamite Bill' Flinn and his 900-man crew cleared the wreckage at the stone bridge. At its peak the army of relief workers totaled about 7,000. They carted off debris, distributed food, erected temporary housing and occasionally made a heartening discovery—a parrot named Bob was found alive in the wreck of one house, complaining that it had had 'a devil of a time.' "

On Speculators

Manias such as the Tulipmania, the South Sea Bubble, the Mississippi Bubble, the Gold Panic of 1866, the stock market crashes, and violent swings in the value of the dollar are frequently cited as examples of occasions when speculators contributed to instability and imbalance. But who could do the job better?

Selected government officials might want to see a different outcome. But their track record of setting prices is invariably one of famines, end-

less shortages of what people want, and gluts of dull, low-quality products. The bureaucrats have little incentive to improve or innovate.

When speculators are wrong, however, they are punished severely for their mistakes by losses. Over time, the large speculators would tend to be those who were most prescient in their calculations. Through competition, the energies and talents of numerous speculators — all inspired by their selfish desire to profit — are channeled into the public good.

— VICTOR NIEDERHOFFER

Control or Economic Law?

Shortly before he died, the noted Austrian economist, Eugen von Boehm-Bawerk (1851-1914), wrote a brilliant article, "Control or Economic Law?" He carefully dissected market operations, analyzing the effect of coercive outside interferences. Government intervention doesn't suspend the Law of Price, he concluded; it merely alters the conditions under which it operates.

By changing the available alternatives, government coercion affects individual choices. Production plans must be revised, and purchasing decisions have to be altered. Nevertheless, the Law of Price continues to prevail: The price of every good traded still falls somewhere between the top price a potential buyer is willing to pay and the bottom price at which a potential seller is willing to sell.

Today's market prices are affected by countless government regulations, taxes, and subsidies. Yet when trades take place in spite of these interventions, the prices agreed upon by seller and buyer still comply with the Law of Price; they still reflect the respective values of buyer and seller.

In Brazil, where inflation is rampant and controls have been placed on the prices of many items, eggs, among other products, have disappeared from the shops. But enterprising street peddlers now offer eggs at about twice the controlled price, \$2 per dozen. Although illegal and

exorbitant in the eyes of the Brazilian price controllers, this price serves consumers and conforms with the Law of Price. It is above the peddlers' minimum acceptable price and below the maximum price the buyers are willing to pay.

When our government started requiring seat belts and pollution control devices on automobiles, the manufacturers' asking prices rose. Of course, potential buyers weren't pleased by the increase. Some dropped out of the market, settled for used cars, or turned to other means of transportation. But the Law of Price still prevailed. Although fewer cars were sold at the higher prices, and fewer consumers were served, those higher prices were still below the top prices the actual buyers were willing to pay.

In India, government approval and licenses are needed to operate most sizeable businesses. Large manufacturers must spend a great deal of time lobbying in New Delhi, which increases their costs and compels them to raise their asking prices. These higher asking prices, in turn, cause some potential buyers to drop out of the market.

However, one Indian soap manufacturer has avoided the need for licensing and has benefited from tax breaks available to small firms. He manufactures on a small scale with hand labor at several locations and economizes on packaging. His price falls below the maximum price that many potential buyers on the Indian market are willing to pay, and he has become India's largest detergent maker.

There is no denying that government interventions affect market prices. If coercion raises costs, producers must ask higher prices. Fewer items will be sold, and fewer consumers will be served. Yet although today's mongrel prices are blends of market forces and government coercion, they do nothing to refute the Law of Price. The prices at which goods and services are exchanged are always above the bottom prices of the sellers and below the top prices of the buyers. Economic law prevails.

— BETTINA BIEN GREAVES

Gray Markets and Greased Pigs

by John Hood

Hailing a taxi in Boston can be tricky. It helps to be pushy, even rude. Tight city regulation of taxicabs has kept their number at 1,525 since 1934. Because government has prevented supply from rising to meet growing demand, there's an artificial taxi shortage.

But the story doesn't end there. Business travelers and tourists can still find transportation in Boston. Hotels, such as the Bostonian Hotel downtown, have begun operating their own limousines to take guests to airports, eateries, or other destinations around town. "I could not in good conscience sit there in the hotel watching guests stand on the street for 30 minutes to get to an airport that is five minutes away," Tim Kirwan, manager of the Bostonian, told *The Washington Post*.

Markets are resilient. Try as they might, government and the special interests they protect (in this case, the cab companies) can't completely suppress the forces of competition. By limiting one particular choice, they only direct enterprising people toward others. The result is either a black market, in which completely illegal transactions occur, or what might be called a "gray" market, in which firms substitute legal options for banned ones—either with the tacit acceptance of authorities or without their knowledge—thus defeating the intent of regulation.

John Hood is a reporter/researcher at The New Republic.

Gray markets exist in many areas, such as zoning regulation (where business- or residential-only labels are routinely circumvented), but are perhaps most visible in the transportation field. In New York, for example, about 15,000 "gypsy cabs" operate in poor, minority communities, mainly in Queens, Brooklyn, and the Bronx. Strict regulation for half a century has limited the number of cabs in New York to 11,787. Consequently, over 600 "black car" livery companies have sprung up to bridge the gap between demand and legal supply.

Such companies are supposed to cater only to phoned-in customers, but many drivers take off their livery license plates (designed to help taxi commission inspectors spot them) and cruise the streets as "gypsies." These cabs do business not only because of the general taxi scarcity throughout the city, but also because some yellow cabs won't venture into unsafe areas to pick up minority customers.

Phone-in livery services are becoming a competitive force in many cities that regulate the number of taxicabs, such as Chicago and Atlanta. While not really illegal, they do circumvent the intent of regulations by giving taxis a run for their money.

Another form of competition—jitneys—has sprung up in Pittsburgh and Los Angeles. A jitney is a station wagon or small van that makes better use of miles traveled by carrying more than one passenger at a time. They were prevalent across the country in the early 1900s,

but threatened transit and cab companies succeeded in outlawing them in most cities.

Their illegal status doesn't hinder them much. In Pittsburgh, for instance, jitneys dominate the transport market: if the jitneys cut prices, the legal taxis do, too. And like New York's gypsy cabs, jitneys provide service to neighborhoods shunned by the regular taxi fleets.

Of course, though governments may not be able to eliminate certain products or services from a market, they can make them more expensive. A "gypsy" ride in New York can sometimes cost two or three times what the same trip would cost in a yellow cab. Cab owners in Atlanta were even able to get a price floor codified in law: \$50 a trip for limousines and \$40 a trip for corporate cars, about three times what each would cost in a free market. (Jitneys, though, can sometimes offer lower prices than taxis, because they can carry more than one passenger at a time.)

Like alcohol and drug prices during times of prohibition, prices for illegal services rise because of increased risks to providers and lack of consumer information. Established interests count on the higher prices to reduce their competition, if they can't get outright bans enacted and enforced. Even so, services that circumvent regulations — like New York's gypsy cabs — flourish. Consumers are willing to pay more to get the services regulated monopolies won't provide.

The artificially higher prices, though, do mean a loss of efficiency in the market. Consumers still buy more in goods and services from regulated industries, like the taxi companies, than they would if competition were freer.

Black and gray markets may seem a bit unseemly and corrupting, but they actually make up a large and crucial segment of our mixed economy. In some Third World countries they produce most of the goods and services, including food and other essentials. In such countries, government power is employed not only excessively but arbitrarily to favor political cronies. Enemies are taxed into bankruptcy, while valuable assets and capital are seized for "the good of the state." This creates so much uncertainty that businesses

either leave (if possible) or go underground.

It may appear that the state, able to drive a business underground with its power to tax and regulate, exerts great control over the country's economic life. But that misses the point—that there is always an underground, even in totalitarian societies like the Soviet Union, to which embattled businesses may flee.

A Losing Battle

Government is fighting a losing battle when it grapples with the discipline of the market. There's no real mystery about why this is so. Free enterprise is not some fragile, delicate experiment in constant need of protection. It does not have to be imposed or fostered. It is, in short, the natural order of things.

Coercive government, on the other hand, needs constant attention and tinkering. Consider how difficult it is for government to maximize its revenues. As supply-siders have shown, hiking tax rates won't always increase revenues because, among other factors, higher-income taxpayers lose their incentive to work and invest. Any increase in tax rates, in fact, sets off a market reaction that can actually reduce tax revenues. Witness, for example, the current controversy over capital gains taxes. The same principle applies to regulation. There is no shortage of ways to compete with a regulated monopoly, but there's only a limited number of ways government can restrict competition. Insulate an industry from competition, and the resulting price increases and drops in service encourage consumers to substitute other products or services. And rest assured—firms will pop up to provide them. Frustrated regulators must feel like they're chasing a greased pig.

Government action can't eliminate market forces; it can only distort them. Sure, government's attempt to tax or regulate producers out of existence has disastrous side effects. But they are, indeed, only side effects. The goal—to drive "illegal" competition out of the marketplace—is rarely achieved. Government just can't catch the pig. □

Crime and Consequences

by Robert James Bidinotto

Summary of Part I: The exploding crime rate of recent decades coincided, ironically, with (1) massive growth in government programs, intended to eradicate alleged "causes" of crime, and (2) sweeping changes in the criminal justice and corrections systems, intended to supplant punishment with inmate "rehabilitation." These supposed "reforms" actually increased incentives for criminal irresponsibility. The result: more crimes than ever go unpunished.

The reforms were implemented by an "Excuse-Making Industry" of social scientists. Their deterministic theories "explained" criminality by blaming it on social, psychological, and biological forces that they claimed were outside the criminal's control. It was shown that criminal acts are based on free-will choices of individuals: the criminal is both morally and legally responsible. But this is not the premise upon which today's criminal justice system operates.

Part II: The Criminal Justice System

The criminal justice system's failure to provide justice was inevitable, given the deterministic premises of its modern architects. Criminologists Wilson and Herrnstein explained, "The modern liberal position on criminal justice is rehabilitative, not retributive, because the offender is believed to have been driven to his crimes, rather than to have committed them freely and intentionally. . . ."¹

Some "reformers" have even made their antipathy toward traditional conceptions of justice explicit. Here, two of them express acute discomfort with the classical symbol, Justitia—the familiar courtroom figure, robed and blindfolded, holding her scales and sword:

"Though excellently symbolizing impartial, even-handed, and effective justice generally, Justitia is ill-equipped to meet our current de-

mands from penal sentences. . . . From her left hand she should drop the scales and put in its place the case history, the symbol of the full psychological, sociological, and criminological investigation of the individual criminal. Her right hand will find very little use for a sword in the modern penal system. . . . Around her knees she would be well advised to gather the adolescent social sciences. . . . Finally, it is essential that she remove that anachronistic bandage from her eyes and look about at the developments in society generally. . . ."² A new kind of justice—"social justice" or "distributive justice"—was to replace the "anachronistic," Justitian sort. Since men were helpless playthings of circumstances, and since circumstances impinged upon men unequally, it was the moral duty of government to intervene and redress the resulting "injustices." Government, according to Excuse-Makers such as John Rawls, was not to be society's impartial umpire, but rather its meddling therapist.

This outlook, largely a legacy of Rousseau's

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view of human nature,³ spawned the redistributionist welfare state. "If you are bright, accomplished, famous, well-off, virtuous—you're just lucky, you had nothing to do with it, you didn't deserve any of it. Likewise, if you are stupid, lazy, corrupt, poor, mediocre, even criminal—you can't help that, either. Therefore, 'distributive justice' requires that the government level the playing field."⁴

It also led logically to "a culture of instinctive 'sympathy for the devil,' " as one historian put it, "a feeling that criminals in this society are as much victims as victimizers, as much sinned *against* as sinners—if not more so."⁵

Hence the Excuse-Maker's curious double standard toward crime: "sympathy for the devil," and simultaneous indifference toward crime victims. If no one can help being what he is, then the (usually) "lucky" and "privileged" middle-class crime victim merits only marginal concern. However, the "unlucky" and "underprivileged" criminal is a chronic victim of circumstance, and deserves our full sympathy and compassion. The logic of determinism, then, requires an *inversion* of traditional justice.

This has produced several major social consequences, all mutually reinforcing.

The criminal justice system began supplanting punishment with leniency and "rehabilitation." As early as 1949, the U.S. Supreme Court stated that retribution was "no longer the dominant objective of the criminal law," and was to be replaced by "reformation and rehabilitation."⁶ Soon, police were also handcuffed by new court rulings favoring criminal suspects who, even if convicted, were quickly recycled into society. Meanwhile, redistributionist social spending programs abounded, punishing productivity, thrift, honesty, independence, *responsibility*—while rewarding idleness, profligacy, chiseling, parasitism, *irresponsibility*.⁷ To make matters worse, such programs also diverted badly needed funds from the criminal justice system.

Today's justice system is an afterthought in governmental spending priorities. According to the American Bar Association, "The entire criminal justice system is starved for resources. Less than 3% of all government spending in the United States went to support all civil and criminal justice activities in fiscal 1985. This

compares with 20.8% for social insurance payments, 18.3% for national defense and international relations, and 10.9% for interest on debt. Less than 1% of all government spending went into operation of the Nation's correctional system (including jails, prisons, probation, and parole)."⁸

Thanks chiefly to the Excuse-Making Industry, police are underfunded and undermanned to face the ever-mounting crime wave; court dockets are flooded with impossible caseloads; jails and prisons are filled to overflowing. This puts pressure on the entire system to incarcerate as few criminals as possible, and to release them as quickly as possible. Thus, the Excuse-Making Industry has undermined the system both morally and practically.

Subverting the Quest for Truth

Since the premise of the Excuse-Makers is that "the criminal is a social victim," they see Constitutional rights *not* as a shield to protect the innocent from predators, but as a buffer between a "victimized" criminal class and the "injustice" of punishment. Byzantine procedural formalities, purportedly to guarantee the "rights" of the accused, now take precedence over the quest for simple truth and justice.

Confessions: The Miranda Decision⁹

On June 13, 1966, by a 5-4 decision, the United States Supreme Court rendered its now-famous *Miranda v. Arizona* decision. Supposedly based on the Fifth Amendment to the U.S. Constitution, which states that "No person . . . shall be compelled in any criminal case to be a witness against himself," Miranda twisted these simple words beyond recognition.

The Court held that even *voluntary, uncoerced* confessions by a suspect in police custody would no longer be admissible as evidence, unless the police first warned him that (1) he had the right to remain silent, (2) anything he said might be used against him in court, (3) he had the immediate right to a lawyer, and (4) he could get a free lawyer if he couldn't afford one. The suspect then had to

expressly waive those rights before any questioning could proceed. Should police make the slightest omission or error in this ritual, any evidence they get can be thrown out, and the suspect can "walk."

In this single decision, four veteran criminals, convicted after voluntarily confessing to separate crimes, had their convictions overturned. The first was a three-time convict who admitted to a robbery after being identified by two victims. The second forged stolen checks from a purse-snatching in which the victim was killed. The third, a veteran bank robber, confessed after being told of his rights, but didn't *explicitly* waive them first. The fourth, arrested for kidnapping and rape, was identified by his victim, and later confessed "with full knowledge of my legal rights, understanding that any statement I make may be used against me." He hadn't, however, been formally advised of his right to have a lawyer present.

Even though these confessions weren't "involuntary in traditional terms," wrote Chief Justice Earl Warren for the majority, "in none of these cases did the officers undertake to afford the appropriate safeguards . . . to insure that the statements were truly the product of a free choice."

By what convoluted reasoning could such voluntary admissions be construed to be coerced? According to the Court's majority opinion, "In each of the cases, the defendant was thrust into an *unfamiliar atmosphere* and run through *menacing* police interrogation procedures. The *potentiality* for compulsion is forcefully apparent, for example . . . where the *indigent Mexican defendant* was a seriously disturbed individual with pronounced sexual fantasies [author's note: the man had been judged mentally competent to stand trial], and [where] the defendant was an *indigent Los Angeles Negro* who had dropped out of school in the sixth grade." [Emphasis added]

This is the deterministic language of the Excuse-Maker, brimming with thinly veiled editorials about poverty and racism, regarding even a *confessed criminal* as a helpless pawn of social pressures. (By contrast, the rape victim was coldly described as "the complaining witness.")

As for the remark about "menacing police

interrogation procedures," the Court admitted that, "To be sure, the records do not evince overt physical coercion or patent psychological ploys." So, what was coercive? Dissenting Justice Byron White angrily noted, ". . . in the Court's view in-custody interrogation is *inherently* coercive. . . ." [Emphasis added] Observe the deterministic premise: we must assume that the suspect had little or no free will, and that his confession was thus involuntary, unless police somehow proved otherwise.

Often a suspect, feeling guilty or anxious, wants to unburden himself. Thanks to *Miranda*, at that point police are obliged to buck up his flagging courage and nagging conscience with repeated reassurances about his right *not* to cooperate. Justice John Harlan, another *Miranda* dissenter, protested that "the thrust of the new rules is to negate all pressures, to reinforce the nervous or ignorant suspect, and ultimately to discourage any confession at all. The aim, in short, is toward 'voluntariness' in a utopian sense. . . . One is entitled to feel astonished that the Constitution can be read to produce this result."

Furthermore—as the Court noted in subsequent cases—*Miranda* not only prohibited direct questioning without the suspect's prior permission, but also banned even indirect comments between police officers in his presence which were "reasonably likely to elicit an incriminating response." Any oblique police "appeal to . . . 'decency and honor' " in the suspect, charged Justice Thurgood Marshall, was "a classic interrogation technique." This is a perfectly logical outgrowth of the determinist premise. Since the suspect is presumed to be powerless in the face of his emotions, any appeal to these omnipotent emotions is itself "coercive." Thus, the Excuse-Makers construe the Constitution as protecting a criminal *even from his own guilty conscience*.

Miranda dissenter Justice White warned at the time, "In some unknown number of cases, the Court's rule will return a killer, a rapist or other criminal to the streets . . . to repeat his crime whenever it pleases him." That, of course, is precisely what has happened.

In late 1968, the suspected murderer of a missing ten-year-old girl was warned five separate times of his *Miranda* rights, and remained

silent. Later, on a drive with the police, one officer remarked that the girl's parents would be relieved if they could find her body, and give her a "good Christian burial." The suspect, feeling guilty, then offered to lead them to the child's body, and was later convicted of murder. But the Supreme Court—again by a slim 5-4 vote—ruled that the policeman's statement amounted to unwanted interrogation, and that the case had to be retried. (Thanks to this ruling, the case was not resolved for over 15 years.)¹⁰

In California, a man beat a college co-ed to death. Read his *Miranda* rights, including his right to have a lawyer present, he waived them all and confessed. Yet a California appeals court threw out his conviction, because when arrested he hadn't been allowed to consult *his mother*.¹¹

In Pennsylvania, a man who admitted clubbing to death his mother, sister, and grandmother was set free, because the arresting officer told him that anything he said could be used "for or against" him. The court ruled that the word "for" made the confession inadmissible.¹²

In Texas, a girl was shot dead after agreeing to testify in a drug case. The suspect refused a lawyer, but was assigned one anyway. Read his *Miranda* rights, he again refused a lawyer. He chose to plea bargain, signed a detailed confession, and took police to the murder site. Despite this, a judge, citing Supreme Court decisions, threw out his confession—*because no lawyer had been present*.¹³

The cost of such procedural utopianism is incalculable: it lies not just in convictions dismissed and overturned, but in confessions never made. Forty percent of murder convictions depend upon voluntary confessions by the perpetrator.¹⁴ It is crucial, then, that police be allowed to ask questions without first begging the suspect's permission and encouraging his resistance. Yet *Miranda* equates "questions" with "coercion."

A reconstituted Supreme Court returned partly to its senses in 1984. Its *Quarles* decision exempted police from having to give *Miranda* warnings in situations where there was an immediate danger to the public, and found that confessions obtained under such circumstances

could stand in court.¹⁵ But *Miranda* itself remains, an infamous legal legacy of the Excuse-Making Industry, and a major impediment to the pursuit of truth.

Evidence: Exclusionary Rules

Not only may confessions be excluded from criminal proceedings: so may any other sort of evidence.

The Fourth Amendment requires that only on "probable cause" may search warrants be issued, specifying the place to be searched, and the evidence sought. However, until 1914, even evidence illegally seized could be used in a criminal trial. That year, the Supreme Court ruled otherwise, and in 1961 (*Mapp v. Ohio*) extended the Federal exclusionary rule to the states.¹⁶

The consequences have been appalling. The Bureau of Justice Statistics and National Institute of Justice estimated in 1983 that up to 55,000 serious criminal cases are dropped annually, thanks to the exclusionary rule. These released criminals are free to prey on innocents again: half of those set loose on exclusionary-rule grounds have been rearrested within two years.¹⁷

In 1964, a 14-year-old girl was brutally murdered in New Hampshire. Finding the bullet had come from a rifle of the prime suspect, police went to the state attorney general who, under then-existing law, was authorized to issue search warrants. With this warrant, they found further incriminating evidence, and the suspect was tried and convicted. Seven years later, however, the U.S. Supreme Court reversed his conviction, on grounds that the attorney general, as a prosecutor, was not a neutral judicial party. Since his search warrant was invalid, the incriminating evidence from the search had to be thrown out, too. Here, police "erred" due to good-faith obedience to existing law; but—as Supreme Court Justice Benjamin Cardozo had once noted—"The criminal is to go free because the constable has blundered."¹⁸

As in the case of *Miranda* confessions, the Supreme Court, in 1984, finally allowed some "good-faith" exceptions to search-and-seizure exclusionary rules. But that did not prevent it



from allowing the guilty to escape in other cases.

A bullet fired through the floor of a squalid Phoenix apartment struck a man below. Entering the suspect's apartment, investigating officers found three weapons, a stocking mask, and two sets of expensive stereo equipment. Common sense warranted suspicion, and an officer lifted a turntable to get the serial number. Routine checking confirmed that these were, indeed, stolen items, and they were seized as evidence.

However, Arizona courts ruled that, though police had the right to enter when responding to the shooting, they did not have the right to seize the stereos, *since these were unrelated to the gunfire*. Had their serial numbers been in plain view, the evidence would have been admissible; but *touching* them violated the suspect's Fourth Amendment rights. In 1987, the Supreme Court upheld this decision by a 6-3 vote.¹⁹

Justice Hugo Black once wrote that such decisions seemed "calculated to make many good people believe our Court actually enjoys frustrating justice by unnecessarily turning professional criminals loose to prey upon society with impunity." He had a point.²⁰ After all, the purpose of the courts is to determine truth and administer *justice*. That can't happen if *facts*—however obtained—are selectively excluded from fact-finding proceedings. Yet because the Excuse-Making Industry regards those "driv-

en" to crime as victims, matters of truth and justice are subordinated to a complex procedural etiquette whose alleged purpose is to "level the playing field." The substantive *ends* of the justice system must be sacrificed to new procedural *means*—means to a new *egalitarian* end.

In this light, exclusionary rules and the *Miranda* decision may be viewed as having the same purpose as "affirmative action" rules: to tip the balance scales of "social justice" on behalf of a class of presumed social victims. And, if the *facts* of a given case interfere with that agenda, every effort must be made to *exclude* them from the courtroom.

Subverting the Quest for Justice

Bail and Release on Recognizance

At his arrest or his initial appearance on charges, a suspect may be released on his own recognizance or on bail (assuming charges aren't dismissed outright). In many jurisdictions, a judge can deny bail if a suspect has a criminal record, or seems to pose a danger to the community. In the rest, he can hold the suspect without bail only if there is substantial doubt he'll return for trial. But due to overcrowded cells—and the protests of Excuse-Making "civil liberties" attorneys—many

judges try to minimize the number of criminals held for trial in jail. This often means absurdly dangerous leniency.

Consider a typical case, that of career criminal Philip J. DiCarlo. Wanted on numerous felony warrants in Massachusetts, he was arrested on separate charges in Florida, but freed on only \$2,626 bail. He finally surrendered to Massachusetts authorities. In exchange for a guilty plea, DiCarlo bargained 15 felony burglary charges down to only 8 counts, and got a sentence allowing parole eligibility after only two years. Despite being warned of the man's 20-year adult criminal record, the judge then postponed the imposition of the sentence, and freed DiCarlo on his own recognizance *so that he could be with his family* for the holidays. Showing more common sense than the judge, DiCarlo promptly skipped town.²¹

Other bail incidents are no laughing matter. Despite convictions for two murders, two armed robberies, and an assault, Jerold Green of Philadelphia was nonetheless released on bail while appealing the second homicide verdict. After losing his appeal, Green didn't bother reporting to prison. Instead, while being hunted, he committed a third murder.²²

Or take the case of Steven Judy, imprisoned after three violent crimes involving kidnapping and stabbing during the 1970s. Paroled, he soon committed another robbery—yet was still granted bail. While free, he murdered an Indiana woman and her three children.²³

Such incidents aren't rare. The U.S. Justice Department reports thirty-five percent of those with serious criminal records, and who are freed on bail, either violate their release conditions, fail to reappear for trial, or are arrested for new crimes during the bail period. And this statistic includes only *known* violations.²⁴

Excuse-Making "civil libertarians" argue that the rights of suspects to be freed on bail may be denied based only on "speculation" about their criminal tendencies.²⁵ But as the examples and statistics show, the danger of releasing career criminals is no matter of mere speculation. Career felons should *never* be released on recognizance, or bail. Bail is *not* a fundamental human right, or an end in itself: it's a means to an end. Like the right to vote,

it's only a contextual, *procedural* right, whose purpose is to secure the *substantive* rights of life, liberty, and property.

Everything said about excluding evidence and confessions applies equally here. To defend bail for proven predators as some fundamental right is to subordinate the system's *ends* to its *means*. Judging a man by his past record is both wise and just; and a chronic criminal can claim no "right" to be judged otherwise. This point, however, is lost on those who hold the deterministic, "criminal-as-victim" premise.

Plea Bargaining

In Nevada, a man killed his girlfriend by forcing a large quantity of bourbon down her throat. A good case could have been made for premeditated murder, or at least second-degree homicide. But, in a plea bargain deal, the court allowed the defendant to plead guilty to a reduced charge of *involuntary manslaughter*. In exchange, he received a mere three-year sentence, and was released after only 22 months.²⁶

In a 1981 courtroom deal, a Massachusetts man pled guilty to a charge of raping a female jogger. In return, he was sentenced to 10 years at Concord Reformatory, a sentence which meant a minimum of only *one year* to be actually served. But by the terms of his plea bargain arrangement, he spent only *three days* in jail before being transferred to a halfway house. That surely taught him an encouraging lesson about the justice system. In 1984, he was arrested for burglary and another rape—and became the prime suspect in seven other attacks on women.²⁷

Or consider the young Wisconsin man who confessed to three armed robberies of savings and loan companies. A plea bargain deal placed this dangerous, repeat felon on probation for his full sentence, sending him instead to a "work release" program at the Milwaukee House of Correction. While serving this "sentence," he was driven around town by social workers, allegedly to find a job. Instead, he brazenly robbed two more savings and loan branches. Four days after being released from the program, he robbed yet another.²⁸

These are but a few examples of the thousands of sentencing outrages occurring daily throughout the nation. *If* a criminal is finally arrested after a string of offenses, and *if* the prosecutor decides to accept the case, and *if* police evidence isn't thrown out on "exclusionary rule" grounds—then the criminal's next way to evade justice is to "cop a plea." Today, 80 to 90 percent of all convictions stem from pre-trial guilty pleas, invariably to reduced charges, negotiated between prosecutors and defense attorneys, and rubber-stamped by judges.²⁹

Such cynical maneuvers allow criminals to evade the full penalties of their crimes by receiving reduced punishment or probation; permit lazy prosecutors to enhance their political careers by boasting of high "conviction rates"; let defense attorneys quickly handle a large number of clients (and collect a large number of fees) without ever having to prepare for trial; and (allegedly) help harried judges quickly clear clogged court calendars and jammed jails. It's the triumph of expediency over justice. Everyone leaves the courtroom smiling—except for the crime victims, who, ignored in the proceedings, look on in shocked disbelief and rage, realizing that they have just been mugged again.³⁰

As Wisconsin Circuit Court Judge Ralph Adam Fine observes, plea bargaining is essentially a bribe to the defendant, a "payoff for a guilty plea,"³¹ to entice him not to bother everyone with a trial. As a reward, a rape charge may be reduced (usually without the victim's knowledge or consent) to mere "assault and battery"; and multiple crimes (say, breaking-and-entering, assault, and robbery) may be combined into a single charge (e.g., "assault"). Once the deceit starts, there's no end to it—as in the routine courtroom trick called "swallowing the gun," i.e., reducing an armed-robbery charge to unarmed robbery, by simply *ignoring* the use of a gun in the crime.³² Finally, even the sentences meted out for the remaining reduced charges are usually softened. Multiple sentences often are allowed to be served concurrently, rather than consecutively, letting the criminal pay only once for several offenses; or, with the complicity of a prosecutor, a "first offender" (i.e., one whose carefully edited

record is presented to seem innocuous) may "walk" on a suspended sentence and probation.

The flip side is that the defendant is often made to understand that, should he plead innocent and lose in court, the prosecutor and judge will punish him with *harsher* sentences than he would have gotten if he had "gone along." In this way, even innocent people are sometimes bullied into a guilty plea, and are denied their day in court.

Plea bargaining falsifies the defendant's true criminal record. In the case of the innocent defendant, it gives him the taint of a conviction he doesn't deserve. In the (far more usual) case of a guilty defendant, it makes him look less menacing than he really is, and more worthy of further "breaks" from the next judge he sees.

This, of course, is a clear incentive to criminality. "Should we be surprised," asked former Chief Justice Warren E. Burger, "if the word gets around . . . that you can commit two or three crimes for the price of only one?"³³ The U.S. National Advisory Commission on Criminal Justice Standards and Goals concluded in 1973 that "plea bargaining results in leniency that reduces the deterrent impact of the law." Today, it's also a ruse by which judges and lawyers skirt the tough sentencing requirements of new mandatory sentencing laws for repeat offenders. Prosecutors don't bother telling the judge about a repeat offender's prior record, and the judge doesn't ask. Or, charges are simply reduced in advance, to compensate for the harsher penalties mandated by the actual offense.³⁴

In 1971, the U.S. Supreme Court put its imprimatur on this cynical practice, calling plea bargaining "an essential component of the administration of justice. . . . If every criminal charge were subjected to a full-scale trial, the States and the Federal Government would need to multiply by many times the number of judges and court facilities." The practice, echoes the American Bar Association, "saves time and conserves resources which can be applied to other pending cases."³⁵

But that is nonsense. In 1975, the state of Alaska's attorney general ordered an end to all plea bargaining. Other jurisdictions, such as New Orleans and Pontiac, Michigan, have also

rejected it. They all found that there was no sudden tidal wave of “not guilty” pleas, requiring a trial and swamping the system. In fact, as the National Institute of Justice discovered in a 1980 investigation of the Alaska experiment, “Guilty pleas continued to flow in at nearly undiminished rates. Most defendants pled guilty even when the state offered them nothing in exchange for their cooperation.” Contrary to expectations, cases were actually processed *more rapidly* in each major jurisdiction, and sentences were more severe. As one prosecutor put it, “I was spending probably one third of my time arguing with defense attorneys. Now we have a smarter use of our time.”³⁶

The key was for prosecutors to screen cases carefully *before* defendants were charged. Faced with air-tight cases against them, guilty defendants simply threw in the towel and pled guilty, anyway. In addition, ending plea bargaining put responsibility back into every level of the system: police did better investigating; prosecutors and lawyers began preparing their cases better; lazy judges were compelled to spend more time in court and control their calendars more efficiently. Most importantly, *justice* was served—and criminals began to realize that they could not continue their arrogant manipulation of a paper-tiger court system.

Tough prosecution and sentencing does *not* clog the court system: *it deters crime from occurring in the first place*. Since repeat offenders commit most of the crime, careful case screening and “no-deals” prosecution tend to incapacitate a greater percentage of this group for longer periods—and thus actually *reduce* caseloads in the long run.

That’s the practical side. But more basic is the moral issue: Should the victims of these criminals expect anything less from our system of justice? And should the Excuse-Making Industry be allowed to thwart justice by corrupting the system?

Competency Hearings and Insanity Defenses

The hijacker of a New Orleans bus was found incompetent to stand trial, thanks to psychiatric testimony. Instead of incarceration,

he was released. Fifteen months later, he was back in court—for dismembering his roommate.

A former Connecticut policeman killed his wife, but, due to “expert” psychiatric testimony, was acquitted of murder charges on the ground of insanity. He spent only three months under psychiatric treatment. Five years later, he was arrested once more—for killing his second wife.³⁷

But for irony worthy of Hitchcock, the tale of serial killer Edward Kemper can’t be topped. After shooting both his grandparents as a teenager, Kemper spent the next four years in a mental hospital. In 1969, he was returned to the California Youth Authority, whose “experts” disputed the court psychiatrist’s diagnosis and paroled him to his mother. Later, Kemper was examined by two parole psychiatrists, who recommended that his juvenile records be sealed to let him live a “normal” adult life. One of them wrote: “I see no psychiatric reason to consider him to be a danger to himself or any other member of society.” Yet at that very moment, out in their parking lot, in the trunk of Kemper’s car, was the corpse of his third female murder victim that year.

Due to their “expertise,” there would soon be five more.³⁸

These cases graphically demonstrate that psychiatry cannot really judge the sanity of criminal defendants, let alone predict their future danger to society. Yet psychiatrists play a major role in the criminal justice system. They testify concerning a defendant’s “state of mind” at the time of his crime; judge whether he can grasp the charges against him and assist in his own legal defense; decide (if he’s committed to a mental hospital) when he’s “cured” and “safe” to return to society. By their “expert” testimony in competency hearings, and in “insanity” and “diminished capacity” defenses, they frequently help dangerous criminals escape the wheels of justice.

Criminals found “insane” spend, on average, far less time in custody than do those sent to prison for the same offenses. In New York from 1965-1976, those acquitted of murder by reason of insanity, and subsequently released from mental hospitals, spent an average of less

than a year and a half in custody. (One murderer spent just *one day* in a hospital.) Similarly, New Jersey murderers found insane were released, on average, in just two years. In Florida, those released from mental hospitals following first-degree murder acquittals spent fewer than three years in psychiatric custody; by contrast, those convicted and sent to prison spent nearly ten years in confinement. Meanwhile, other studies have found that over a third of released criminal patients are rearrested.³⁹

Stories of how clever criminals manipulate psychiatrists are legendary. In *Two of a Kind*—a brilliant, harrowing account of the “Hillside Strangler” case—author Darcy O’Brien shows how cold-blooded serial killer Ken Bianchi fooled three prominent psychiatrists by feigning a “multiple personality” disorder. Had he been successful, he would have been sent to a mental hospital instead of prison, staged a miraculous “recovery,” and soon have been released to prey again on young women. But even after a hypnosis expert proved that Bianchi had faked his hypnosis sessions and multiple personalities, the psychiatrists (though not the judge) remained stubbornly convinced that their “insanity” diagnoses had been correct.⁴⁰

Perhaps the most egregious case is that of Thomas Vanda. In 1971, he murdered a 15-year-old girl, but was found “not guilty by reason of insanity” and sent to a mental institution. Released only nine months later, Vanda was soon arrested for the stabbing death of a 25-year-old woman. While in custody, he wrote another jailed murder suspect, advising him how to fake insanity. Vanda told him to offer bizarre interpretations of the famous Rorschach “inkblot test,” to feign “hearing voices” that “told you to do your crime,” and to “act crazy in front of the staff.” A Chicago psychiatrist had already judged Vanda legally insane for the second murder. Shown Vanda’s letter, he *still* insisted he had no cause to alter his finding.⁴¹

After psychiatrist Stanton Samenow and an associate studied dozens of people acquitted under the insanity defense, they concluded that most of them “aren’t crazy at all. . . . They were rational, purposeful and deliberate in

what they did. But they were very astute at conning the system, the courts, the psychiatrists and the hospital into believing that they were mentally ill, thereby beating the charge.”⁴²

Samenow, who has spent years studying criminals first-hand, also dismisses the idea that even the perpetrators of ghastly crimes operate under an “irresistible impulse” or compulsion. “What is habitual is not necessarily compulsive and beyond one’s control,” he warns. “Behind the appearance of uncontrollable impulse lies the stark reality of the offender’s *calculating* and proficient method of operating. . . . From my clinical observations, I have concluded that ‘kleptomaniacs’ and ‘pyromaniacs’ are simply people who enjoy stealing or setting fires.” (As another observer put it, a crime may be sickening, but not necessarily “sick.”)⁴³

Samenow also cites the example of “Son of Sam” serial killer David Berkowitz. After capture, Berkowitz claimed that demons were talking to him through a dog, and had ordered him to kill. Later, he acknowledged he’d been faking insanity. “There were no real demons, no talking dogs, no satanic henchmen. I made it all up via my wild imagination so as to find some form of justification for my criminal acts against society.”⁴⁴

Several courtroom outrages, however, have prompted a new look at the validity of psychiatric involvement in the legal system. One was the infamous diminished capacity, “Twinkie” defense of Dan White, who shot San Francisco’s mayor and a city superintendent in 1978. Despite abundant evidence of premeditation,⁴⁵ the jury accepted psychiatric testimony that (among other excuses) White’s mental control was impaired because of eating junk food. They found him guilty only of involuntary manslaughter. The other major outrage was the murder acquittal of would-be presidential assassin John Hinckley “by reason of insanity.” This led to a reform of Federal law. Before then, prosecutors had to *prove the defendant sane*; now, the defense must prove him insane.

But even this doesn’t get to the heart of the matter. Psychiatrist Lee Coleman warns that “psychiatrists do not have the tools that society

thinks they have. They have no special way of predicting who will commit a criminal act or of determining when a criminal is cured of antisocial tendencies. They have no tests to determine a person's innermost thoughts, even though the courts assume they do." He argues that "psychiatry should be stripped of its state-given powers," by banning psychiatric testimony in legal proceedings, as well as abolishing the "insanity" and "diminished capacity" defenses.⁴⁶

This does *not* mean that judges and juries would be spared the legal task of determining *criminal intent*; only that "in determining what, if any, criminal intent was present, and in deciding punishment, [they] need no help from psychiatrists. . . . A decision on intent should be based on the factual evidence surrounding the crime." A defense attorney would still be free to argue that the defendant was in an impaired mental state during his crime. But evidence would be limited to fact-based testimony of witnesses, citing the defendant's bizarre or irrational statements and behavior.⁴⁷ It would *not* include fanciful theoretical speculations by Excuse-Making "experts," using ink blots and word-association "tests" to decipher the alleged impact of junk food or an over-possessive mother on the defendant's presumed mental state.

This is a common-sense approach to putting objectivity and responsibility back into criminal proceedings.

Probation and Parole

Parole is the release of a convict, under periodic supervision, after he has served only a portion of his sentence. Probation is the conditional release of an individual found guilty of a crime, as an alternative to incarceration, also usually under periodic supervision. Both are used routinely, and both are progeny of the Excuse-Making Industry.

As one criminology text puts it: "Parole can be considered as an extension of the *rehabilitative (and now, reintegrative) program of the prison*. . . . If prisons are, in fact, to be concerned with modifying criminal behavior so that the offender can eventually be reintegrated into society, parole is also supposed to pro-

vide the supervision and assistance that makes successful reintegration possible." [Emphasis in original]⁴⁸

A measure of that "success" lies in the disarmingly high rates of inmate recidivism (i.e., percentages of inmates who commit subsequent crimes after release). A Rand Corporation study found that about half of those sentenced to probation in California were convicted of another crime within three years.⁴⁹ And "success rates for probation," concede its backers, "are generally considerably higher than for parole."⁵⁰ The Bureau of Justice Statistics released a 1985 study showing that 42 percent of inmates arriving at state prisons were on parole or probation for an earlier conviction at their time of arrival. Twenty-eight percent of these would still have been in prison for the earlier offense, had they served out the maximum term to which they were sentenced.⁵¹ This means, of course, that thousands of people were needlessly subjected to robbery, assault, even murder, through the early parole and probation releases of convicted felons.

One example symbolizes them all. Larry Gene Bell had been involved in abnormal sexual incidents since he was a child. In 1975, at age 26, he tried to force a young housewife into his car at knifepoint. Bell plea bargained a deal to avoid prison by undergoing psychiatric treatment. He quit after two visits. Five months later, Bell tried to force a co-ed into his car at gunpoint. A psychiatrist recommended mental hospitalization, but Bell got a five-year prison sentence instead. However, after just 21 months, Bell was released on parole.

Later, on probation, he terrorized a little girl and her mother with obscene phone calls. Result: another plea bargain, and more probation, with orders to see a psychiatrist. He again stopped treatment after a short time. The climax came in 1985, when Bell kidnapped, sexually assaulted, then murdered two young girls. He's now linked to the case of another missing woman, and suspected in the deaths of three more.⁵²

Here we see many tools of the Excuse-Making Industry in action: plea bargaining, psychiatric defenses, early parole, suspended sentences, and probation. And we see the terrible price such policies regularly exact.⁵³

The ideological origins of parole and probation are obvious. There are also pragmatic, cynical considerations motivating their proponents.

Probation is the routine sentence for any first offender, often regardless of the severity of the crime. As in the example above, it's frequently "imposed" even in subsequent offenses. The reason? To free up overcrowded jail and prison cells. In 1985, for example, there were 503,300 state prison inmates and 255,000 Federal prisoners. In the same year, there were 277,400 people out on parole, and a whopping 1,870,100 on probation.⁵⁴

There is an equally cynical reason for parole—namely, control of inmates. Parole is the handmaiden of "indeterminate sentencing"—sentences of indefinite length, with only the maximum specified. As the previously cited criminology text notes, the main reason underlying the development of parole in America was "shortened imprisonment as a reward for good conduct."⁵⁵ By holding out the carrot of an early release, and poisoning the stick of a full sentence over the inmate's head, prison authorities suppress inmate violence. In short, rather than risk the safety of the guards (and the warden's job) in prison uprisings, the prison bureaucrats prefer to risk the lives and property of the public with early releases.

Neither parole nor probation are justifiable, practically or morally. They are a demonstrable failure in reducing inmate recidivism. They undermine the deterrent impact of the law on criminals, while demoralizing crime victims with their outrageous leniency. Most important, they jeopardize public safety. Like the "inmate reintegration" programs to be discussed in the next installment, they amount to playing Russian Roulette with innocent human lives. □

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Private Property: In Need of Historic Preservation

by Lee Ownby

Almost everyone is saddened by the demolition of an old, historic building. But sometimes an old structure becomes the focus of a heated conflict between preservationists and those who wish to exercise their property rights. What is frightening in such a case is that many people fail to appreciate the importance of private property. This was clearly evident in my community when various groups were galvanized toward saving the Baker-Peters House, an antebellum home that had served as a popular restaurant.

The restaurant owners possessed a leasehold interest in the real estate coupled with an option to buy. They were under financial pressure to sell their interest rather than continue operating a restaurant in that location. Their realtors negotiated a deal with a national oil company to buy them out and construct a gas station—requiring the demolition of the old house and removal of two trees believed to be 200 years old. The major historical event that warranted the preservation of the old house—outside of its pre-Civil War architecture—was that it was where its owner, a doctor, had been killed by Union soldiers.

When the prospective sale was discovered,
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the public outcry was immediate; both the restaurant owners and the oil company were castigated for proposing a use contrary to the public will. Outraged citizens asked: Why wasn't there a municipal department charged with alerting the public any time a dwelling such as this was endangered? How could our public officials have failed to protect this important landmark from corporate greed? Letters to the editor, television interviews, and editorials were overwhelmingly uniform in their virulent condemnation of the consummation of a private contract. Very few spoke in defense of the property owners' right to dispose of their interest under terms acceptable to them.

Several proposals were put forward to preserve the landmark. The oil company could donate the house and land in its natural state and register it as an historic site. The company could rearrange its construction plans so as to avoid destroying the house and the trees. A third idea was to relocate the house on the same land or an adjoining tract, with the oil company providing most of the money for the move. Other suggestions included legislation restricting the property as an historical zone, and/or having the owners renounce their property interest and capital investment for the



The Baker-Peters House

LEE OWNBY

public benefit. Finally, the city passed an ordinance requiring a permit prior to the destruction of any old trees within 150 feet of an antebellum home.

Many sincere people believed that the various proposals offered rational courses of action. They denounced the desire to make a profit or suggested that any action other than preservation was a submission to the vice of greed. Most, however, saw no inconsistency in their hope to earn a profit when they sold their own homes.

The efforts to stop the demolition of the old house are a symptom of a growing problem—cultural or historical illiteracy. The goal of preserving historic landmarks is admirable, but the preservation shouldn't be at the expense of values which permitted the creation of an historic site in the first place.

The actions taken and suggested in this instance resembled those of a lynch mob from our not-too-distant past—ordinarily associated with the rather immediate denial of someone's

civil rights without due process of law. The Fifth Amendment prohibits the taking of private property for public use without compensation. A disturbing aspect of this affair was the complete absence of this concept from any public discussion of the event. Many suggestions focused on what the oil company and/or the property owners could contribute for the public benefit. People just couldn't seem to grasp the idea of paying a market price to enjoy an aesthetic benefit.

It is ironic that this landmark—built in an era when most economic liberties were defended by law—today was defended by those who don't seem to recognize the importance of such liberties. In today's cultural environment, the elevation to virtue or the devolution to vice became synonymous with being for or against preservation of the house. That the issue was considered on these terms suggests that some of the values embodied in our Constitution have suffered serious erosion and are in desperate need of historical restoration. □

Private Preservation of Wildlife: A Visit to the South African Lowveld

by Nancy Seijas and Frank Vorhies

It is their three-inch eyelashes that give giraffes their sleepy, serene look. Giraffes blink slowly, their lashes sweeping gracefully down, and then gently back up. Out in the bush of South Africa, this is a common sight. In an area called the lowveld, giraffes stroll right across the road, with a languid, swaying stride that seems utterly relaxed.

Watching the giraffes go by in South Africa, it is dangerously easy to forget about apartheid and the ongoing struggle South Africa faces. Only for a moment, that is. The reality of apartheid cannot be ignored, but there are other aspects of this turbulent country. And there are valuable lessons to be learned.

South Africa's conservation of wildlife teaches one of these lessons. In South Africa, conservation is treated more or less as a business, in which government and the private sector compete. Kruger National Park, a game reserve the size of New Jersey, is owned and run by the South African government. Right on its border is a consortium of 20 smaller game parks, all privately owned. They receive no government funding, and are subject to no specific wildlife regulations.

South Africa is a country, one must remember, where the sphere of central government is even more vast than it is in the United States. Such broad political control has been the source of violent conflict for decades. In the

case of wildlife conservation, depoliticization is clearly the solution for South Africa. Privately owned game reserves in South Africa are a model for private sector management of public goods.

These 20 private reserves in the lowveld are part of South Africa's eastern Transvaal region. Together, they comprise what is known as the SabiSand Wildtuin ("tuin" means "park" in Afrikaans). Among the individual owners, there is competition and sometimes animosity. But there is also order and respect. The parks are separate, but together; they are unified by the rules of their voluntary consortium, and by their reverence for the bush, the patchy foliated land of the lowveld. The bush may be the owners' livelihood, but it is also their love.

Back in the 1920s, big game like lion, rhino, and elephant roamed freely across the cattle ranches of the Transvaal Consolidated Lands, another ranch next door called Toulon, and an open stretch of land which was the original Sabi Game Reserve. At that point, the reserve was unoccupied. The Sabi and Sand Rivers ran through it, as did a train line called the Selati Railway. In 1927, a big-game hunter named W. A. Campbell bought several farms near the Sand River. For hunters like Campbell, buying up game-filled land was the only way to secure their sport. If they did not take the land, they knew that sooner or later the government would, for agriculture or for preservation.

More and more hunters began to follow suit, and hunting and cattle ranching became the principal occupations in this part of the eastern Transvaal. But by 1934, cattle ranching had

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fallen into decline; the manager of Transvaal Consolidated Lands died in 1932, and Toulon had closed down. The trend in the area was moving closer and closer toward wildlife preservation, but the big-game hunters still owned a great deal of the land.

The Transvaal Land Owners' Association

By the late 1930s, the hunters were looking for some way to cooperate formally, and to keep an eye on the unoccupied land in the area. To this end, they formed the Transvaal Land Owners' Association. When the TLOA started, there were eight member-owners, including the old Transvaal Consolidated Lands. They elected a ranger to preside over the association, and paid membership dues. Those dues financed projects like fences and efforts to combat disease among the animals.

When South African Railways fenced in the Selati line in the 1930s, animals began to get caught in the wire and break through. Consequently, the TLOA removed the fence. When hoof-and-mouth disease broke out in the area a little later on, the association cooperated again to eradicate it. At one point, the TLOA had to shoot 1,100 cattle in a single day.

In 1950, the landowners made their last step toward a completely private ownership scheme. They liquidated the TLOA, and created the SabiSand Wildtuin, or SSWT. Campbell became its first president, and served for 12 years until he died in 1962.

Campbell's death marked the end of an era. The image of the "great white hunter" is a caricature in South Africa now, a stereotype that many owners at SabiSand dislike and mock. Some hunting still goes on, but it is very limited. Its primary purpose is to finance the maintenance of the parks, through the sale of selected big game and the meat from more common species. The rules of the day have changed, from hunting wild animals to protecting them.

Here is the paradox of the SabiSand Wildtuin: it was born of the self-interest of hunters—white men who killed wild animals for sport and who had the money to buy a place to do so. Self-interest is still the motivating force behind the game parks today, but the

nature of that interest has changed. Today, the SabiSand park owners want to provide a safe environment for the animals that roam there, and to make money by doing it. Now, it is protection of the animals that serves the owners' interests.

In the past, protecting those interests meant openly opposing apartheid. In 1940, the South African government placed two of the farms in the area under the Bantu Trust Act, the legislation that created homelands for South African blacks. By the 1960s, about one-third of the SSWT was considered "released area" under Bantu Act legislation. This meant that the central government could seize the land at its discretion to create "reserves" for black people. In 1963, the SSWT Executive Committee secured a verbal agreement from the Minister of Bantu Administration that their land would not be confiscated.

Now, the SSWT is relatively free from central government controls. There is a 75-mile fence separating the consortium from Kruger Park, so the SSWT cannot "benefit" from animals that would migrate across the borders of Kruger. There are no internal fences between the individual reserves. The wildebeest, warthog, impala, waterbuck, and kudu roam freely over 265 square miles of open land.

Notten's Bush Camp

Within this vast tract of land, individuals have separate homesteads. One of those homesteads is Notten's Bush Camp. It is owned by Dedrick and Gillian Notten—"Bambi" and Gilly to those who visit the camp. Visitors come to Notten's to experience life in the bush, for a price, of course. The Nottens' 2,000-acre "backyard" is their business.

The Nottens' land has been in Bambi's family for 20 years. A little over two years ago, Bambi left his job as a builder in Johannesburg, and the Nottens moved to the lowveld permanently. Their two sons are now in boarding schools, and visit the bush every other weekend.

Missing her boys is Gilly's only complaint about the move. She would love to have them live at home, but there is no school to which they could commute. And with a full-time fam-



Off on a run at Notten's Bush Camp.

ily, Bambi and Gilly couldn't run Notten's Bush Camp in the way they do.

The Nottens' guests do not just visit a game reserve. They enter Bambi and Gilly's home; they get to know the Nottens and their life. They watch their hosts experience the same wonder and joy at the wild animals of the bush, as if the Nottens themselves were first-time visitors. When Gilly tells stories of Johannesburg on the veranda, glancing over her shoulder at the land stretching out behind her, she just smiles. "The bush," she says, and pauses. That's her full answer to why she moved to the lowveld. "The simple life of the bush."

A typical day in that life starts at about 5 A.M., with tea and coffee in the "boma." The boma is a tall, maybe eight-foot circular wall, made of tied bamboo and reeds. It encloses a small area where the Nottens cook for their visitors, with a shallow pit in the center for hot embers, and a stone-and-mortar barbecue off to one side. There is no electricity at the camp, and only a small kitchen, so the boma sees a lot of use. Gilly and Bambi have a small boma of their own, attached to their private cottage.

After tea, Bambi takes the guests out for a "game run." Not only do the Nottens run their business out of their home, but Bambi drives their guests around the reserve in his car. It is a

big green open-air Land-Rover, which Bambi occasionally takes on the highway to Johannesburg. It seats eight—that is all the Nottens will accommodate at their camp at one time. They are unique in this respect. The neighboring parks, like MalaMala and Londolozi, are much more "booming" businesses, with lavish hotel accommodations, fleets of Land-Rovers, and higher per-day prices.

A game run with Bambi is simply a drive through the bush, occasionally on the dirt roads and paths through the Nottens' land. Much of the time, Bambi just drives through the wilderness. With no fences, there is nothing "protecting" the visitors but their particularly human sound, look, and smell. However, that is no protection from a lion, an elephant, or—especially—a hippopotamus. If the lion is king of the jungle, the hippo is the grouch; it has a nasty disposition, and tourists have much more to fear from a disgruntled hippo than any other animal in the bush, lion included.

On all game runs, Bambi carries two things: a gun and a golf putter. The former, for protection; the latter, he says, just for walking. One suspects, however, that it is the other way around. To hear Bambi talk of the animals of the bush, and to see him identify the tiniest bird in the farthest tree, it is difficult to imag-

ine that reaching for his gun would be his reflex reaction to danger. Of course, Bambi would shoot an oncoming hippo, or lion, or rhinoceros if he were sure it was endangering the lives of his visitors. But after spending just a day or so with Bambi, one can't help thinking he just might reach for the putter first, and the gun second.

The Nottens are a unique couple. Bambi is not at all what his nickname would imply to Americans. He is a tall, burly man, with shaggy dark hair and a booming voice. Golf putter in hand, he strides through the bush, describing in detail the plants, the sounds, and the smells. One night, he spent 20 minutes studying a spider ensnaring a moth in her web, and giving blow-by-blow commentary to the visitors.

Gilly is equally fascinated with the bush. She will drive into the bush by herself, for peace and serenity among wild animals. Gillian Notten is the only woman in all the 20 private reserves who will venture into the bush alone, and take guests out herself.

Occasionally on the game runs, the Nottens will run into other Land-Rovers from neighboring reserves. The larger reserves in the consortium send out rovers to spot a pride of lions or family of cheetahs, and then radio back their location to the camp. If there are cheetahs in the area, MalaMala and Londolozi are sure to know.

According to Bambi, it is not often that three or four Land-Rovers pull up to the same spot, as quietly as four Land-Rovers can, to stare at a family of leopards or a herd of zebra. But when they do, it is a little disconcerting to a foreigner. All the drivers and passengers in the rovers are white, and there is always one black man riding on the hood or sitting in a high back seat. That man is the "tracker." In most cases, he comes from the eastern Transvaal, from the homeland Gazankulu or the area of Bushbok Ridge. He knows the bush, and can navigate through it easily and swiftly. He knows the marks different animals leave in the foliage, and he can spot tiny pinpoints of red or green light—the eyes of a civet, an impala, or a mongoose—in the pitch dark of night.

The relationship between Bambi and Joseph Matebula, the Nottens' tracker, is one of em-

ployer-and-employee, and of white-and-black-friends in an apartheid state. Joseph speaks little English, and Bambi does not speak Shangaan, Joseph's native language. They communicate in a language called Fana Ka Lo.

Fana Ka Lo

Fana Ka Lo is a source of controversy for many black South Africans. It is the mining language—the language invented so that white mine owners could communicate with black workers. Joseph worked in the mines for one month. Bambi translates when Joseph talks of the mines, or what he calls, in English, "the hole." The stories Joseph has from just one month are frightening, and he tells them with loathing in his eyes, and in the tone of his Fana Ka Lo.

For him and for Bambi, though, Fana Ka Lo does not seem to be the "language of oppression," as it is deemed in much of South Africa. They are friends. One morning, Bambi was looking for lion, discussing the tracks in the sand with Joseph, and asking what he thought were the chances of a sighting. Suddenly Joseph hopped off the rover and Bambi drove away. The visitors were stunned; surely, he couldn't have left Joseph to be preyed upon by lion . . . or could he? One of the guests raised a timid question, and Bambi glanced over his huge, broad shoulder and bellowed, "Ah, I've had enough of him. Leave him!" He stepped on the gas. Silence from the guests. Suddenly, Bambi burst out laughing. Joseph knows exactly what he is doing in the bush, Bambi explained. They were closer to the camp than anyone in the back of the rover could tell, and Joseph strolled in a minute or so after Bambi parked.

That was the end of a morning game run. Typically, then, activity grinds to a halt. As the heat begins to blaze in the eastern Transvaal, the animals in the bush head for shade, and most tourists begin to wilt. Another game run begins at about 4:30, and Bambi and Gilly load up a cooler to take along. Bambi's favorite rule is "first mammal, first beer." He'll bend it for those who prefer wine.

There are rules, however, that Bambi and Gilly cannot and will not bend. Those are the

intricate system of property rights that have evolved throughout the 20 private reserves. If Londolozi radios that there are cheetahs on the Nottens' land, only those who have negotiated driving rights with Bambi and Gilly may drive over to see. Owners of adjacent lands have made individual agreements as to who may drive where and when. Some borders are open, and some are not; MalaMala, for example, tends to keep to itself. It all depends on the preference of the owner, and those preferences are respected.

Who Owns the Animals?

Animal rights are a different story. Who owns the animals? Bambi replies with a question: "Well, who owns us?" The answer is that no one actually owns the inhabitants of the bush. There is a type of property right to big game: at any given time, owners have a property right to whatever animals happen to be on their land at that moment. They can sell or trade animals they "own" in this fashion, to zoos, perhaps, or other parks. Bambi traded one rhino, for example, for 20 tsessebe (a tsessebe, pronounced "chessabee," is a species of large buck, with curving, ridged horns).

It is not in an owner's interest to sell off animals extensively. The animals are the owner's livelihood, but only if they are healthy and thriving in a natural environment. That is what tourists want to see for themselves, and that is what people like Bambi and Gilly want to see for the animals. Ideally for each owner, the best natural environment falls within his or her own borders.

Once an animal crosses a border, someone else has a property right to it. More important, people will go to that reserve to see it. When a family of cheetah moved onto the Nottens' land, Bambi's guests wanted to go see them on foot. Surprisingly, animals are more frightened of human footsteps than the sound of a land rover. An engine makes a regular, low din, which animals get used to and "block out." Footsteps are irregular, easily recognizable, and much more menacing to hear. Bambi knew that footsteps might scare away the cheetah, and move them off his land. He anguished for a moment, then said, "All right. Let's go."

The result of this private property system is competition in creating the best habitat for the game. Periodically, Bambi and Gilly clear out patches of bush, or create a new water hole. They regulate the environment to suit the animals they want to attract. Yet, it is absolutely forbidden for owners to feed the animals, or even to set up salt licks. "Unfair" competition between owners is not the problem. Setting up salt licks and putting out extra food is "artificial," unnatural. It is unfair to the animals.

The feeding rule can be broken only if the owners agree that it is in the best interest of the animals involved. A few years ago, for example, a female cheetah severely wounded her foot in a poacher's trap. She was a mother of five cubs, who could not fend for themselves were she to die. The world would lose six members of an endangered species, and the SSWT would lose six of its main attractions. The owners decided to shoot reedbuck for the mother to eat. Bambi shot one, and the owners at Londolozi shot a few more. As soon as the mother was able to hunt again for herself, they stopped.

Are there any disadvantages to this system of private ownership? Of course, there are. The first is the ever-present possibility of "cheating" on the consortium arrangement. Individual owners can transgress driving rights. However, they are out driving in the bush every day, sometimes all day. They can "catch" each other easily. Owners also can shoot any animal they choose, even an endangered species, way out in the deep bush where no one can hear. According to Bambi, American tourists pay up to \$10,000 to shoot rhinos. "It makes me sick, honestly, it makes me really sick," Gilly says.

There is simply no way to guarantee this will not happen in the SSWT. But, it doesn't happen very often. The kinds of people who go into this "business," on the whole, are people like Bambi and Gilly who love the bush, and respect the animals as their "neighbors."

The owners do engage, however, in a practice called "culling," which means cutting down the size of a herd that is overcrowding the bush. An overpopulated species endangers the ecological system the owners strive to balance. Only three species are culled: impala,

rhinoceros, and cape buffalo. All of them are "grazers," Bambi explains. They feed on the foliage of the land. The SSWT Executive Committee gives each owner a number to cull over the period of a year. They either keep the meat for themselves, or sell it at a reasonable rate to Gazankulu, or butchers in Bushbok Ridge.

The whole idea of culling gives Bambi no trouble, for he feels it is in the best interest of all. According to Gilly, the only problems start when the number of animals they are told to cull seems exceptionally high. The SSWT can accommodate 150 rhino, but there are roughly 120 in the area now. Last year they culled 10, but this year the number was 15. The number to cull is decided by the SSWT group, so if Bambi and Gilly disapprove, they must garner support from other members to influence the Committee's decision.

The other disadvantage of this private game reserve system is that it is more expensive to visit than Kruger Park, which is run by the state. There are all levels of hotel and camping accommodations at Kruger which add to its basic price, but the simple entry fee for a car is about \$7.50. In Kruger, tourists drive their own cars along paved roads through the bush. Passengers may not get out of their vehicles, and they must exit the game area by sundown. At parks like MalaMala and Londolozi, the fee per day is \$300 and above. At Nottens it is only \$50 per person per night, including accommodations and Gilly's excellent cooking. There are four one-room cottages at Notten's Bush Camp, and they are immaculate. The lack of electricity is hardly noticeable, at least while one is sitting by the light of the fire in the boma sipping wine, and then gazing at the Southern Cross for a few minutes before going to bed.

All the cooking and cleaning is done for the guests by Bambi, Gilly, and their small staff. Guests must bring their own alcohol if they so choose, but the Nottens serve champagne and orange juice at breakfast. A three-day weekend of this—and of riding and walking in the bush among zebra, lion, cheetah, and

kudu—will cost roughly \$150.

Those who want a trip to the bush at the lowest cost possible go to Kruger Park for a day. Accommodations and meals are options and cost extra. The entry fee alone is what costs so little. At the private parks, visitors must take the "package deal" of all the services and accommodations that go with the initial price. The Nottens do charge a lower price if their guests choose to bring and cook their own food, but they may discontinue that option. Gilly finds it is more work for her when guests try to use her kitchen and cookware, than to do it all herself.

At Notten's Bush Camp, though, one can get close enough to a cheetah to hear her purr, and to see a bramble caught in the silky fur of her cub's underbelly. Guests may walk through the bush, or ride in an open Land-Rover at all hours of the day or night. One cannot do that at Kruger; the night curfew is a strict rule, and at no time may anyone get out of his or her car.

At Notten's Bush Camp, there are no pavement and no fence. The environment for the animals is more natural. Bambi's family has preserved it for 20 years, when they could have sold it for a massive profit.

Very few people expect that private individuals would be socially responsible enough to conserve wildlife voluntarily, especially with the loving care of people like Gilly and Bambi Notten. In the bush, the line between the Nottens' social responsibility and personal, self-interested desire is blurred. After getting to know the Nottens a little, which guests invariably do in the intimate, friendly setting they provide, it seems as if no such line exists.

Deep in the bush in the eastern Transvaal, far away from the turmoil emanating from Pretoria, politics seems immaterial. To be sure, there is conflict. There is also cooperation. The private game reserves have problems, but they also have solutions. So unlike the rest of the country, it almost feels as if there is no central government. The people and the wild animals in the bush don't seem to need one. □

A Tale of Two Revolutions

by Robert A. Peterson

The year 1989 marks the 200th anniversary of the French Revolution. To celebrate, the French government is throwing its biggest party in at least 100 years, to last all year. In the United States, an American Committee on the French Revolution has been set up to coordinate programs on this side of the Atlantic, emphasizing the theme, "France and America: Partners in Liberty."

But were the French and American Revolutions really similar? On the surface, there were parallels. Yet over the past two centuries, many observers have likened the American Revolution to the bloodless Glorious Revolution of 1688, while the French Revolution has been considered the forerunner of the many modern violent revolutions that have ended in totalitarianism. As the Russian naturalist, author, and soldier Prince Petr Kropotkin put it, "What we learn from the study of the Great [French] Revolution is that it was the source of all the present communist, anarchist, and socialist conceptions."¹

It is because the French Revolution ended so violently that many Frenchmen are troubled about celebrating its 200th anniversary. French author Leon Daudet has written: "Commemorate the French Revolution? That's like celebrating the day you got scarlet fever." An Anti-89 Movement has even begun to sell mementos reminding today's Frenchmen of the excesses of the Revolution, including Royalist black armbands and calendars that mock the sacred dates of the French Revolution.

The French should indeed be uneasy about their Revolution, for whereas the American Revolution brought forth a relatively free economy and limited government, the French Revolution brought forth first anarchy, then dictatorship.

Eighteenth-century France was the largest and most populous country in western Europe. Blessed with rich soil, natural resources, and a long and varied coastline, France was Europe's greatest power and the dominant culture on the continent. Unfortunately, like all the other countries of 18th-century Europe, France was saddled with the economic philosophy of mercantilism. By discouraging free trade with other countries, mercantilism kept the economies of the European nation-states in the doldrums, and their people in poverty.

Nevertheless, in 1774, King Louis XVI made a decision that could have prevented the French Revolution by breathing new life into the French economy: he appointed Physiocrat Robert Turgot as Controller General of Finance. The Physiocrats were a small band of followers of the French physician François Quesnay, whose economic prescriptions included reduced taxes, less regulation, the elimination of government-granted monopolies and internal tolls and tariffs—ideas that found their rallying cry in the famous slogan, "laissez-faire, laissez-passer."

The Physiocrats exerted a profound influence on Adam Smith, who had spent time in France in the 1760s and whose classic *The Wealth of Nations* embodied the Physiocratic attack on mercantilism and argued that nations

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get rich by practicing free trade.² Of Smith, Turgot, and the Physiocrats, the great French statesman and author Frederic Bastiat (1801-1850) wrote: "The basis of their whole economic system may be truly said to lie in the principle of self-interest. . . . The only function of government according to this doctrine is to protect life, liberty, and property."³

Embracing the principle of free trade not just as a temporary expedient, but as a philosophy, Turgot got the king to sign an edict in January 1776 that abolished the monopolies and special privileges of the guilds, corporations, and trading companies. He also abolished the forced labor of the peasants on the roads, the hated *corvée*. He then dedicated himself to breaking down the internal tariffs within France. By limiting government expense, he was able to cut the budget by 60 million livres and reduce the interest on the national debt from 8.7 million livres to 3 million livres.

Had Turgot been allowed to pursue his policies of free trade and less government intervention, France might very well have become Europe's first "common market" and avoided violent revolution. A rising tide would have lifted all ships. Unfortunately for France and the cause of freedom, resistance from the Court and special interests proved too powerful, and Turgot was removed from office in 1776. "The dismissal of this great man," wrote Voltaire, "crushes me. . . . Since that fatal day, I have not followed anything . . . and am waiting patiently for someone to cut our throats."⁴ Turgot's successors, following a mercantilist policy of government intervention, only made the French economy worse. In a desperate move to find money in the face of an uproar across the country and to re-establish harmony, Louis XVI agreed to convene the Estates-General for May 1789. Meanwhile, the king's new finance minister, Jacques Necker, a Swiss financial expert, delayed the effects of mercantilism by importing large amounts of grain.

On May 5, the Estates-General convened at Versailles. By June 17, the Third Estate had proclaimed itself the National Assembly. Three days later, the delegates took the famous Tennis Court Oath, vowing not to disband until France had a new constitution.

But the real French Revolution began not at

Versailles but on the streets of Paris. On July 14, a Parisian mob attacked the old fortress known as the Bastille, liberating, as one pundit put it, "two fools, four forgers and a debauch-er." The Bastille was no longer being used as a political prison, and Louis XVI had even made plans to destroy it. That made little difference to the mob, who were actually looking for weapons.

Promising the guards safe conduct if they surrendered, the leaders of the mob broke their word and hacked them to death. It would be the first of many broken promises. Soon the heads, torsos, and hands of the Bastille's former guardians were bobbing along the street on pikes. "In all," as historian Otto Scott put it, "a glorious victory of unarmed citizens over the forces of tyranny, or so the newspapers and history later said."⁵ The French Revolution had begun.

Despite the bloodshed at the Bastille and the riots in Paris, there was some clear-headed thinking. Mirabeau wanted to keep the Crown but restrain it. "We need a government like England's," he said.⁶ But the French not only hated things English, they even began to despise their own cultural heritage—the good as well as the bad. On October 5, the Assembly adopted the Declaration of the Rights of Man and the Citizen—a good document all right, but only if it were followed.

Twenty-eight days later, the Assembly showed they had no intention of doing so: all church property in France was confiscated by the government. It was the wrong way to go about creating a free society. Certainly the Church was responsible for some abuses, but seeking to build a free society by undermining property rights is like cutting down trees to grow a forest. Such confiscation only sets a precedent for further violation of property rights, which in turn violates individual rights—the very rights of man and the citizen the new government was so loudly proclaiming. By confiscating church property—no matter how justified—France's Revolutionary leaders showed that they weren't interested in a true free society, only in one created in the image of their own philosophers. As Bastiat later pointed out, they were among the modern world's first social engineers.

Soon France began to descend into an abyss in which it would remain for the next 25 years. In towns where royalist mayors were still popular, bands of men invaded town halls and killed city magistrates. Thousands of people sold their homes and fled the country, taking with them precious skills and human capital. François Babeuf, the first modern communist, created a Society of Equals dedicated to the abolition of private property and the destruction of all those who held property. The king's guards were eventually captured and killed. The Marquis de Sade, from whom we get the term sadism, was released from prison. The Paris Commune took over control of Paris.

Fiat Money Inflation

The actions of the government were even more radical than those of the people at large. In order to meet the continuing economic crisis, the Assembly resorted to paper money—the infamous assignats, backed ostensibly by the confiscated church property. Although most of the delegates were aware of the dangers of paper money, it was thought that if the government issued only a small amount—and that backed up by the confiscated property—the assignats would not create the kind of economic disaster that had accompanied the use of paper money in the past.

But as had happened again and again through history, the government proved unable to discipline itself. As Andrew Dickson White put it in his *Fiat Money Inflation in France*: “New issues of paper were then clamored for as more drams are demanded by a drunkard. New issues only increased the evil; capitalists were all the more reluctant to embark their money on such a sea of doubt. Workmen of all sorts were more and more thrown out of employment. Issue after issue of currency came; but no relief resulted save a momentary stimulus which aggravated the disease.”⁷

Writing from England in 1790, long before the French inflation had done its worst, Edmund Burke saw the danger of fiat currency. According to Burke, issuing assignats was the government's pat answer to any problem: “Is there a debt which presses them? Issue assignats.

Are compensations to be made or a maintenance decreed to those whom they have robbed of their free-hold in their office, or expelled from their profession? Assignats. Is a fleet to be fitted out? Assignats. . . . Are the old assignats depreciated at market? What is the remedy? Issue new assignats.” The leaders of France, said Burke, were like quack doctors who urged the same remedy for every illness.

Burke saw in the French Revolution not a decrease in the power of the state, but an increase in it: “The establishment of a system of liberty would of course be supposed to give it [France's currency] new strength; and so it would actually have done if a system of liberty had been established.” As for the confiscation of property—first that of the Catholic Church then that of anyone accused of being an enemy of the Revolution—Burke said: “Never did a state, in any case, enrich itself by the confiscation of the citizens.”⁸

But the issuing of assignats was only the beginning. In the spring of 1792, the first Committee of Public Safety was established, charged with judging and punishing traitors. Soon the streets of Paris began to run with blood, as thousands of people were killed by the guillotine. The following fall, the French government announced that it was prepared to help subject peoples everywhere win their freedom. Thus, instead of peacefully exporting French products and French ideas on liberty, the French began exporting war and revolution . . . hence the saying, “When France sneezes, the whole world catches cold.”

As more soldiers were needed to “liberate” the rest of Europe, France instituted history's first universal levy—the ultimate in state control over the lives of its citizens. Meanwhile, for opposing the Revolution, most of the city of Lyons was destroyed. And Lafayette, who at first had embraced the Revolution, was arrested as a traitor.

Stifling Controls

Soon a progressive income tax was passed, prices on grain were fixed, and the death penalty was meted out to those who refused to sell at the government's prices. Every citizen was required to carry an identity card issued by

his local commune, called, in an Orwellian twist of language, Certificates of Good Citizenship. Every house had to post an outside listing of its legal occupants; the Revolutionary Communes had committees that watched everyone in the neighborhood; and special passes were needed to travel from one city to another. The jails were soon filled with more people than they had been under Louis XVI. Eventually, there flooded forth such a torrent of laws that virtually every citizen was technically guilty of crimes against the state. The desire for absolute equality resulted in everyone's being addressed as "citizen," much as the modern-day Communist is referred to as "comrade."

Education was centralized and bureaucratized. The old traditions, dialects, and local allegiances that helped prevent centralization—and thus tyranny—were swept away as the Assembly placed a mathematical grid of departments, cantons, and municipalities on an unsuspecting France. Each department was to be run exactly as its neighbor. Since "differences" were aristocratic, plans were made to erase individual cultures, dialects, and customs. In order to accomplish this, teachers—paid by the state—began to teach a uniform language. Curriculum was controlled totally by the central government. Summing up this program, Saint-Just said, "Children belong to the State," and advocated taking boys from their families at the age of five.⁹

So much of modern statism—with all of its horror and disregard for individualism—began with the French Revolution. The "purge," the "commune," the color red as a symbol of statism, even the political terms Left, Right, and Center came to us from this period. The only thing that ended the carnage—inside France, at least—was "a man on horseback," Napoleon Bonaparte. The French Revolution had brought forth first anarchy, then statism, and finally, dictatorship. Had it not been for the indomitable spirit of the average Frenchman and France's position as the largest country in Western Europe, France might never have recovered.

Now contrast all of this with the American Revolution—more correctly called the War for Independence. The American Revolution was different because, as Irving Kristol has pointed

out, it was "a mild and relatively bloodless revolution. A war was fought to be sure, and soldiers died in that war. But . . . there was none of the butchery which we have come to accept as a natural concomitant of revolutionary warfare. . . . There was no 'revolutionary justice'; there was no reign of terror; there were no bloodthirsty proclamations by the Continental Congress."¹⁰

A "Conservative Revolution"

The American Revolution was essentially a "conservative" movement, fought to conserve the freedoms America had painstakingly developed since the 1620s during the period of British "salutary neglect" — in reality, a period of laissez-faire government as far as the colonies were concerned. Samuel Eliot Morison has pointed out: "[T]he American Revolution was not fought to *obtain* freedom, but to *preserve* the liberties that Americans already had as colonials. Independence was no conscious goal, secretly nurtured in cellar or jungle by bearded conspirators, but a reluctant last resort, to preserve 'life, liberty, and the pursuit of happiness.'"¹¹

A sense of restraint pervaded this whole period. In the Boston Tea Party, no one was hurt and no property was damaged save for the tea. One patriot even returned the next day to replace a lock on a sea chest that had been accidentally broken.¹² This was not the work of anarchists who wanted to destroy everything in their way, but of Englishmen who simply wanted a redress of grievances.

After the Boston Massacre, when the British soldiers who had fired upon the crowd were brought to trial, they were defended by American lawyers James Otis and John Adams. In any other "revolution," these men would have been calling for the deaths of the offending soldiers. Instead, they were defending them in court.

When the war finally began, it took over a year for the colonists to declare their independence. During that year, officers in the Continental Army still drank to "God save the King." When independence was finally declared, it was more out of desperation than careful planning, as the colonists sought help

from foreign nations, particularly the French. In the end, it was the French monarchy—not the Revolutionists, as they had not yet come to power—that helped America win its independence.

Through the seven years of the American war, there were no mass executions, no “reigns of terror,” no rivers of blood flowing in the streets of America’s cities. When a Congressman suggested to George Washington that he raid the countryside around Valley Forge to feed his starving troops, he flatly refused, saying that such an action would put him on the same level as the invaders.

Most revolutions consume those who start them; in France, Marat, Robespierre, and Danton all met violent deaths. But when Washington was offered a virtual dictatorship by some of his officers at Newburgh, New York, he resisted his natural impulse to take command and urged them to support the republican legislative process. Professor Andrew C. McLaughlin has pointed out: “To teach our youth and persuade ourselves that the heroes of the controversy were only those taking part in tea-parties and various acts of violence is to inculcate the belief that liberty and justice rest in the main upon lawless force. And yet as a matter of plain fact, the self-restraint of the colonists is the striking theme; and their success in actually establishing institutions under which we still live was a remarkable achievement. No one telling the truth about the Revolution will attempt to conceal the fact that there was disorder. . . . [yet] we find it marked on the whole by constructive political capacity.”¹³

No Assault on Freedom of Religion

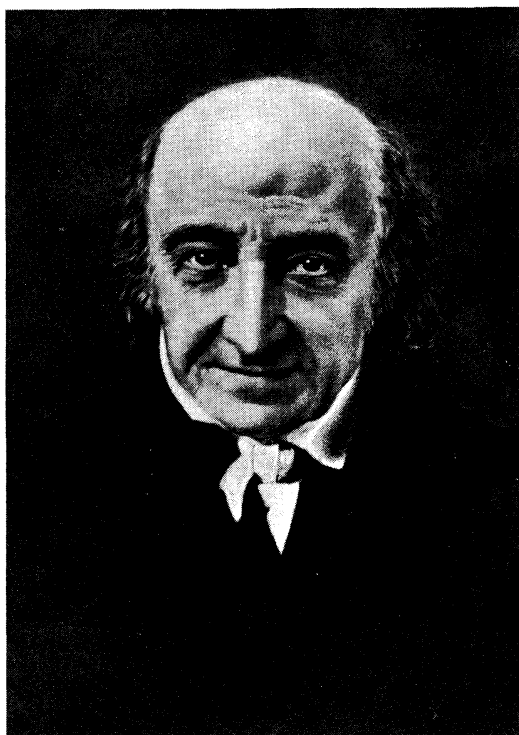
In America, unlike France, where religious dissenters were put to death, there was no wholesale assault on freedom of religion. At the Constitutional Convention in 1787, there were devout Congregationalists, Episcopalians, Dutch Reformed, Lutherans, Quakers, Presbyterians, Methodists, and Roman Catholics. Deist Ben Franklin asked for prayer during the Convention, while several months later George Washington spoke at a syna-

gogue. During the Revolution, many members of the Continental Congress attended sermons preached by Presbyterian John Witherspoon, and while Thomas Jefferson worked to separate church and state in Virginia, he personally raised money to help pay the salaries of Anglican ministers who would lose their tax-supported paychecks. In matters of religion, the leaders of America’s Revolution agreed to disagree.

Finally, unlike the French Revolution, the American Revolution brought forth what would become one of the world’s freest societies. There were, of course, difficulties. During the “critical period” of American history, from 1783 to 1787, the 13 states acted as 13 separate nations, each levying import duties as it pleased. As far as New York was concerned, tariffs could be placed on New Jersey cider, produced across the river, as easily as on West Indian rum. The war had been won, but daily battles in the marketplace were being lost.

The U.S. Constitution changed all that by forbidding states to levy tariffs against one another. The result was, as John Chamberlain put it in his history of American business, “the greatest ‘common market’ in history.”¹⁴ The Constitution also sought to protect property rights, including rights to ideas (patents and copyrights) and beliefs (the First Amendment). For Madison, this was indeed the sole purpose of civil government. In 1792 he wrote: “Government is instituted to protect property of every sort. . . . This being the end of government, that alone is a *just* government which *impartially* secures to every man whatever is his *own*.”¹⁵ Alexander Hamilton, the first Secretary of the Treasury, helped restore faith in the public credit with his economic program. It was at his urging that the U.S. dollar was defined in terms of hard money—silver and gold. (At the Constitutional Convention, the delegates were so opposed to fiat paper money that Luther Martin of Maryland complained that they were “filled with paper money dread.”)

Hamilton’s centralizing tendencies would have been inappropriate at any other time in American history; but in the 1790s, his program helped 13 nations combine to form one United States. Had succeeding Treasury Secretaries continued Hamilton’s course of strength-



Albert Gallatin (1761–1849)

ening the federal government, at the expense of the states, America's economic expansion would have been stillborn.

Fortunately, when Jefferson came to power, he brought with him the Swiss financier and economist Albert Gallatin, who served Jefferson for two terms and Madison for one. Unlike his fellow countryman Necker, whose mercantilist policies only hastened the coming of the French Revolution, Gallatin was committed to limited government and free market economic policies. Setting the tone for his Administration, Jefferson said in his first inaugural address: "Still one thing more, fellow citizens—a wise and frugal government, which shall restrain men from injuring one another, shall leave them otherwise free to regulate their own pursuits of industry and improvement, and shall not take from the mouth of labor the bread it has earned."

For the next eight years, Jefferson and Gallatin worked to reduce the nation's debt as well as its taxes. The national debt was cut from \$83 million to \$57 million, and the number of Federal employees was reduced. Despite the restrictions on trade caused by Napoleon's Berlin

and Milan decrees, and the British blockade of Europe, American businessmen continued to develop connections around the world. By the end of Jefferson's first term, he was able to ask, "What farmer, what mechanic, what laborer ever sees a tax gatherer in the United States?"¹⁶ By 1810, America was well on its way to becoming the world's greatest economic power. France, meanwhile, still languished under the heavy hand of Napoleon.

In his Report to the House of Representatives that same year, Gallatin summed up the reasons for America's prosperity: "No cause. . . has perhaps more promoted in every respect the general prosperity of the United States than the absence of those systems of internal restrictions and monopoly which continue to disfigure the state of society in other countries. No law exists here directly or indirectly confining man to a particular occupation or place, or excluding any citizen from any branch he may at any time think proper to pursue. Industry is in every respect perfectly free and unfettered; every species of trade, commerce, art, profession, and manufacture being equally opened to all without requiring any previous regular apprenticeship, admission, or license."¹⁷ The American Revolution was followed by 200 years of economic growth under the same government. By contrast, the French Revolution was followed by political instability, including three revolutions, a directorate, a Reign of Terror, a dictatorship, a restoration of the Bourbon Monarchy, another monarchy, and five republics. Today, socialism has a greater hold in France than it does in America—although America is not far behind. Even though they were close in time, it was the French Revolution that set the pattern for the Russian Revolution and other modern revolutions, not the American.

Bastiat's Opinion

Frederic Bastiat clearly saw the difference between the two. The French Revolution, he argued, was based on the idea of Rousseau that society is contrary to nature, and therefore must be radically changed. Because, according to Rousseau, the "social contract" had been violated early in man's history, it allowed all par-

ties to that contract to return to a state of "natural liberty." In essence, what Rousseau was saying was, "Sweep aside all the restraints of property and society, destroy the existing system. Then you will be free, free to lose yourself in the collective good of mankind, under my care."¹⁸

The social architects who emerged out of the chaos of the French Revolution included Robespierre and Napoleon. In his analysis of Robespierre, Bastiat said: "Note that when Robespierre demands a dictatorship, it is . . . to make his own moral principles prevail by means of terror. . . . Oh, you wretches! . . . You want to reform everything! Reform yourselves first! This will be enough of a task for you."¹⁹

In Bastiat's opinion, the French Revolution failed because it repudiated the very principles upon which a free society is based: self-government, property rights, free markets, and limited civil government. The American Revolution, however, brought forth the world's freest society: "Look at the United States," wrote Bastiat. "There is no country in the world where the law confines itself more rigorously to its proper role, which is to guarantee everyone's liberty and property. Accordingly, there is no country in which the social order seems to rest on a more stable foundation. . . . This is how they understand freedom and democracy in the United States. There each citizen is vigilant with a jealous care to remain his own master. It is by virtue of such freedom that the poor hope to emerge from poverty, and that the rich hope to preserve their wealth. And, in fact, as we see, in a very short time this system has brought the Americans to a degree of enterprise, security, wealth, and equality of which the annals of the human race offer no other example. . . . [In America] each person can in full confidence dedicate his capital and his labor to production. He does not have to fear that his plans and calculations will be upset from one instant to another by the legislature."²⁰

Bastiat did see two inconsistencies in the American Republic: slavery ("a violation of the rights of a person") and tariffs ("a violation of the right to property"). According to Bastiat, these were the two issues that would divide America if they were not dealt with speedily.

What was the answer for America as well as France? "Be responsible for ourselves," said Bastiat. "Look to the State for nothing beyond law and order. Count on it for no wealth, no enlightenment. No more holding it responsible for our faults, our negligence, our improvidence. Count only on ourselves for our subsistence, our physical, intellectual, and moral progress!"²¹

On the 200th anniversary of the French Revolution, Frenchmen and Americans can truly become partners in liberty by working toward the principles advocated by Bastiat, America's Founding Fathers, and others: limited government, private property, free markets, and free men. □

1. Petr Kropotkin, *The Great French Revolution* (New York: Putnam's Sons, 1909), Introduction.

2. So strong were the connections between the Physiocrats and Adam Smith that, according to the French economists Charles Gide and Charles Rist, "But for the death of Quesnay in 1774—two years before the publication of *The Wealth of Nations*—Smith would have dedicated his masterpiece to him." Later, Frederic Bastiat lumped Smith, Quesnay, and Turgot together as "my guides and masters." Dean Russell, *Frederic Bastiat: Ideas and Influence* (Irrington-on-Hudson, N.Y.: The Foundation for Economic Education, 1969), pp. 58, 19.

3. Russell, p. 20.

4. Peter Gay and R. K. Webb, *Modern Europe to 1815* (New York: Harper and Row, 1973), p. 462.

5. Otto J. Scott, *Robespierre: The Voice of Virtue* (New York: Mason and Lipscomb Publishers, 1974), pp. 59-61.

6. *Ibid.*, p. 54.

7. Andrew Dickson White, *Fiat Money Inflation in France* (Irrington-on-Hudson, New York: The Foundation for Economic Education, 1959), p. 107.

8. Edmund Burke, *Reflections on the Revolution in France* (Indianapolis: The Bobbs-Merrill Co., 1955, originally published in 1790), pp. 275-276, 280.

9. Scott, pp. 223-224.

10. Benjamin Hart, *Faith and Freedom* (Dallas: Lewis and Stanley, 1988), p. 301.

11. Samuel Eliot Morison, *The Oxford History of the American People* (New York: Oxford University Press, 1965), p. 182.

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13. Andrew C. McLaughlin, *The Foundations of American Constitutionalism* (New York: Fawcett, 1932, 1961), pp. 88-89.

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16. James Richardson, ed., *A Compilation of the Messages and Papers of the Presidents*, Vol. 1 (New York: Bureau of National Literature, 1897), p. 367.

17. John M. Blum, et al., *The National Experience*, Part I (New York: Harcourt Brace Jovanovich, 1963, 1981), p. 213.

18. George Charles Roche, *Frederic Bastiat: A Man Alone* (New Rochelle, N.Y.: Arlington House, 1971), pp. 146-147.

19. *Ibid.*, p. 148.

20. *Ibid.*, pp. 205-206, 244.

21. *Ibid.*, p. 164.

Should We Stop Selling Real Estate to Foreigners?

by C. Brandon Crocker

American real estate is being bought by foreigners, and this worries a lot of people. Michael Dukakis made a campaign issue out of the large commercial real estate holdings of the Japanese in Los Angeles and other major U.S. cities. The fears generated by this foreign buying appear to be twofold: first is the concern that our national security and sovereignty are somehow compromised when foreigners own our real estate; second is the belief that foreign ownership of U.S. real estate is harmful to our economy. These qualms, however, are based on misconceptions of what is happening in the real estate market.

The concern over national security and sovereignty is understandable given the nature of real estate. When foreigners own land, people naturally fear that they might gain dangerous control over the production and distribution of resources such as grain, oil, and industrial metals. The cost of amassing enough land to have even a small impact on the supply of such resources, however, is too prohibitive to be practicable for any individual or group acting as an agent of a hostile foreign power. And such ownership wouldn't have an impact on supplies coming in from international markets. Furthermore, all U.S. territory, regardless

of the owner's nationality, comes under the full jurisdiction of U.S. law.

If foreign real estate investment isn't compromising our national security, is it hurting us economically? The market for real estate in the United States is relatively free. Therefore, as is true of all free markets, no one is forced to sell something to another party. Transactions are consummated only when all parties feel that it is in their best interest to do so.

This means that when a foreigner buys American commercial real estate, he does so because he believes that the risk-adjusted return (and perhaps some prestige value) is worth the investment. At the same time, the American seller believes that the transaction will make him better off. If, as is usually the case, the seller is an on-going business, this means that the owner believes he can get a better return by putting the sale proceeds into another investment than he can get by holding the particular piece of real estate.

The proceeds from real estate sales do not disappear in some mysterious way. The foreign buyer gains a tangible asset, but the compensation received by the seller goes into creating other assets which the seller believes will have a higher risk-adjusted rate of return. Manufacturing corporations selling off real estate can put the proceeds into research and development or new machinery. Real estate development companies can put the money into new

Mr. Crocker is assistant vice-president for a real estate development and management corporation in San Diego.

projects. Forbidding such transactions on the grounds that the buyer is foreign, therefore, would not merely just keep existing real estate in American hands, but would also *prevent the creation* of other assets in this country.

When foreigners buy American properties, Americans are fully compensated. In fact, contrary to the belief that foreigners are “buying America on the cheap,” the prices paid by foreigners (especially the Japanese) for American real estate over the past few years in many cases have been well above the traditional market values, as foreigners have been willing to accept a lower return on their investments than

have many Americans.

There is no basis for the fear that foreign real estate holdings threaten our sovereignty. And given that we have a free market in real estate, the charge that foreign purchases harm us economically also has no basis. We cannot be harmed if we freely exchange one asset for another which we view as having a better risk-adjusted rate of return. This simple fact of economics—that deals take place in a free market only when all parties involved believe them to be beneficial—applies to real estate just as it applies to all other assets. □

Readers' Forum

To the Editors:

Nick Elliott, in his fascinating article on the Levelers (May 1989), tells us that their fight against the 17th-century Stuart state was an outgrowth of English individualism, which in turn led to liberalism, which he finds inextricably linked to the Reformation. This is the customary account.

However, as Lord Acton—the great English liberal historian—pointed out, this view obscures the pre-Reformation growth of liberty in England. Writing in 1859, Acton argued that:

“[In England], as elsewhere, the progress of the constitution, which it was the work of the Catholic Ages to build up . . . was interrupted by the attraction which the growth of absolutism abroad excited, and by the Reformation’s transferring the ecclesiastical power to the Crown.” (*Selected Writings*, Vol. III, p. 33) Acton further noted in 1861: “The Catholic Church had bestowed on the English the great elements of their political prosperity—the charter of their liberties, the fusion of the races, and the abolition of villeinage—that is, personal and general freedom, and national unity. Hence the people were so thoroughly impregnated with Catholicism that the Reformation was imposed on them by foreign troops in spite of an armed resistance; and the imported manufacture of Geneva remained

so strange and foreign to them, that no English divine of the sixteenth century enriched it with a single original idea.” (*Ibid.*, p. 91)

For too long, it has been the received view in England and America that the Reformation equaled liberty. But in Acton’s view, by uniting church and state and freeing rulers from painfully constructed Catholic restraints, Protestantism made possible an absolutism that derailed the long progress that liberty made during the Middle Ages. As further evidence, consider that the Renaissance—a Catholic Counter-Reformation that Luther and Calvin warned about—restarted the progress that ultimately culminated in liberalism.

JEFFREY A. TUCKER
Fairfax, Virginia

Nick Elliott Replies:

The Reformation did not “equal liberty”—far from it. What it did was provide an ideology, as a flag of convenience for those princes and dukes who wanted to challenge the authority of the Catholic empire. It was an unintended consequence that this led to religious anarchy and a more general challenge to authority. Without the Reformation, the Netherlands would probably

not have fought a war of independence, to become the most liberal state in Europe. Nor would England have been touched by the radical liberal ideas of groups such as the Levelers.

It was no accident that many of the principal English liberals have come from a background of Protestant nonconformism: John Lilburne, John Bright, and Herbert Spencer, to name but three. The radical ideas that were to emerge from the Reformation also implied a political code. As John Bright said of the Quakers, "We have no thirty-seven articles to declare that it is lawful for Christian men, at the command of the civil magistrate, to wear weapons and serve in wars."

The most important principle, politically, to emerge from the Reformation was that the individual could communicate with God by himself, subjectively interpreting the Bible for himself, and without the need for a church hierarchy. This principle led in England to popular agitation for freedom of worship, and made the Levelers into a movement with mass support.

The gains for liberty made before the English Reformation hardly compare to the momentous gains made after the Civil War, as the direct result of radical Reformation ideas. The Glorious Revolution of 1688 enshrined religious toleration in law, and established the principle that monarchs must be accountable to parliaments. The Reformation in England led to the rejection of the divine right of kings, by which kings had previously justified their excesses.

The immediate response of the Catholic Church to the Reformation was the inquisition and index—religious purification by burning, and a clampdown on dangerous books. These were retrograde steps for liberalism and liberty. Any link between the Renaissance and liberalism is far from clear, far less clear than that with the Reformation.

NICK ELLIOTT
London, England

To the Editors:

I enjoyed Barbara Sall's "Private Enterprise in Poland" in the May 1989 *Freeman*.

Let me stress, however, that the situation is not as uncertain and tragic as it might appear from Mrs. Sall's presentation. The heavy hand of the state is present everywhere, but it is losing its weight. Most important, however, for the first

time in the history of Poland, capitalism now has a political representation. In the June 1989 election, the Union for Realpolitik (of which I am a representative), led by Janusz Korwin-Mikke, promoted free enterprise, privatization, self-responsibility, and individual rights. The Union for Realpolitik openly advocates capitalism—unlike any other organization in Poland.

Furthermore, industrial societies organized in various cities (the most famous being the Krakow Industrial Society, Warsaw Industrial Society, and Old Polish Industrial Society in Kielce) teach entrepreneurship and organize meetings of businessmen and pro-free market intellectuals. I should add that the Krakow Industrial Society, of which I am a member, is not a libertarian organization, as Mrs. Sall wrote, but rather a group of classical liberal intellectuals, mostly readers of Ludwig von Mises. It is led by Miroslaw Dzielski, a very important figure in the Polish pro-capitalist movement, who seeks contacts with successful Polish entrepreneurs, mostly through banquets and discussions. Recently the Krakow Industrial Society became more politically active, proposing a free enterprise zone in Krakow, and having Mr. Dzielski participate in a meeting of opposition leaders with Margaret Thatcher during her visit in Poland.

As I mentioned, the heavy hand of the state is still present. The Union for Realpolitik is refused a paper quota (distribution of paper is rationed by the Polish government) and is not allowed to campaign on television. Interestingly enough, Polish pro-capitalists are ignored in the West, most notably by Western media, even though the socialistic Solidarity opposition receives wide coverage. But that is a phenomenon which requires a separate analysis.

KRZYSZTOF OSTASZEWSKI
University of Louisville

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A REVIEWER'S
NOTEBOOK

Religious Thought and Economic Society

by John Chamberlain

When Jacob Viner of the University of Chicago and Princeton University died, he left four chapters of an unfinished work called *Religious Thought and Economic Society*. Two scholars, Jacques Melitz and Donald Winch, have pieced together the Viner work for publication by the Duke University Press of Durham, North Carolina (211 pages, \$21.95).

What strikes one at once in reading the Viner text is the essential worldliness of the early church fathers. Though they often counseled perfection, they had no illusions about the average man's capacity for martyrdom. Saint Augustine had been a sinner himself. Besides, there was a paradox involved. It was all very well for an occasional individual to sell all he had to feed the poor, but what if everybody were to do the same? Production would cease, and there would soon be nothing to give away. The poor would really be reduced to scratching to keep alive.

So the early Christian fathers, being practical men, counseled sharing. They did not seek to make the sharing compulsory—that would dry up incentives, and there would be less to share. What they wanted was a system that would yield a maximum of voluntary alms.

This naturally opened the doors to capitalist thinkers, though the word "capitalism" was not used. The rich merchant was to be encouraged as the best possible source of alms. In the Renaissance the rich merchant came into his own. The patricians of the Renaissance paid tribute to the excellence of man instead of stressing the degradation resulting from original sin.

Says Viner, the merchant class "maintained that the life of virtue was within the reach of the ordinary run of mankind and was a pleasurable one . . . virtue was to be pursued for its own sake or for its benefit to others, independently of its contribution to religious salvation or for its obligatoriness as a religious duty." Material things, sacred and profane art, fine craftsmanship, the embellishment of palaces, churches, and cities were more to be admired than the ascetic life of "passive contemplation or pious resignation."

Thomas Aquinas was against usury, but it is one thing to frown upon charging interest on cash loans and another to condemn selling for credit at a higher price. Since most buyers are unable to pay cash, if wholesalers were to refuse to sell at credit their sales would shrink. Soon there would be no business at all.

Viner devotes many pages to the quarrels in France between "rigorists" and "laxists." But just who were the rigorists and who were the laxists is not always clear. The Jansenists professed to believe in a strict condemnation of usury; the Jesuits did not. But the two opposing schools of thought were equally casuistic about loans to merchants to help them do business.

Since Viner was obviously convinced that capitalist practices were fairly well defined even in the Middle Ages, he tangles with the theory promulgated by Max Weber and R. H. Tawney that it was Calvinism that set the spirit of capitalism going. When Venetians and Genoans began adventuring on the Mediterranean after the Saracen enemies of Christiani-

ty had been pushed back, the spirit of trade quickly moved over the passes from Italy to South Germany. Banking was elaborated in South Germany. All of this happened before the time of the Protestant Reformation.

To believe that the “geist” of capitalism originated in Calvin’s Geneva or John Knox’s Scotland ignores some palpable geographic facts. As Viner says:

the prosperity of Holland in the seventeenth century aroused the interest of writers in other countries, and various explanations were offered. Sir William Temple singled out for emphasis the industry and thrift of the Dutch, but attributed most “national customs” to “unseen, or unobserved natural causes or necessities.” The only characteristics of this kind which he identified in the Dutch case were poverty in natural resources and density of population. He makes no mention of a religious factor. Some time before 1618, Sir Walter Raleigh singled out Holland, together with the Hanse towns and Denmark, as countries which surpassed England in commerce. He does not mention that all these countries were Protestant . . . Sir Josiah Child attributed the superiority of the Dutch in trade to a wide range of customs, institutions, and patterns of economic behavior and laws. His only reference to a religious factor is his inclusion of “toleration of different opinions in matters of religion” as contributing to Dutch prosperity by attracting to Holland industrious and rich dissenters from other countries.

There is only an incidental reason to connect religion with the rise of capitalism in anything Sir William Temple and Sir Walter Raleigh or Josiah Child noticed in Holland. What stands out is the fact that the Dutch government was willing to leave people alone. In short, laissez faire.

A better title to the incomplete Viner book would have been *Human Nature and Economic Society*. The church fathers and scholastics quoted by Viner were reasonable men who knew that alms would be forthcoming out of a plenty that would still allow scope for individual pleasure. We are less generous in our understanding of human nature today than was the



PETER BRUEGEL, THE ELDER

case before we began to legislate welfare by compulsion. No compulsion was necessary to provide education in Britain or America in the eighteenth and nineteenth centuries. Schools were built and maintained by churches and private associations. More hospitals were built in England before the days of compulsory health services.

After the common sense of Viner’s early chapters about the church fathers, I had looked forward to reading the fourth chapter on Max Weber and the thesis that capitalism had been particularly fostered by the “Puritan ethic.” But the chapter is so clogged with unfamiliar names (Bishop Herbert Thorndike, Sir Peter Pett, Robert Robinson, Charles Davenant, C. Weiss, Israel Worsley, to cite a few) that it is almost impossible to follow the tangential arguments. One has to hold fast to the proposition that Weber’s thesis applies only to “the ascetic types of Protestantism.” Weber’s “silent” omission of Geneva (Calvin’s city) and Scotland (John Knox’s territory) from the list of the “ascetics” was, says Viner, “not inadvertent.” The spirit of capitalism was not equally present in all Calvinist countries. Contrariwise, it was often present in Catholic countries. Things depended on human nature acting on local traditions. Neither Weber in Germany nor R. H. Tawney in England had a “lock” on any all-inclusive law. □

TIME AND PUBLIC POLICY

by T. Alexander Smith

University of Tennessee Press, P.O. Box 250, Ithaca, NY 14850
1988 • 299 pages • \$29.95 cloth*Reviewed by Israel M. Kirzner*

T Alexander Smith, a professor of political science at the University of Tennessee, has written an impressive book. It is a book that ranges across several social science disciplines, particularly economics, sociology, and politics—but also involves psychology, philosophy, and history. This review is written from the narrow perspective of an “Austrian” economist (whose objectivity is, it must be confessed, perhaps compromised in the book’s favor by its author’s embrace of the Austrian tradition in economics, and by his general endorsement of free market policies.)

The major thesis of the book can be stated simply. Modern societies, partly as a result of various sociological forces, partly as a result of welfare-state policies and majoritarian “promissory politics,” are systematically biased toward the short run: “Our time horizons have changed radically in the modern era.” This bias, the author claims, poses a serious danger for society’s long run health and viability. Where we *ought* to be pursuing courses of action that recognize the long run benefits of bourgeois values, frugality, thrift, and self-restraint, there in fact are powerful political and social forces that lead us, as voters and as politicians, to place greater emphasis on short run, fleeting, and ephemeral benefits. What is required, Smith maintains, is a pattern of institutional reform that will encourage long range planning, and the willingness to forgo instant gratification for the sake of future goals.

This thesis is developed in eight chapters of well-written prose enriched by a scholarly apparatus modestly concealed in the endnotes, reflecting an extraordinarily wide range of reading and study. Although this reviewer has several quibbles to express as an economist, as a citizen he finds the overall thrust of the book—especially in its development of themes in sociology and politics—highly persuasive

and important. Although at least some economic aspects of Smith’s argument have been developed before (for example, Henry Hazlitt’s classic *Economics in One Lesson* critique of interventionism is based on the idea that the “art of economics consists in looking not merely at the immediate but at the longer effects of any act or policy . . .”), the book’s reinforcement of its economic insights by reference to sociology, and to political institutions, adds up to an innovative and powerful case for the free market and the rule of law.

My quibbles will at first seem minor ones, yet on reflection they turn out to be quite disturbing to the economist. The economist who appreciates the social usefulness of free markets, and also understands the importance of the time profiles of production and consumption, will argue that a key virtue of the market economy is that it stimulates economic growth to reflect, with reasonable faithfulness, *the wishes of the individual market participants*. In other words, the market generates volumes and rates of capital accumulation and depreciation which reflect the time preferences of *the citizens* in their capacities of consumers and potential investors. Smith’s position seems, if I read him correctly, to argue for the free market economy because it is likely to generate a time profile of savings, capital-using production, and consumption which is faithful to what (*in Smith’s judgment*) is the “correct” allocation between present and future. Smith sees the economy as sliding into a miasma of instant gratification—at a time when it ought to be planning prudently for capital replacement and long term growth.

One would like to think that Smith’s view of the “correct” allocation over time expresses what he believes to be the true wishes of the public. Yet certain parts of the book—notably chapter two, where the author notes and deplores the modern abandonment of bourgeois values—suggest that he really does hope for a set of institutions which will not permit citizens to exercise their unhealthily high time preferences. This way of thinking may be eminently defensible from a variety of perspectives, but the economist (who sees the virtue of markets to lie in their respect for *citizens’* preferences, no matter how degenerate and “wrong” they

may be) feels uncomfortable with it.

This discomfort is only deepened by our noticing that Smith, throughout the book, deplores the sacrifice of the future for the present—never recognizing, it would appear, that beyond *some* point, surely, additional provision for the future may be entirely too costly for a present generation. Surely Smith does not wish us to postpone *all* present consumption to the future? Which future? Next year, next century, next millennium? Granted that our present institutions have biased us so strongly in the direction of instant gratification that our immediate social and political agenda may be usefully focused upon urging greater attention to the future. Nonetheless, one would have expected some mention of the free market's capacity to avoid, not only a time profile tilted too much toward the present, but also one tilted too much toward the future. What the Austrian emphasis on time allocation depends on is not so much any admiration for the bourgeois virtues of frugality and thrift *per se*, as an understanding of the need for thrift *in order to achieve preferred future consumption goals*. This aspect of Austrian understanding does not emerge unobscured in Smith's book.

Related to this complaint must be a certain unease which an Austrian economist feels at Smith's lengthy (and generally sound) discussion of Say's Law in chapter seven. One comes away from this chapter with the impression that Smith wishes us to see Say's Law as teaching the primacy of production over consumption, of supply over demand. But our appreciation for the profoundly valid insights embodied in Say's Law should surely *not* (at any rate not for Austrian economists!) take us in *that* direction. To recognize that general overproduction is, in the proper sense, impossible, does not require us to say that "supply is the driving force behind 'demand'"—for Austrians the reverse, properly interpreted, is closer to the truth. Keynes' error was, for Austrians, not his emphasis on demand, but his belief that "aggregate demand" can be deficient in equilibrium. For Austrians an appreciation for the need to save is not based on any virtue of abstinence, but on the desire to *consume*, more extensively, in the future.

Several further related quibbles: Smith has

learnt his Austrian economics well, and with a great deal of depth. Yet he appears not to see that much of his thesis does not really depend on Austrian insights. To be sure, his superb third chapter represents classic Austrian and Rothbardian deployment of a Crusoe example to illustrate the meaning and importance of the time profile of production and consumption activities. But one does not have to be an Austrian to appreciate the importance of planning and saving for the future. Certainly one does not have to have a sophisticated Misesian appreciation for the *a priori* quality of positive time preference to accept Smith's thesis. By over-emphasizing the Austrian route by which he apparently arrived at his understanding of the importance of the time dimension, Smith may have unnecessarily limited its potential significance for economists following different approaches. (This Austrian economist mentions this point somewhat diffidently: it must seem loutish to sniff at Smith's appreciation for Austrian economics—so frequently ignored!)

Nor, one may respectfully submit, is the Austrian economist's appreciation for the subtleties and complexities of time quite captured by Smith's treatment of it. Although Smith makes occasional mention of the problems of uncertainty and knowledge introduced by the circumstance that human action occurs in irreversible time, the overall thrust of his book emphasizes only the one dimension: the need to allocate scarce resources between the present and the future. Primordially important though this dimension certainly is, it is a little unfortunate that the book somehow conveys the impression that, by developing its central thesis, the place of time in economic policy has been fully and completely dealt with. For Austrians, surely, far more needs to be discussed and explained, including especially the role of competitive processes, the role of entrepreneurial discovery, and the complications these introduce into propositions concerning the effectiveness of markets.

But these are mere economist's quibbles. The larger picture presented by the book relies heavily on insights concerning sociology and politics which impressed this lay reader greatly. Smith has undoubtedly put his finger on a central weakness of modern political systems.

There can be no question that the future economic and political well-being of society depends significantly on our being able to disentangle ourselves from the web of forces which, as Smith brilliantly shows, distort our focus, mistakenly and tragically, toward the present and immediate future. Smith's book deserves a wide readership and careful thought and discussion. □

Dr. Kirzner is a professor of economics at New York University.

MEMOIRS OF AN UNREGULATED ECONOMIST

by George J. Stigler

Basic Books, 10 E. 53rd Street, New York, NY 10022 • 1988
228 pages • \$17.95 cloth.

Reviewed by Richard M. Ebeling

Best-selling novels and popular movies never seem to have an economist as the hero. An archaeologist or an architect, an over-the-hill newspaper man, an inebriated detective—all seem to fit the bill. Even the book version of *Death Wish* has an accountant as the protagonist. But an economist? What can be exciting about supply and demand, the quantity theory of money, or the intricacies of public utility regulation? A work of fiction, at least, can exaggerate the truth. But what can one look forward to from an economist's autobiography? Economists are boring, right? Wrong!

George Stigler is a leading member of the Chicago school of economics and the 1982 recipient of the Nobel Memorial Prize in Economic Science. His intellectual autobiography, *Memoirs of an Unregulated Economist*, proves that there is life after Econ 101 and that economics is far from being a dismal science.

In telling his own story, Professor Stigler does a masterful job of weaving in the history of 20th-century American economics. In the late 1940s, many economists and most intellectuals were convinced that large doses of social planning and government intervention were both desirable and the inevitable waves of the future—the only things that would save America from falling back into the abyss of the Great Depression of the 1930s. Forty years later it is socialism and inter-

ventionism that are on the defensive, with the market economy and individual liberty once again the rising ideals. To a great extent the radical shift in ideological direction has been due to the Chicago School, and this is the real story in Stigler's book.

Stigler did his graduate work in economics at the University of Chicago in the 1930s. He studied with such leading figures as Frank Knight, Jacob Viner, and Henry Simons. Though they were far from being radical advocates of *laissez-faire*, in the collectivist environment of the New Deal in America and Fascism and Communism in Europe, these economists instilled in their students an appreciation of the price system and a competitive market order. And they warned of what collectivism could mean for the loss of political and civil liberties. Their teaching left its mark on Stigler and others like Milton Friedman. In the 1950s, these influences gelled into the "Chicago School."

Stigler's contributions have been in the area of micro-economics, i.e., the theory of markets and prices. He devoted his energy to the economics of information, the theory of monopoly, and the theory of government regulation. Economists have long worked with an economic model of "perfect competition" in which agents are assumed to possess full and perfect knowledge, and markets are assumed to adjust immediately to any and all changes. This model has been an easy target for critics of capitalism. Stigler demonstrated how markets enable individuals with less than perfect knowledge to search for information about the qualities of goods and the prices at which they may be obtained; he further showed how competitive forces tend to bring supplies and demands into balance through this information-search process.

He also challenged the long-held assumption among many economists that when markets are less than "perfect," monopolistic forces tend to exist all over the economy, with consumer interests sacrificed for the benefit of a few, big, highly concentrated firms and industries. In a series of theoretical and empirical studies, Stigler was able to prove that as long as government doesn't bestow privileges guaranteeing producers protection from competition, the market economy is an inherently rivalrous arena, and one that is very responsive to changing consumer demands.

Finally, Stigler pioneered research in the field of government regulatory policy. The standard view, again, was that certain industries are inherently uncompetitive; therefore, it was believed necessary for government to regulate their pricing and production policies for the public good. Stigler argued that rather than serving the public good, regulatory agencies invariably came under the control of the industries they were to regulate. All the economic incentives were for the regulated companies to devote time and resources to "capture" the agencies, and then use them to limit entry into their market and to set prices favorable to themselves. Stigler demonstrated that when left free from government oversight, these sectors of the economy were usually as open and competitive as any other.

The drama of the tale is in Stigler's telling. He explains the different views and schools of thought; he introduces the reader to the competing personalities and their conflicts over a 50-year period; and most important, he escapes from the abstract language and arguments of the rarefied economics journals. Thus, the general reader can follow the intellectual odyssey in terms that flesh out the theoretical and policy debates of the past several decades. Stigler doesn't limit himself to developments in his own fields of interest. He also describes the evolution of the Chicago School monetary tradition, beginning in the 1930s, through the writings of Milton Friedman, right up to the current theory of Rational Expectations. And he explains the Chicago School's extension of the logic of economics to new areas such as the economics of crime, the family, and race relations.

As a member of a rival school in economics—

the Austrian School—the present reviewer is tempted to raise a number of questions and objections to the approach of the Chicago School. While the Chicago economists have emphasized the vigor of competitive forces, they have failed to analyze to any real extent the focal point of that competitive process—the entrepreneur. While they have tried to develop a theory of informational search in the market, they have failed to grapple with the real problem of imperfect knowledge, i.e., how do market agents form expectational judgments when the uncertainty they face cannot be reduced to simple statistical probabilities? And finally, Stigler says that economics can be applied to a wide array of areas and problems because "Economics is the study of purposive behavior involving choice." Yet, the frequent tendency by Chicago economists to reduce all economic phenomena to a purely quantitative dimension often has resulted in many essential human elements of "purposive behavior" being excluded from their analysis.

But these may be considered family squabbles among free market economists. George Stigler, and the Chicago School he has helped to create and nurture, have changed the shape of economics in the United States and increasingly around the world. The economic planners and interventionists are losing the intellectual battle everywhere, and a major portion of the credit belongs to the set of ideas so eloquently described in this book. Ted Turner may not buy the rights to turn it into a cable movie special, but it certainly is a story in which the economist is the hero. □

Professor Ebeling holds the Ludwig von Mises Chair in Economics at Hillsdale College.

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SEPTEMBER

1989

VOL. 39

NO. 9

Published by

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

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The Freeman is the monthly publication of The Foundation for Economic Education, Inc., Irvington-on-Hudson, NY 10533 (914) 591-7230. FEE, founded in 1946 by Leonard E. Read, is a nonpolitical educational champion of private property, the free market, and limited government. FEE is classified as a 26 USC 501 (c) (3) tax-exempt organization. Other officers of FEE's Board of Trustees are: Thomas C. Stevens, chairman; Ridgway K. Foley, Jr., vice-chairman; Paul L. Poirot, secretary; H.F. Langenberg, treasurer.

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PERSPECTIVE



Judge George Revecomb and Lynne Cheney, chairman of the National Endowment for the Humanities, present the Benjamin Franklin Award to Roger Pilon (right).

Pilon Article Honored by National Press Foundation

Dr. Roger Pilon, *Freeman* author and a senior fellow at the Cato Institute, was one of four winners of the 1988 Benjamin Franklin awards for excellence in writing on the U.S. Constitution. The awards are sponsored by the National Press Foundation in partnership with the Commission on the Bicentennial of the United States Constitution.

Dr. Pilon's winning article "On the Foundations of Economic Liberty" appeared in the September 1988 issue of *The Freeman*. It discusses the natural connection between economic and political liberties and the role of the judiciary in restoring and maintaining these rights.

Dr. Pilon received his award in April at a luncheon co-hosted by former Chief Justice of the United States Warren E. Burger. The National Press Foundation is a nonprofit educational foundation dedicated to excellence in American journalism.

Message from Moscow

What's the matter with our present pricing system? For one thing, prices are set centrally, from above, and that's faulty in principle. Wholesale prices are based on costs plus a minimum planned profit. The producer adds

up all his costs of production, adds on his planned profit, and presents this figure to the State Committee on Prices for confirmation. Costs are pushed up since the producer wants to get a higher price, and the guidelines for profitability are strained to the limit since the producer needs to make a profit. The higher the costs and the margin of profit, the higher the prices and the better off the producer. But the consumer suffers—retail prices rise. The producer is in the driver's seat.

Chaos is averted only by administrative fiat: the planning bodies and the State Committee on Prices try to moderate the greed of the producers. But how? Arbitrarily, by the seat of their pants. How else can one explain the fact that the profit margin established for the Minister of Instrument Making, Automation Equipment, and Control Systems is one-third greater than that established for his colleagues in the machine-building conglomerate? Is this sensible? In addition to these problems, prices and profits depend less on the efficiency of production or on supply and demand than on the skill of the producer in inflating his costs and justifying his expenses and on the manager's energy and his contacts. The system encourages the enterprise to produce less, to raise prices, and to hoard supplies. . . .

The market will successfully replace the "irreplaceable" apparatus of central administration—all the committees, departments, and ministries. That's why the administrators don't like the market. When they manage less, things go better—that's what insults our officials. Let them be insulted; we will change to a market system no matter what they say.

But how are prices set in a market system? By supply and demand. I won't buy meat in cooperative stores for five rubles a kilo or in state stores for two rubles when I can buy it from the Arkhangelsk peasant for one ruble. And you'll probably do the same. What will happen? Prices will immediately drop in the cooperative and state stores. And wholesale prices

will fall as well. If producers find this unprofitable, they will have to make adjustments and improve their efficiency—learning from the Arkhangelsk peasant—or else shift to producing something else.

Unlike the State Committee on Prices, the market will not support excess expenses and poor work. Those who know how to work will earn real money, and those who can't will either learn or they won't have any way to support themselves. Society has no obligation to pay for poor work, but it will willingly pay for efficient labor satisfying public demand, and thereby encourage and stimulate the conscientious and competent workman. This gives you some idea of how the market works to control socially necessary expenditures, to stimulate efficiency, and to set costs and prices.

—ALEXEI MYASNIKOV, writing in *Glasnost*, a dissident publication founded in Moscow in 1987. Translation provided by the Center for Democracy in the U.S.S.R., 358 W. 30th Street, Suite 1-A, New York, NY 10001.

The Triumph of Capitalism

Less than 75 years after it officially began, the contest between capitalism and socialism is over: capitalism has won. The Soviet Union, China, and Eastern Europe have given us the clearest possible proof that capitalism organizes the material affairs of humankind more satisfactorily than socialism. . . . Indeed, it is difficult to observe the changes taking place in the world today and not conclude that the nose of the capitalist camel has been pushed so far under the socialist tent that the great question now seems how rapid will be the transformation of socialism into capitalism, and not the other way around, as things looked only a half century ago.

—ROBERT HEILBRONER, a leading socialist economist, writing in the January 23, 1989, issue of *The New Yorker*.

Crackdown in China

by Pujie Zheng

Recent events in China have stunned the world. Since mid-April, the courage of the Chinese students who put their lives on the line to campaign for democracy, the self-restraint of the million Beijing citizens who staged a completely nonviolent demonstration, and the cruelty of the government that used tanks and machine guns against unarmed peaceful demonstrators have amazed and shocked people around the globe.

Background to Crisis

For the students, it is a political movement. But the common people went to the streets for economic reasons—they were disappointed with the government's inability to carry out the 10-year-old economic reform.

After the death of Mao Zedong in 1976, Hua Guofeng, Mao's designated successor, arrested the so-called "Gang of Four" and took over the government. According to the people's wishes, Hua Guofeng invited Deng Xiaoping to work in the government in 1978 to help him with the reform.

But Deng wanted the reform to go much further than Hua anticipated. For example, Hua insisted that whatever Mao Zedong had said should be kept as the Communist Party's policy. Deng was against that. With the support of the people, Deng Xiaoping prevailed over Hua

Guofeng in 1979 and took over control of the country.

Deng first changed the Party's priorities. Against Mao Zedong's thought, Deng said that the class struggle was no longer the Party's top priority. The most urgent problem was the design of the socialist system. Deng's slogan—"No matter whether the cat is white or black, as long as it catches rats, it is a good one"—hinted at his adoption of some capitalist principles.

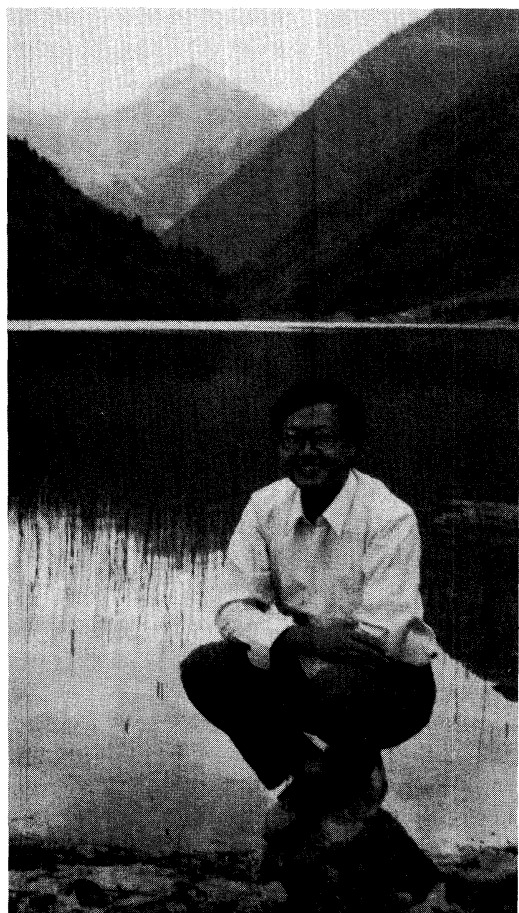
Deng understood that he needed foreign help in his economic reform. Under Deng, the Sino-Japanese Friendship Treaty was signed and diplomatic relations with the United States were solidified. China started to encourage foreign businessmen to invest, which was symbolized by several special economic zones around China that suffered less from government red tape and attracted a lot of foreign capital. China also welcomed foreign scholars.

Inside China, Deng Xiaoping resumed the college entrance exam. Anyone who passed the exam could go to college free of charge. After the re-establishment of the exam, students across the nation began to put their time and energy into studying.

Deng allowed college students to have access to a wide variety of Western materials. When I was studying in Qinghua University in Beijing, I was permitted to read *The New York Times*, *Time*, *Newsweek*, and many other foreign publications. Deng also allowed Chinese television to carry international news produced by foreign stations.

After the reform started, Deng found that the Party's bureaucracy was his biggest enemy. The

Pujie Zheng graduated from Qinghua University, Beijing, China, in 1985. Currently a graduate student in physics at the University of Virginia, he visited China at the height of the student unrest and military crackdown in May and June.



Author Pujie Zheng in Sichuan Province, China.

officials were too old and were experts only in “class struggle.” They didn’t have the experience or the knowledge to make their bureaus productive.

Deng forced all middle and low level government officials over 60 years old to retire, and replaced them with younger and better educated people. He promoted Hu Yaobang and Zhao Ziyang to the central government to be his chief aides in the reform. He spent much of his time making sure that the military wouldn’t cause trouble for him.

Deng was unable to remove the senior high-level officials who were against his reform and were known as “old guard.” All he did was to put those old guards aside by giving them ceremonial positions in the government.

After these preparations, Deng Xiaoping started his economic reform. He accepted the idea of

using the market as a feedback to stimulate economic productivity. (Note: There were no independent companies in China at that time. The government owned everything.) In this way, productive factories which made needed goods would have more money to pay their workers and, in theory, would find it easier to get loans from the Construction Bank that was in charge of investment. Deng’s reform changed the country’s economic structure to the greatest extent since Mao’s death. But there was one thing Deng Xiaoping did not want to reform—the structure of the government. He wanted to keep his absolute control over the country. For example, when the stock market was established, he did not allow stock prices to fluctuate freely, which largely reduced investors’ interest in the stock market and curtailed the market’s ability to put money into the most profitable and thus most efficient hands.

Deng did not understand that the success of the economic reform relied on the freedom of the players in the market. And the freedom of the players in the market depended on less government control.

By comparing China with foreign countries, the college students discovered this problem first. Besides their access to foreign publications, exchange programs sent many students abroad, which gave them firsthand knowledge of the Western world. When those students returned to China, they told their friends about what they had seen.

Also, the college students were the most faithful readers of the Western books which were translated and published in China. When books describing the idea of nonviolent protest were published, the students read them eagerly. The spirits of Mahatma Gandhi, Romain Rolland, Chinese translator Fu Lei, and others were planted deeply in the hearts of the people by those books.

As the economic reform went on, it became clearer to the students that it would have no chance of succeeding without democratic reform—the political leaders should be elected by the majority, and the minority (including students themselves) should have a chance to express themselves.

In 1987, the students went to the streets to express their thoughts. They had the support of Hu Yaobang. But they did not get much support

from the common people because, in 1987, the economic reform was still heading in the right direction.

Deng Xiaoping did not want to lose any of his control. He fired Hu Yaobang as the General Secretary, moved Premier Zhao Ziyang to Hu's position, and promoted Li Peng, who was a representative of the old guard and a stepson of the late premier Zhou Enlai, to the Premier's position.

Although Zhao Ziyang was not as enthusiastic as Hu Yaobang in supporting the students' drive for democracy, he understood that political changes were unavoidable, saying, "As the economic reform developed, the political reform became unavoidable."

The unavoidable came in 1988, when inflation rose to over 30 percent. Living standards went down for the first time since the reform. Other problems, such as corrupt officials using their power to reap illegal gains (sometimes running into the millions of dollars) also irritated the people. In the face of those problems, Li Peng showed only his uselessness.

Although the conservatives had controlled the executive branch of the government since 1987, the Party was not in their hands. After Hu Yaobang was fired as the Party's General Secretary, he was still a member of the five-man Politburo Standing Committee, which gave him the right to vote for reform on all the important issues.

The Demonstration

The breaking point was in early April, when Hu Yaobang had a heart attack during a debate at a Party meeting. He was hospitalized and died on April 15. After Hu's death, the original balance of the Politburo Standing Committee was lost, and the reformers had virtually no chance of winning votes in the Committee.

On April 16, the students began to send floral wreaths to the Monument for People's Heroes in the center of the Tiananmen Square. Millions of people responded in support of the students, which brought the city of Beijing to a standstill.

Deng Xiaoping lost his temper. He underestimated the strength of the students at this time, and he forgot what Mao Zedong had said: "The ones who suppress the students will not have a

good ending in their lives." With the support of the old guard and the army, Deng decided to crack down on the student movement.

On May 20, after Zhao Ziyang, who was then still the General Secretary, knew that a bloody crackdown was on its way, he insisted that Li Peng go to the Square with him and visit the students. After Li Peng had left the Square, Zhao Ziyang told the students, "We come too late. . . . We are too old to see the day when China is strong. But you are young. You should stay alive." The student leaders took Zhao's hint and began preparing to leave the Square.

But the old guard didn't want the students to retreat because they would lose their excuse to punish them. So before the student leaders took their vote on whether to leave the Square, the old guards broadcast Li Peng's and Yang Shangkun's speeches declaring martial law and describing the students as rioters. When the vote took place, the students who wanted to stay in the Square won by a small margin.

After Li Peng's speech, troops were sent into Beijing to carry out the martial law. But the students were stronger than the old guards expected. Beijing citizens flooded the streets. They blocked the army trucks and persuaded many soldiers to turn back against their orders.

Yang Shangkun, the President of China and a military lord, whose brother, sons, son-in-law, and other relatives are in key army positions, moved in 350,000 troops to prevent Beijing's 38th Army from interfering when the 27th Army under Yang Shangkun's brother was carrying out the crackdown. After several days of preparation, on the night of June 3 and the morning of June 4 the Chinese government declared war against its own people. Tanks crushed anyone in their way. Machine guns shot unarmed civilians. Fearing that the soldiers wouldn't shoot their countrymen, military leaders reportedly gave the soldiers injections of stimulant before they were sent to the city.

The command center designated the occupation of every street corner as a "military campaign," the word normally used to denote a major battle in a regular war.

One doctor said during the massacre that he felt he was in great danger because he knew too much about the situation of the students and the soldiers.

Under the army's pressure, the students decided to leave the Square. But the army poured into the Square before the students retreated. Then Tiananmen Square, the Square of Heavenly Peace, became a slaughter-yard in which Chinese butchered Chinese. Because of the government news blackout, the death toll couldn't be confirmed.

Similar killing happened in Chengdu, the capital of Sichuan Province, the home of Deng Xiaoping, Li Peng, and Yang Shangkun.

The people's voice was diminished after the army's occupation of the Square. Some people stayed at home to listen to the Voice of America and BBC's Chinese news programs, which might be one of the reasons there were shortages of short-wave radios in some areas. And many others were deceived by the government.

The Future

The government took over Beijing, but they did not win. This is the weakest regime since 1949.

First, it is afraid of the truth. Before and after the bloody crackdown, the government tried its best to mislead the people.

As a Chinese proverb says, one cannot wrap fire with paper. There are simply too many people who know the truth of this event. Through word of mouth, it is only a matter of time before people throughout China know the facts. The other reason that the news blackout won't work is that this government is much less creative than Mao Zedong's. Their methods had been used by Mao—but Mao's techniques had been exposed to the public during the reform.

Second, Mao Zedong never paid people to

demonstrate in support of him. But this regime had to pay the Beijing suburban people and bribe them with supplies of chemical fertilizer to demonstrate in its favor.

Last, before the military crackdown, the government reportedly moved \$80 million to foreign banks and prepared airplanes for the leaders' escape. Mao Zedong never would have thought about escaping from China.

Such a weak regime, as described by one Chinese student, "The 80-year-olds are calling the 70-year-olds to decide which 60-year-olds should retire," is not going to last. And the representatives of the old guard, such as Premier Li Peng and the new General Secretary, Jiang Zemin, do not have the ability to run such a big country against the overwhelming majority of the people.

Deng Xiaoping has miscalculated the strength of the people. The blood in Beijing and other cities scared some. But it awakened more. After the Beijing Massacre, many people who used to be friends of the Communist Party had a change of heart. As the president of *Wen Hui Bao*, the leftist Hong Kong newspaper, said, "I have been a friend of the Chinese Communist Party. I was so even during the Cultural Revolution. But today, I feel shame to be a friend of theirs."

A government with no friend is weak. Such a weak government is not strong enough to turn back the economic reform measures which already had been carried out. So, the economic structure was not damaged by the student movement. And the day for people's success is not too far away.

With no doubt, this is one of the darkest times in China's history. But as a Chinese poem points out, "The darkest time has come. Is it going to be long before the dawn?" □

The Rise and Fall of the Edsel

by Anthony Young

Mention "Edsel" to anyone over the age of 30 and you will hear pretty much the same response. While the answers may vary somewhat, practically everyone knows it was a car introduced in the 1950s that failed miserably. Many people will add that they think it bombed because of its bizarre front-end styling. But, in fact, the Edsel failed for more fundamental reasons.

The Edsel proved that mere size doesn't insulate corporate decision-makers from errors in judgment; large automotive corporations are just as capable of making major mistakes in new product planning, production, advertising, and marketing as smaller companies. It is a fascinating story that holds free market implications worth remembering.

The early 1950s were a euphoric period for automakers. In 1955 Americans bought a record 7,169,908 new cars. This auto-buying frenzy was just one aspect of the postwar economy that Vance Packard described in *The Status Seekers*, published in 1959.¹ In Packard's view, automobiles evolved from mere transportation vehicles just after World War II to symbols of middle-class affluence in the first half of the 1950s. The V-8 engine reigned supreme and horsepower was the watchword. In this heady market atmosphere Ford Motor Company conceived a new car that they hoped

would help the company surpass General Motors in overall market share.

Seeds of Disaster

Ford executives attributed General Motor's large market share to GM's wide range of offerings—from the low-priced Chevrolet and Pontiac, to the mid-priced Buick and Oldsmobile, up to the luxury-priced Cadillac. Henry Ford II and Board Chairman Ernest Breech believed that the low-priced Ford, upper-middle-priced Mercury, and luxury-priced Lincoln car lines left a gap Ford should fill. A 1952 market study confirming this made the rounds at Ford and Lincoln-Mercury division headquarters. The new car should be for the young executive. By 1954, a task force drew up plans for a medium-priced car to be sold through Lincoln-Mercury dealers.

One top-level Ford executive, Lewis D. Crusoe, disagreed with the proposal, stating strongly that the new car should be a product of a whole new Ford division with its own dealer network. Henry Ford II and Ernest Breech agreed with Crusoe. This was the first key mistake in the Edsel saga and perhaps the most damaging.

The Ford Motor Company was restructured so that there would be distinct divisions for Ford, Mercury, Lincoln, and the yet-to-be-named mid-priced car division. In the summer of 1955, the staff for the new "E" (experimen-

Mr. Young, a regular contributor to Automobile Quarterly, has written extensively on automotive history.

tal) car division was brought together in some inconspicuous buildings that had made up the short-lived Continental Division.

What's in a Name?

One of the first jobs for division president Dick Krafve was to select a name for the division and the models to be built. The task was fraught with peril. As author Robert Lacey put it, "The name had to excite the public while not alarming it unduly. It had to distance the new vehicle from existing Ford, Lincoln, and Mercury labels, while remaining reassuringly part of the same great family of automobiles. It had to satisfy all manner of other requirements, from starting with a letter that would look good on the front hood ornament, to not rhyming with anything rude."²

Market research had played a key role in developing both the concept and the name of the highly successful Ford Thunderbird, introduced in the fall of 1954. Ford again drew upon market research for the names of its new division and models.

Polling was conducted in New York, Chicago, and two small towns in Michigan, asking people not just for ideas, but what came to mind when certain names were suggested. The possibilities numbered 2,000. Foote, Cone and Belding, the new division's ad agency, ran a contest with its employees that produced 8,000 suggestions, later pared down to 6,000 names. In an effort to get new direction, the head of Ford market research contacted poet Marianne Moore, asking her to come up with names that would evoke "some visceral feeling of elegance, fleetness, advanced features and design." Among her more memorable suggestions were Resilient Bullet, Utopian Turtletop, Pastelogram, Mongoose Civique, Andante con Moto, and the Varsity Stroke.³ Understandably, none of these was adopted.

In a meeting of the Ford Executive Committee in November 1956, exasperation reached its peak. Chairman Ernest Breech finally made the momentous decision. "Why don't we just call it Edsel?" he asked. Edsel Ford was Henry Ford I's only son. Edsel's three sons were William Clay, Benson, and Henry II. All three were opposed to Breech's suggestion, but the

name was adopted.

Twelve months of work to come up with just the right name for the division had gone down the tubes. It was a name having significance only to the Ford family, not the man in the street. In fact, during name-association polling, "Edsel" brought forth responses like "Pretzel" and "Weasel." In a terse memo, public relations director for the new division, C. Gayle Warnock, typed, "We have just lost 200,000 sales."⁴

The names for the various Edsel models were chosen from a final master list having positive connotations. They were Pacer, Citation, Corsair, Ranger, and for the three station wagons, Roundup, Villager, and Bermuda.

The Recognition Factor

The styling of the Edsel is surely the most remembered aspect of the car. This, too, had a depressing effect on sales. Why did it end up looking the way it did?

The original Edsel took shape in the Ford Design Center and was kept under tight wraps. To begin with, photographs were taken of the front-end of every new domestic car. Although differing to a greater or lesser degree, all had basically the same horizontal design theme. The design chief for the Edsel proposed a vertical theme to give it the recognition factor Ford felt an entirely new car needed to set it apart. Lacey wrote, "With concealed airscoops below the bumpers, this first version of the 'E' car was original and dramatic—a dreamlike, ethereal creation which struck those who saw it as the very embodiment of the future."⁵

It was never to be. When all the concessions were made to accommodate cooling, ventilation, production costs, and a host of opinions, the Edsel that emerged in 1957 is sadly the one we remember today. The front-end was likened to an Oldsmobile sucking a lemon, a horse collar—even a toilet seat. The rest of the car, both inside and out, was really no better or worse than the other offerings in the late fifties. Ford achieved the recognition factor it was shooting for, but it wasn't positive recognition.

To build up interest in the new automobile, public relations director Warnock decided on



1959 Edsel Ranger

COURTESY OF THE FORD MOTOR COMPANY

carefully controlled leaks to the print media. These took place over a two-year period prior to the Edsel's introduction. Both *Time* and *Life* made statements to the effect that the mystery car was the first totally new car in 20 years, and that it had been in the planning stages for 10 years. This was patently false. Far from being revolutionary, the Edsel borrowed heavily from both Ford and Mercury components.

In fact, during the first year of production, Edsels were built in Ford and Mercury plants. The Ranger and Pacer Edsels (including the Roundup, Villager, and Bermuda station wagons) were built on Ford chassis, and the Corsair and Citation Edsels were built on Mercury chassis. The Edsel division paid Ford and Mercury for each Edsel built. Every 61st car down the Ford or Mercury assembly line was an Edsel, so workers had to reach for parts in separate bins. Mistakes were made and quality on these hastily assembled cars suffered.

This became painfully apparent when

Warnock planned to launch the Edsel. Automotive journalists were to drive 75 Edsels from Dearborn, Michigan, to their local Edsel dealers. The cars had to perform without mishap, and couldn't reveal any defects. After all, the car had been the subject of nearly two years of hype, and expectations were high. After a comprehensive testing procedure that took two months to complete, 68 cars were handed over to journalists and driven to their respective destinations. The other seven had to be cannibalized for parts. The average repair bill for each car came to roughly \$10,000, which was more than twice the price of the top-of-the-line Edsel.

The Market Yawns

Ford officially introduced the Edsel in September 1957. "There has never been a car like the Edsel," the brochure read. Nearly three million curiosity seekers visited Edsel showrooms in the first week. Dealers pumped

the car for all it was worth, but many people were underwhelmed. Aside from the radical styling, consumers couldn't understand what all the hype had been about.

Ford's fledgling automobile couldn't have been introduced at a worse time. The fall of 1957 was marked by a recession that had a severe impact on car sales. Compared to the previous year, Desoto sales plunged 54 percent, Mercury dropped 48 percent, Dodge was off 47 percent, Buick 33 percent, Pontiac 28 percent, and so it went. Ford had considered introducing the Edsel in June instead of September, but decided against it. Thus, only a little over 63,000 Edsels were sold in its first year. Some blamed the recession for the Edsel's poor sales, and this was partly true, but another new car, the American Motors Rambler, sold over 100,000 units in 1957 and twice that in 1958. The Rambler was the right car for the market—the Edsel was not.

Ford made yet another error with the Edsel. The company had introduced the snazzy, mid-priced Ford Fairlane in 1956, undercutting the Edsel's market segment. The Fairlane sold for less than the Edsel, and many car buyers who wanted a Ford product saw the car as a better value.

In an effort to cut its losses, Ford merged the Edsel division with Lincoln-Mercury and, for 1959, cut back on available models, added an optional six-cylinder engine, and altered the car's styling somewhat. Plans already were in motion to revamp the Edsel's look for 1960. Just under 45,000 Edsels were sold in 1959.

Even as the completely restyled 1960 Edsels were rolling down the assembly line, the decision had been made to cease production. Only

2,846 units were sold in the car's third and last year.

Market Lessons

The Edsel serves as a textbook example of corporate presumption and disregard for market realities. It also demonstrates that advertising and pre-delivery hype have their limits in inducing consumers to buy a new and unproven car. In a free market economy, it is the car-buying public, not the manufacturer, that determines the success or failure of an automobile. A manufacturer shouldn't oversell a new car, or unrealistic expectations will be built up in the minds of consumers. If the newly introduced car doesn't live up to expectations, it is practically doomed on the showroom floor.

Ford learned from the Edsel that it couldn't dictate to consumers what they should buy. It hasn't made a similar mistake since. Several years after the Edsel's demise, Ford introduced the Mustang, a brand-new, sporty, affordable car Americans eagerly embraced. More recently, Ford introduced the Taurus, again a response to the car buyer's needs and wants, which has proved a tremendous market success. The Edsel, on the other hand, will remain an automotive oddity—the answer to a question nobody asked. □

1. Vance Packard, *The Status Seekers* (New York: David McKay Company, 1959), pp. 312-316.

2. Robert Lacey, *Ford: The Men and the Machine* (Boston: Little, Brown and Company, 1986), p. 481.

3. Len Frank, "The Edsel: It Really Was That Bad," *Collectible Automobile*, July 1984, p. 62.

4. Lacey, pp. 483-484.

5. *Ibid.*, p. 481.

Crime and Consequences

by Robert James Bidinotto

Summary of Parts I and II: The crime explosion of recent decades coincided, ironically, with welfare-state programs to address alleged "causes" of crime and with efforts to supplant inmate punishment with "rehabilitation." These reforms were implemented by an "Excuse-Making Industry" of social scientists, whose fallacious deterministic theories held that criminals were helpless "victims" of social, psychological, or biological forces supposedly beyond their control.

Treating criminals as victims undermined justice and began to bias the criminal justice system on their behalf. "Reforms" helpful to criminals included new courtroom rules excluding certain voluntary criminal confessions and factual evidence; lenient bail and release-on-recognizance practices; and routine sentence-reduction and release policies, such as plea bargaining, probation, parole, and insanity defenses. These measures not only have failed to reduce criminality; they have diminished public safety. So have "progressive" correctional programs, to which we now turn our attention.

Part III: "... To Insure Domestic Tranquility ..."

What to do with criminals? Those relatively few criminals netted by the criminal justice system must be dealt with somehow. Over the centuries, society has employed countless methods to accomplish a variety of purposes: punishment and retribution, deterrence, incapacitation, moral education, and rehabilitation.¹

And yet crime continues to increase. Here again, Aristotle's point about causality applies: the nature of an entity determines what it will do. The fundamental reason for the intractable crime problem is that previous crime-control efforts have failed to consider *the nature of the criminal himself*. To reform the criminal justice and correctional systems—and, we hope, the

criminal—we must first understand something about the criminal mind.

"Inside the Criminal Mind"

Numerous empirical studies demonstrate that criminals simply don't *think* like non-criminals.

A representative study in Colorado found that, even at an early age, future delinquents had "less regard for the rights and feelings of their peers; less awareness of the need to accept responsibility for their obligations . . . and poorer attitudes toward authority, including failure to understand the need for rules and regulations in any well-ordered social group. . . . They were significantly less likely than their nondelinquent [peers] to be viewed as dependable, friendly, pleasant, considerate, and fair." Many other studies have echoed these findings.² Stanton Samenow describes the criminal mind thusly: "Despite a multitude of differences in their backgrounds and crime patterns, criminals are alike in one way: *how they think* . . . [all] regard the world as a chessboard over which they have total control, and they perceive people as pawns to

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be pushed around at will. Trust, love, loyalty, and teamwork are incompatible with their way of life. They scorn and exploit most people who are kind, trusting, hardworking, and honest. Toward a few they are sentimental but rarely considerate. Some of their most altruistic acts have sinister motives”

Such traits are also typical of what is called the “psychopath” or “sociopath,” as Samenow makes clear. “Although diagnosticians may make distinctions between the psychopath and criminal, for all ostensible purposes, one differs hardly at all from the other.” Among the common characteristics of the criminal and psychopath: a short-range, self-indulgent outlook on life; a lack of any sense of self-responsibility; the desire to manipulate and dominate others through chronic deception and force; and the ability to shut off his conscience at will.³

At one time, the criminal was even described as a “moral imbecile”—one whose shortcomings were primarily *ethical*.⁴ Summarizing numerous studies of criminal psychology, Wilson and Herrnstein note that “one of our recurrent themes in these test data is the lack of internalized constraints”—e. g., what used to be called “conscience.”⁵

The criminal welcomes anything that would assist him in his predatory behavior. And here, the Excuse-Making Industry is invaluable to him. Its overall ethical thrust has been to excuse malicious behavior and thus deaden the pangs of conscience. By concocting theories, policies, and programs which excuse irresponsibility, Excuse-Makers have fostered a general social climate of moral relativism—thus undermining any guilt feelings which might act as inner constraints on criminal behavior.

If a salient trait of psychopathic criminality is a deadened conscience, then the sudden takeoff of crime during the heyday of moral relativism—the 1960s—makes even more sense. There is even more specific evidence of this: the simultaneous *geometric* increase in the number of so-called “serial killers” on the prowl.

The serial killer is a nihilistic repeat murderer, who often commits ghastly crimes out of pure hatred for society. As FBI experts describe him, he “exhibits complete indifference

to the interests and welfare of society and displays an irresponsible and self-centered attitude. While disliking people in general, he does not avoid them. Instead, he is capable of displaying an amiable facade for as long as it takes to manipulate people toward his own personal goal. He is a methodical and cunning individual . . . fully cognizant of the criminality of his act and its impact on society, *and it is for this reason that he commits the crime.*” [Emphasis added.]⁶

Ominously, as many of these multiple murderers emerged during the 1960s as during the four preceding decades combined. During the 1970s, their number nearly tripled over that of the 1960s; and that figure, in turn, has been tripling again during the 1980s.⁷ If a deadened conscience is a salient feature of the criminal, it is a *defining* trait of the serial killer. The abrupt geometric increase in this most depraved form of antisocial behavior is inexplicable—unless we consider the abrupt erosion of the moral landscape, and moral conscience, since the 1960s, courtesy of the Excuse-Making Industry.

The failure of the Excuse-Makers to understand the criminal mind has crippled their ability to design effective remedies for crime. We’ve already seen the disastrous consequences of their influence upon the criminal justice system. Now consider, more briefly, their corruption of the so-called “correctional system.”

The Correctional System

The Excuse-Makers’ revolution in penology was consolidated during the 1960s and 1970s. “The day—if there ever was one—when vengeance could have any moral justification passed centuries ago,” declared former Attorney General Ramsey Clark in his influential 1970 book, *Crime In America*. “Punishment as an end in itself is itself a crime in our times The use of prisons to punish only causes crime Rehabilitation must be the goal of modern corrections. Every other consideration should be subordinated to it.”⁸

And it was. Today’s “correctional facilities” are designed for the outwardly mobile. Closer relationships between prison staff and inmates are encouraged. Discipline has been relaxed,

and punishment largely banished. Inmates are to be enticed from their criminal ways—through counseling and group therapy sessions, vocational and educational opportunities, input into prison policy-making, a host of programs for “self-expression” and entertainment, and participation in various release programs. This atmosphere is primarily a result of indeterminate sentencing provisions, under which an inmate may be released on parole whenever authorities feel he has reformed.

For example, under Massachusetts laws, a “state prison” sentence means that only one-third of the inmate’s *minimum* sentence must be served; and a six to twelve-year “reformatory” sentence means he’ll be parole-eligible in one year—or, if he’s a repeat offender, in 18 months.⁹ Likewise, in Oregon, a felon sentenced to five years for a major crime may do as little as *one month*; for a lesser felony, he’ll do *one day*. (Outraged Oregonians recently passed a “truth-in-sentencing” referendum to end such practices.)¹⁰

The most egregious instances of early release are in the case of “life” sentences. Contrary to public impressions, a sentence of “life”—or even “life without possibility of parole”—almost never means that. In states like Massachusetts and Nebraska, “life without parole” sentences “routinely are commuted to parole at some point.”¹¹ In Wyoming, “life” means 20-25 years before parole eligibility; but with “good time” (i.e., good behavior reductions), a “lifer” might spend half that time in prison. “Life” actually means about twelve years before parole eligibility in Virginia¹² and Kentucky; ten years in Mississippi and West Virginia; and seven in Georgia.¹³

The likelihood of speedy release on parole has shaped the entire prison environment. In essence, the “plea bargaining” process, which begins in the courtroom, extends into the prison itself.

The inmate generally behaves himself, participates in rehabilitation programs, and perhaps proclaims a sudden religious conversion. If single, he may place “lonely hearts” classified ads in newspapers, hoping to spark an outside romance that (thanks to furloughs) will lead to marriage and children—and hence, evidence of a “stable family” of dependents who

“need” his presence. This all looks good to the parole board.

For their part, prison authorities make deals, extend privileges, tend to inmate grievances, and are rewarded with a relatively quiet prison population. Pragmatic considerations—costs, overcrowding, and the desire to curtail violence—have reduced them to tacit co-conspirators with inmates in an awkward charade: the inmates pretend to reform themselves, while their keepers pretend to believe them.

In short, the carrots of outside release programs, special privileges, and ultimately, early parole, have replaced the disciplinary sticks of punishment in keeping the prison system running smoothly. The only casualties are truth and justice.

From Rehabilitation to “Reintegration”

But while prisons were reshaping themselves according to the new rehabilitation dogma, a distressing thing was happening: rehabilitation efforts were failing, universally and miserably.¹⁴ Yet the collapse of rehabilitation didn’t prompt the Excuse-Making Industry to question its deterministic premises. Instead, its members rooted about desperately for still another excuse to continue the rehabilitation approach.

“While numerous theories have been offered to explain the failure of rehabilitation,” admitted the Massachusetts Department of Correction (DOC) in a 1988 report, “many have commonly traced this failure to the very nature of the incarceration process itself, as well as counter-productive forces operating within the prison community or, in other terms, ‘prisonization.’”

And what is “prisonization”? “According to the prisonization hypothesis, prison incarceration produces damage by interrupting and interfering with the offender’s life cycle—school, work, heterosexual relationships, finances, etc.—at a time when the damage is most harmful, between the ages of 18 and 30 . . . Offenders have traditionally been taken out of our society and placed in another social system, the prison, that in no way constructively resembles

the society to which they will eventually return.”

The DOC concluded that “. . . rehabilitation per se is not the problem, but rather those ‘prisonization’ forces which greatly overshadow and diminish rehabilitation efforts.”¹⁵ The problem, in short, is that we’re trying to rehabilitate inmates *in prison*.

The Excuse-Makers’ ingenious “solution” was that inmates should still be rehabilitated—not behind prison walls, but *out in the community*. Hence, the “reintegration model,” which “assumes that offenders can better learn to obey the law if they are involved through personal and social ties with the normal institutions of the community—family, church, and the workplace.”¹⁶ Observe that the DOC report refers to “prisonization” as a mere “hypothesis,” and makes clear that the reintegration model only “assumes” the benefits of what is often called community-based rehabilitation. This is appropriate, for there is no evidence to support them. The Excuse-Makers’ deterministic premises prevent them from ever asking how it is that a “normal” outside environment managed to “shape” the inmate into a criminal in the first place—or how returning him to it will keep him out of future trouble. In fact, the criminal, by choice, was never part of normal society.

“It is misleading to claim that the criminal wants what the responsible person wants, that he values the same things that a responsible person values,” Samenow argues. Rehabilitation “cannot possibly be effective because it is based on a total misconception. To rehabilitate is to restore to a former constructive capacity or condition. *There is nothing to which to rehabilitate a criminal.* There is no earlier condition of being responsible to which to restore him . . . [Likewise] the notion of ‘reintegrating the criminal into the community.’ It is absurd to speak of reintegrating him when he was never integrated in the first place.”¹⁷

The criminal lives within a criminal subculture, where “normal” people and institutions are to be used, victimized, and manipulated. Typically, his family is neglected or exploited; his jobs (if any) serve as mere launch pads for wider criminal activity; and his involvements with respectable institutions are a cover, mask-

ing his felonious activities. Without his changing his *thinking*—something the criminal must *want* to do himself—his rehabilitation and reintegration prospects are nil, Samenow concludes.¹⁸

“Prisonization” is only the latest rationalization to mask the Excuse-Makers’ visceral hostility to punishment and prisons as such. As early as 1951, in his widely acclaimed *Break Down the Walls*, John Barlow Martin wrote that “Prisons should be abolished.”¹⁹ Writers such as Ramsey Clark, John G. Wilson, Jessica Mitford, Donald Powell Wilson, and Karl Menninger (among many others) sometimes went as far, or nearly so. Their views won a quasi-official status. The National Council on Crime and Delinquency recommended that no new prisons be built until all other options were examined.²⁰ Likewise, the American Law Institute’s influential Model Penal Code recommended that courts not impose a prison sentence except as a last resort for public safety.²¹ The idea of imprisonment was even subverted from within. In a revealing instance of the fox guarding the chicken coop, John O. Boone—who pioneered “community-based corrections” as Commissioner of Corrections both in Washington, D. C., and in Massachusetts in the early 1970s—later founded the National Campaign Against Prisons.²²

But the Excuse-Making Industry would take what it could get, and its last-gasp efforts to salvage rehabilitation paid off. In 1965, the Federal Prisoner Rehabilitation Act gave Federal sanction and support to nationwide “community-based corrections” experiments, such as work-release programs, home furloughs, halfway houses, and the like. This seed money, one proponent wrote, “began a new era, with community-based corrections as a major component in the field of criminal justice.”²³ Like the phoenix, rehabilitation had risen from the ashes in new garb. But has “community-based corrections” worked any better than traditional rehabilitation?

Prison Furloughs

A “prison furlough” is the temporary release of an inmate back into the community.

Furloughs, usually under armed guard, used

to be granted only as rare exceptions, typically to let an inmate attend a family funeral or get emergency medical care. Yet thanks to the Excuse-Making Industry, unescorted prison leaves, in the guise of “community-based corrections,” are now a routine part of prison life in most states.

Given that only a tiny percentage of criminals are ever imprisoned, it makes no sense to allow them, once captured, the chance to escape or commit further crimes. Yet every week, across the nation, thousands of society’s most vicious robbers, rapists, and killers are allowed to participate in what is supposed to be an “honor system.” In 1987 alone, some 200,000 furloughs—ranging in duration from four hours to 210 days (in Oregon)—were granted to more than 53,000 prison inmates.²⁴ In many states, furloughs are granted, at least occasionally, even to murderers serving nominal “life” sentences, usually when they are nearing parole or after a sentence commutation. Until aroused citizens forced a change in its laws last year, Massachusetts routinely furloughed first-degree murderers supposedly *ineligible* for parole.

The Massachusetts example shows just how far the Excuse-Making Industry is willing to go. As a sympathetic writer put it, “Under the Massachusetts concept of repair rather than revenge, no person is believed beyond redemption, not even a rapist or a killer.”²⁵ That’s why, despite “the fact that 85 percent of the DOC inmate population has a present or past violent criminal history,”²⁶ 28 percent of that population had participated in the furlough program as of January 1987. Since the program’s inception in 1972, 121,713 furloughs had been granted to 10,835 Massachusetts inmates; 5,554 of those unescorted leaves were taken by *first-degree murderers*, supposedly serving “life without parole” sentences.²⁷

The results, predictably, have included chronic escapes, and grisly crimes committed by furloughed inmates—up to and including multiple murders.²⁸

If rehabilitation is one excuse for granting furloughs, there are pragmatic ones, too. Massachusetts Correction Commissioner Michael Fair testified that furloughs for murderers were “a management tool for [inmate] behav-

ior . . . [I]t would be more dangerous to run a system without a furlough program.”²⁹ Why? “Once we have removed all hope from someone,” he explained, “then we have the difficulty of dealing with someone who has nothing to lose. We would have a very dangerous population in an already dangerous system.”³⁰ But if armed guards can’t control “very dangerous” killers inside prison walls, how are unsuspecting, unarmed citizens supposed to deal with them on the streets?

Such release programs, and the tragedies they foster, are inexcusable, and can be defended only by factual misrepresentations. Similar techniques are commonly used to defend *all* release programs, so a brief survey is appropriate.

For instance, Massachusetts officials proclaimed a furlough “escape rate” of only 0.5 percent. This impressive-sounding number was calculated by dividing the 428 escapees by the 121,713 furloughs granted from 1972 through 1987. However, those furloughs were granted repeatedly to only 10,835 inmates.³¹ Dividing 428 by *that* number reveals an actual escape rate of *one out of every 25 furlough participants*—hardly a record to boast about.

The tale of Peter J. Limone shows another way in which “escape statistics” mislead. Limone is a gangland figure sentenced to “life without parole” for a contract murder. Nonetheless, in 1987 he was in a Boston pre-release center, preparing for “reintegration,” when authorities found that he’d been using the center—and some 160 furloughs—to manage a local loan-shark operation. Limone’s furloughs, of course, still count as 100 percent successful on DOC records—simply because he always returned.³²

Another way of claiming the “success” of furlough and other release programs is by manipulating recidivism statistics. A “recidivism rate” is the percentage of inmates who, once released, return to crime. Depending on how one measures “return to crime,” however, such numbers can show glowing success where there is none.

Does one measure “return to crime” over a six-month period, one year, three years, or five years? The shorter the time span, the smaller the recidivism rate. Does one simply count re-

arrests? or re-convictions and re-commitments to a state prison? The latter numbers also artificially reduce the recidivism rate.

Another trick is to use selected samples. One report claimed that 1984 parolees who had *not* had the “benefit” of a furlough program had a 31 percent recidivism rate. This was much higher than the 12 percent reported by parolees who had furloughs. The conclusion: furloughs reduce recidivism.³³ But unmentioned was the fact that inmates are *pre-screened* for admission into release programs: those with the worst prison disciplinary records are not eligible. This biases the sampling procedure at the outset, by comparing bad apples with the *worst* apples. Program participation itself, therefore, has nothing to do with lowering recidivism.

Statistics aside, the most compelling argument against inmate furlough programs is their fundamental injustice, both to past and prospective crime victims. For victims and their families, the emotional strain of knowing that the perpetrator is allowed to walk the streets freely becomes unbearable. They often dread the day—or night—of the criminal’s return, or of a chance encounter on a street or in a restaurant.

It is inexcusably cruel that taxpaying crime victims should have to bear these additional burdens, imposed on them by their paid protectors. It’s even more monstrous that, in some states, they aren’t even informed when their tormentor is turned loose.

Work Release

Everything said about furloughs applies to “work release”—the (supposedly) supervised release of an inmate to work at a job in the community.

From their earliest days, work release programs—like all other outside release schemes—have been exploited by criminals bent on remaining criminal. Because of their low-security status, work-release programs are responsible for a huge share of all prison escapes. In Massachusetts, for example, 26 percent of all prison escapes were from work release.³⁴

Work programs—inside or outside the

walls—don’t reduce inmate recidivism. For instance, about 50 percent of work-program graduates in New York are re-arrested *within six months*—roughly the same percentage as those who simply come out of jail.³⁵ Other programs surveyed have shown similarly dismal results.³⁶ And those few studies showing lower recidivism for work release inmates invariably suffer from the same “selection bias” sampling errors cited earlier for furlough studies.

In general, vocational training of inmates is based on the idea that unemployment causes a life of crime. Train the inmate in a job, the reasoning goes, and help him find employment on the outside, and he’s less likely to “have to steal” for a living.

But a fallacy underlies the assumption. Does unemployment lead to criminality—or vice-versa? “Criminals are at heart antiwork,” Samenow argues. “For many criminals, work means to sell your soul, to be a slave.” When employed, many criminals use their jobs as further opportunities for crime. Indeed, a Rand Corporation survey of 624 California prison inmates found that 27 percent had been regularly employed at the time they were engaged in crime. Being employed and being a criminal, then, are not mutually exclusive.³⁷

To assume that a job will reform a criminal is to assume an economic cause for criminality—just another symptom of the “sociological excuse” for crime.

Other Community-Based Correction Programs

There are many other outside release programs to ease the transition of the inmate back into society: for instance, pre-release centers, halfway houses, and drug treatment centers. All suffer from the same fundamental flaws.

There may be some argument for a gradual introduction of a long-term inmate back into the community at the end of his sentence, when there’s little incentive for him to escape or commit crimes. But a lengthy stay in a pre-release institution, long before his release date, is simply inviting trouble.

Because its correctional system sports a wide variety of such “alternative” and “diversionary” institutions, Massachusetts again pro-

vides interesting evidence of the "success" of such programs. During 1985, 71 percent of the 284 escapes occurring in all Department of Correction facilities were from pre-release centers.³⁸

Some might find that acceptable, if there were any evidence that participation in pre-release centers lowers recidivism. But there isn't. It's another example of the Excuse-Maker's wishes being father to his thoughts and plans. The earlier-cited example of the mobster using a pre-release facility as a headquarters for loan-sharking illustrates the rehabilitative powers of such institutions.

There are countless hybrid programs, combining work release with community service, or involving prisoners in the rehabilitation of mental patients. These have been plagued by inmate escapes, abuse of patients and staff, access to drugs and contraband, and the like.³⁹

But it's pointless to belabor every variation on the theme of "community-based corrections." Such programs can't work, because "reintegration" is a flawed concept. Reintegration programs are designed by normal people, for normal people. They all assume that criminals think and feel like normal people. But they don't.

The Failure of Rehabilitation and Reintegration

Practical Considerations

The argument is often made that such experiments, even if flawed, are (a) no less successful than imprisonment, and (b) far less costly to society. Both arguments are false.

(a). After thorough research, Wilson and Herrnstein concluded: "However one measures crime, it is less common in places where sanctions are more likely." For instance, one study of boys convicted of serious crimes found that those sent to reformatories showed a *greater* reduction in their re-arrest rates than those put into community-based programs like foster homes, halfway houses, and wilderness camps. In fact, "the more restrictive the super-

vision in these more benign programs, the greater the reduction in recidivism."⁴⁰

(b). The National Institute of Justice (NIJ) released a 1987 study comparing the social costs of prisons to having prisoners out on parole, probation, or in community-release programs. It found that building more prisons and filling them with criminals cost far less than what society pays for having criminals on the loose.

The NIJ survey of 2,190 inmates in three states found that each committed an average of 187 crimes per year. These cost an estimated \$430,000 per criminal in law enforcement expenditures, victim and insurance losses, and private security measures. This compares with about \$25,000 a year to build a prison cell and keep a prisoner in it. Putting 1,000 more offenders behind bars during the 1980s would have cost an additional \$25 million a year—but would have averted an average of 187,000 crimes each year, costing society about \$430 million.⁴¹

On practical grounds, *incarceration works*—serving the goals of retribution, deterrence, incapacitation, and punishment.

Moral Considerations

But the moral issue is of overriding importance; and here, the "reintegration model" is utterly indefensible. At the core of their defenses of parole, furloughs, and all other release programs, Excuse-Makers believe that occasional innocent victims are "acceptable losses."

"The [low escape rate] numbers cannot excuse the harm suffered by victims of crime committed by furloughed inmates," conceded one Excuse-Maker. "However"—he quickly added, excusing the inexcusable—"public officials making decisions regarding the furlough program . . . must weigh the risk of this harm along with the benefit to the larger community."⁴²

This cost-benefit approach—"to balance public protection with the management of our prisons and rehabilitation of inmates"⁴³—is ethically appalling. It elevates bureaucrats and politicians to a godlike status, letting them decide who lives and dies. Worse, it proposes sac-

rificing innocent human lives—merely to appease potentially rowdy inmates, or to let killers and rapists have “another chance.”

One magazine’s reporters showed how victims are typically reduced to faceless statistics in such calculations. Note the use of the word “only”: “Of 457 murderers who were freed on full parole [in Canada] between 1975 and 1986, only two individuals have been convicted of a second homicide. Indeed, convicts on early release committed only 130 of the 7,838 Canadian homicides that occurred during that same 11-year period—less than two percent.”⁴⁴

Hugh Haley, executive director of Ontario’s John Howard Society—which advocates lenient parole for murderers—summed up the Excuse-Makers’ ethical premise even more bluntly. “Are we going to keep hundreds of people in jail,” he demanded, “just to save two or three?”⁴⁵

Replied one of Willie Horton’s victims, Cliff Barnes, in a similar context: “So we’re expendable. Is that what they’re saying?”⁴⁶

That, indeed, is what the Excuse-Making Industry is saying. That, in fact, is what the reintegration premise requires.

Reforming the Criminal Justice System

If *justice* is truly to become the central focus of the criminal justice system, then the following reforms—some controversial—must be seriously considered.

Truth in the Courtroom

No facts should *ever* be banished from criminal proceedings. All exclusionary rules concerning evidence and confessions should be eliminated. If police obtain evidence by improper or illegal methods, that should be the subject of *separate* disciplinary or even criminal proceedings against the offending officers. But *evidence is evidence*.

Additionally, it’s usually absurd to exclude an individual’s past record from court deliberations. Career criminals often operate in unique patterns, which can serve as virtual signatures at certain crime scenes. Yet past records are often excluded as “prejudicial.” Admitting these

in evidence, to show a pattern consistent with the charged crime, only makes sense. Also, consideration of an individual’s past record should be a routine element in all sentencing.

Juvenile offense records are often sealed, allegedly to prevent “early mistakes” from “pursuing the child into adulthood.” Today, many teenagers are engaging, not in mistakes, but in serious, sadistic crimes. Sealing or expunging their records when they reach adulthood is another perversion of the fact-finding process. They should be admissible into adult sentencing proceedings, as evidence of career criminality.

Bail, Release on Recognizance, and Probation

Career criminals—and anyone with a history of escapes or failures to show in court—should *never* get bail consideration.

As for probation, every crime, no matter how petty, should merit *some* level of punishment, if only to show that *crime has inescapable consequences*. Probationary “sentences” teach offenders—*especially* impressionable young offenders—that “the law” is a paper tiger, that they can get away with crime. A young offender’s first brush with the law shouldn’t be brutal; but it should definitely be something he’d not wish to experience again.

Plea Bargaining

Plea bargaining should be abolished. Neither necessary nor ethical, it corrupts the entire court process and everyone involved. The cooperation of some criminals should not be bought with the bribe of a reduced sentence: the prize never equals the price. Going easy on lower-level crooks in order to buy their testimony against their bosses merely shuffles the underworld hierarchy: the boss is replaced by the lower-level crook who bought his freedom, and crime marches on.

Even if tough, determinate sentencing laws are passed, they will be undermined and bypassed if plea bargaining is permitted: charges will be reduced to evade the harsher penalties. Ending plea bargaining is the key to making tougher sentences stick.

Psychiatry in the Courtroom

The use of psychiatrists and psychologists as “expert” witnesses should be banned. So should the “insanity” and the “diminished capacity” defenses. Criminal intent and the mental state of a defendant should be determined by the same kinds of evidence and testimony as are used in all other criminal proceedings.

Victims in the Courtroom

“Victims are ‘legal nonentities’ in the justice system,” writes William Tucker. “The legal fiction is that ‘the state’ is the victim of crime. The victim has no more standing in a criminal trial than any other witness has—and a good deal less than the accused.”⁴⁷ The defendant, of course, has official standing and defense representation—paid for, in many cases, by the taxes of his victim.

The *individual* is the crime victim, not the state. For that reason, well-meaning “victim compensation” laws should be opposed: it’s unjust that every taxpayer should have to compensate a crime victim for a criminal’s acts. But there *are* many things that should be done for the victim.

Prosecutors should be required to keep the victim informed of the status of his case; and he should be allowed to attend any proceedings. Victim impact statements should be allowed prior to sentencing, at least whenever the defendant is allowed to introduce “mitigating circumstances.” Until release programs are abolished, victims should have the chance to testify prior to any release decisions, before the appropriate agency.

Restitution from the criminal to the victim is good in theory, but tough to enforce. However, it should always be an option, to be added to any sentence.

Sentencing

First, “indeterminate sentencing”—and the parole process which is its offspring—must end. All convicted felons should serve fixed, determinate sentences for their crimes. Early release being out of the question, there’s no reason for parole boards (more savings for tax-

payers). This will reduce arbitrariness and the unfairness of inmates serving different sentences for the same crime.

Pre-sentencing defense testimony concerning mitigating circumstances should be admissible only in the case of a *guilty plea*. If a defendant pleads innocent, but is later found guilty, he shouldn’t be allowed to abruptly concede his guilt after the verdict, then plead mitigating circumstances before sentencing—not after putting everyone through the trouble and expense of a trial. In all cases, mitigating testimony should be balanced by testimony from crime victims. These statements should be gauged on some fixed point system for altering the usual sentence—but only within a very limited range.

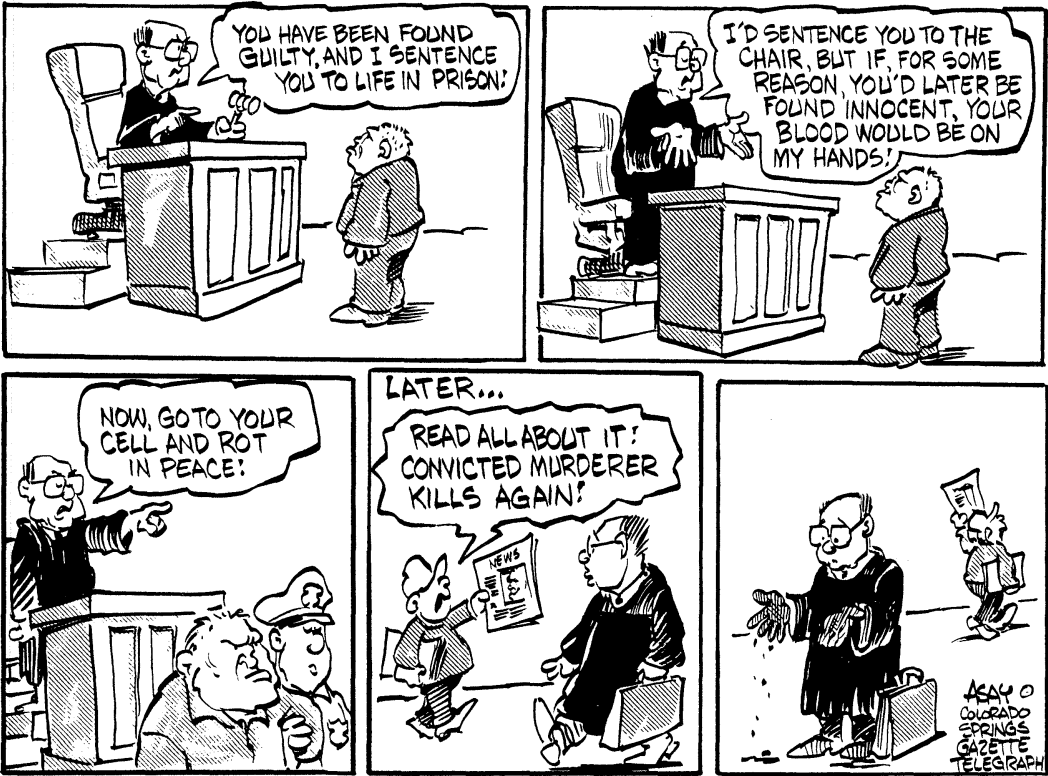
Criminal penalties should increase in severity upon subsequent convictions of other felonies. Borrowing terminology from the Excuse-Makers, I propose “progressive sentencing”: the term of imprisonment for repeat offenders should increase in multiples—say, two years for a first burglary conviction; four for a second; eight for a third; and so on. I also propose that this “progressive” feature be transferable among different sorts of crimes, thus preventing criminals from simply varying their crimes in hope of avoiding serious punishment.

Capital punishment never should be applied in cases where a murder conviction depended largely on circumstantial evidence. But in cases of pre-meditated murder in which there is no question of guilt, it should be the *standard* sentence. There also should be a time limit on the appeals process.

The Overcrowding Problem

Our courts and prisons are badly clogged, in large part because of the crime wave fostered by the Excuse-Making Industry, whose only response is to set more criminals free.

The first, obvious solution—as the National Institute of Justice study makes clear—is to build more prisons. Citizens should realize that they’re far safer living next door to a prison than having the same criminals free on probation, parole, or release programs because of “overcrowding.” And it’s far cheaper.



But much of the overcrowding problem is because of laws that shouldn't exist.

Today, we have a terrible drug problem, and an enormous drug-related crime problem. Perhaps 25 percent of prison space⁴⁸ is occupied by those who've committed drug-related offenses. Many arrested for burglary, robbery, and larceny are drug addicts, stealing to support expensive habits.

But these habits are expensive precisely *because of the illegality of the drugs*. There are enormous profits in supplying illegal commodities at higher-than-market prices—something criminals are always willing to risk.

Legalizing drugs and other "victimless crimes," many fear, would lower their price, increase their availability, and thus make them even more attractive, particularly to youngsters. But would it? Currently, untold thousands of youngsters see drug-dealing as their best hope for glamor and wealth. This entices them into the subterranean criminal world of drug-peddling and—ironically—drug use. Taking the profits out of drug-dealing, via legaliza-

tion, would strip away the incentives of wealth and any illusions of glamor. It would end the present widespread seduction of youngsters into the drug world *as suppliers*.

To legalize drugs is *not* to endorse them, and it doesn't mean we approve them. We simply go our own ways, allowing foolish, irresponsible people to be their own victims—because we recognize that laws can't turn fools into sages. More important, we rightly fear granting to government the power to become an armed busybody, intruding into our private lives and most personal decisions.⁴⁹

At root, our drug problem is a self-esteem problem. Happy, fulfilled, self-respecting people don't become drug addicts. But passing laws can't give people self-esteem. The morally confused or emotionally empty will turn to some other palliative—alcohol, cults, or promiscuity.

Legalizing drugs won't cure the drug problem. But it will go a long way toward curtailing drug-related *crime*—and the huge burdens it is imposing on our criminal justice system and on ourselves.

Correcting the Correctional System

Prisons

"Corrections" don't correct. "Correctional facilities" should drop that pretense, and rename themselves "prisons." With the end of indeterminate sentencing and release programs, prisons can focus on their major goal: public safety. The prison exists, first and foremost, to incapacitate the offender from committing further crimes. It need not be brutal or inhumane to accomplish that; but order should be maintained by increasing penalties, not privileges. Prison authorities shouldn't negotiate with criminals for responsibility and calm: they should enforce it.

Opportunities should be afforded to those inmates who care to improve themselves: job training, high-school equivalency courses, etc. But that doesn't mean world-class law libraries, gymnasiums, cuisine, and the like. Inmates have no right to expect better living conditions than do military men, who somehow manage to survive chow lines, forced marches in heavy gear, double bunks, and collective living arrangements. Is it too much to require a convicted felon to share a cell with another inmate, or to keep it clean and neat? Is it too much to demand that he work at a prison job, helping offset the costs he's imposed on taxpayers?

Rehabilitation

A lot of money can be saved, and mischief averted, by sending the legions of prison psychiatrists, counselors, and social workers packing.

An alternative is available. For many years, clinical psychologist Stanton Samenow has been working to "habilitate" hardened criminals. His methods, which don't require advanced psychological training, are based on holding the criminal utterly accountable for his thinking and actions, and teaching him to change irresponsible mental and behavioral habits. It's a long process, requiring the criminal's sincere desire to change and willingness

to work hard. Because of that, it's far from universally successful, though those who stick it out do improve.⁵⁰ But this approach couldn't be more different from the group therapies and psychological fads of the Excuse-Makers, whose premise is that the criminal is *not* responsible.

Reintegration

Excuse-Makers argue that prisons should be saved only for the hard-core offender. That, in fact, is exactly who the typical prisoner is. Releasing him back into society is a dereliction of responsibility that is itself almost criminal.

Community-based corrections is just rehabilitation on the streets—the same failed approaches, but with the added opportunity of countless innocent victims. Furloughs, work release, education release, halfway houses, pre-release centers—all should be ended on grounds of simple justice and public safety. If the primary purpose of prison is to incapacitate offenders, there's no reason for "community reintegration" programs.

Crime and Consequences

The United States was founded on the premise that each individual is an end in himself, and that he is morally and legally self-responsible. Self-responsibility means being accountable for the full consequences of one's actions, for good or ill. Thus the rewards and profits of life, in justice, should go to those responsible for making the world better; the penalties and losses should accrue to those who make it worse. Perhaps the best model of this idea is the free market economic system itself, where rewards and penalties are distributed with impartial fairness, based on one standard: the individual's capacity to generate valuable goods and services.

Under the symbol of *Justitia*, our criminal justice system began with the purpose of impartially meting out justice. Each person was held morally self-responsible, hence accountable for the consequences of his actions. But determinism and the Excuse-Making Industry have undermined all that.

Today, the Excuse-Makers look at the crime

wave they have created, and simply shrug. The American Bar Association recently spoke for them all, saying, "... the public mistakenly looks to the criminal justice system to eliminate the crime problem The public's expectation that the system should control crime cannot be reconciled with the sense of criminal justice professionals . . . that the system itself has a limited role in crime control and crime prevention."⁵¹

That's simply more excuse-making. Citizens have a right to expect that the system is more than a procedural game, to provide employment and high incomes for legal professionals. They have a right to expect not "due process" as an end in itself—which actually becomes *undue process*. They have a right to expect *substantive justice*.

Crime can never be eliminated, not if we have the power to choose evil. But it *can* be controlled, if criminals are regarded as volitional entities, fully responsible for the consequences of their actions. The answer is to reform the entire criminal justice system, from its basic premises to its routine procedures, with a single goal in mind: to reassert the responsibility of the individual. □

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2. Wilson and Herrnstein. See chapter 7 for results of numerous studies.

3. Stanton E. Samenow, *Inside the Criminal Mind* (New York: Times Books, 1984), generally, and on pp. 20, 181.

4. Wilson and Herrnstein, p. 198; David Kelley, "Stalking the Criminal Mind," *Harper's*, August 1985, pp. 57-59.

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10. Representative Denny Smith, address before the West Salem, Oregon, Rotary, Jan. 18, 1988.

11. "Can This Be Life?" *Corrections Compendium*, Feb. 1987, p. 8. All data in this paragraph were current as of 1987-88.

12. Unpublished survey of states by author, summer 1988.

13. Data supplied by Contact Center, Inc., Lincoln, Nebraska; current as of 1987.

14. The failure of psychological rehabilitation was detailed in Part I of this series. On general rehabilitation failures, see also: Wilson and Herrnstein, pp. 377-78, 382-84; Samenow, chapter 12, esp. p. 193 on a 1974 National Academy of Sciences study;

Time, Sept. 13, 1982, pp. 38-41, and Feb. 2, 1987, p. 61; and *Insight*, Feb. 13, 1989, pp. 8-19.

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16. *Ibid.*

17. Samenow, pp. 21, 203-4.

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20. Vernon B. Fox, *Community-Based Corrections* (Englewood Cliffs, NJ, 1977), pp. 2, 270.

21. Morris and Hawkins, pp. 123, 141-42.

22. Fox, p. 272.

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26. *Community Reintegration Program*, p. 11.

27. Massachusetts Dept. of Correction, *Fact Sheet on Furloughs*, 1988.

28. For examples see Robert James Bidinotto, "Getting Away With Murder," *Reader's Digest*, July 1988; *Boston Herald*, Dec. 20, 1987; and Lawrence, MA, *Eagle-Tribune*, Dec. 24, 1987 and Jan. 10, 1988. For examples from other states, see Ann Rule, "A Rapist's Revenge," *Redbook*, April 1988; and Ralph Adam Fine, *Escape of the Guilty* (New York: Dodd, Mead & Co., 1986), p. 189.

29. Hearings, "Massachusetts Furlough System," Massachusetts House Post-Audit Committee, Oct. 21, 1987; uncorrected transcripts, pp. 78-9.

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42. Letter to *The Wall Street Journal*, May 25, 1988, by John Larivee, executive director, Crime and Justice Foundation, Boston.

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48. Estimate provided to author by Edwin Zedlewski of the National Institute of Justice.

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Social Consciousness and Individual Freedom

by David Beers

One way to look at the progress of a society or even of civilization itself is to see that progress in terms of the development of moral values. Alexis de Tocqueville, the great French social philosopher and observer of American society in the 1830s, noted that the power behind America's great progress as a society and the wellspring of its creative energy was the body of values to which Americans held. To Tocqueville, the individualistic, self-reliant character of the Americans and their passion for individual freedom had more to do with the success of the fledgling nation than even its vast natural resources. Holding to the same values which had inspired its Declaration of Independence from the British Crown, American society had quickly grown to equal, and in many ways surpass, its European forebears.

The moral underpinnings of our society have undergone gradual change over its history, but never so great as in the last three decades. The 1960s brought new values to the fore in the minds of many Americans. There were growing perceptions of the inequalities that exist among Americans—particularly inequalities of income—and a greater awareness of the welfare of the disadvantaged. From this new “social consciousness” sprang a desire that new rights be recognized in addition to the fundamental rights to life, liberty, and property. People had a right to a certain minimum standard of living, it was argued, and more

was done to try to guarantee this right through government action than had ever been done before. In the face of the wide disparities in income among Americans, the government, in the words of Lyndon Johnson, was to guarantee “not just equality as a right and theory but equality as a fact and equality as a result” (Howard University commencement address, 1965).

Behind the great changes in public attitude and public policy during this time was a rising tide of anti-capitalism, the currents of which are still with us today. Implicit (and often explicit) in the demands that social inequalities be addressed by government welfare programs is the argument that the capitalist system is “socially unjust.” It is a system in which factors such as luck, birth, inheritance, physical or mental impairment, or impersonal economic factors may determine an individual's welfare. It allows one man to bask in luxury and comfort while another strives in vain just to find food and shelter. In this way, it is alleged, the capitalist society, while successful in producing prosperity for many, fails in its moral duty to many others.

Here is a different sense of the word “moral” from what Tocqueville had in mind. What Tocqueville referred to as the great strength of American society was the common commitment of individuals to the value of freedom. What is meant in the phrase “society's moral duty,” on the other hand, is something altogether different, for “moral” in this case is a collective imperative. The “moral failure” of our society does not consist primarily in the failings of its individual members; rather, “the system is to blame.” Consequently, the moral responsibility to the

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disadvantaged belongs to society as a whole, or more accurately to the recognized agent for carrying out social purposes: the government.

Although the heady days of the Great Society are past and the utopian visions of the 1960s have cooled to something that one would like to think is sober realism, the idea that the United States as a society owes a moral debt to the victims of a system based on “profits rather than people” is still almost universally held. Discussions about social programs such as Aid to Families of Dependent Children, Social Security, and unemployment benefits focus on “how much,” never “whether or not.” In fact, even under the Reagan Administration’s budget “cuts,” debates over these programs were not usually so much about “how much” as about “how much more.”

Such unanimous acceptance of this ethic of social consciousness is surprising considering that a scant 40 years ago it would have been almost inconceivable to most Americans. Its acceptance is nothing short of shocking, given the performance of the burgeoning system of transfers to the poor, which by the most accepted standards of measurement has been dismal. Flying in the face of all expectations, the consistent reductions in poverty that had been occurring throughout the 1950s and early 1960s actually ground to a halt in 1968 as anti-poverty legislation came into effect. Moreover, as Charles Murray notes in *Losing Ground*, the proportion of people who depended on government transfers to keep themselves above the official poverty level began to grow steadily from that year on.

The Power to Persuade

All statistics aside, though, the most remarkable point about the great rise of social consciousness in American culture is its apparently overwhelming persuasiveness—despite the fact that such an ethic is logically and pragmatically antagonistic to some of the most basic values of our society. Granted that there are many people who by some misfortune are unable to support themselves or their families, the act of using the coercive machinery of the federal government to enforce public “giving” is a flagrantly immoral invasion of the individual’s right to hold property. Very few Americans would consider themselves Marxists today, yet on this issue nearly all cling to

the essential spirit of Marxism embodied in the motto “from each according to his ability, to each according to his need.”

Capitalism is often depicted as a system which eats away at the moral fiber of a culture. It is a system allegedly driven by self-interested behavior and one that rewards selfishness at the expense of compassion. Blind to anything but the “bottom line,” it supposedly encourages the notion that success is the accumulation of material wealth, rather than the nurturing of spiritual values. Such allegations of moral decay in the free society, even if they were true, would carry little weight in view of the moral bankruptcy of welfareism.

The tragedy of 20 years of the War on Poverty is not that its measures have been too small to reduce the poverty rate today to anything less than it was in 1968. The tragedy is the multitude of able people who became welfare recipients every year when they would have found their way out of the poverty trap in the absence of these programs. Social programs may supply some important benefits to the genuinely helpless. But the inevitable irony of government transfers to the poor is that they induce other people to qualify for them—people who could work for a decent living, but choose idleness and a welfare check instead. More tragic still are the children of welfare families whose role models are parents who can’t or won’t hold a job or who have given up trying. Not only do these children fail to learn the importance of work and self-reliance, but the value of education—already hard for a child to appreciate—becomes incomprehensible to them. Not surprisingly, this situation results in poorer attendance, more frequent classroom disruptions, higher dropout rates, lower literacy and overall competence levels, and higher juvenile crime rates. Many children of school age in our inner cities now are third-generation welfare recipients.

The prevalence of the confused notion of “society’s moral duty” is revealing. It demonstrates the awareness of a grave social problem, but at the same time betrays an unwillingness to admit to the individual moral imperative presented by the problem. Invoking the moral obligations of society is a subtle way of getting others to make the sacrifices to help those in need. Taking a stand for social justice by advocating government transfers to the disadvantaged is less costly than

"putting one's money where his mouth is" and donating time or money to a private charity, since the government makes sure that the burden of "contributing" to new social programs is shared by all tax-paying members of society.

This is not meant to imply that there are not sincere, committed advocates of the underprivileged who make genuine sacrifices for the cause of helping the poor, homeless, and disabled. Certainly there are. But as government plays an ever larger role as the official agent of charity, it is sure that such altruists will become fewer in number. In a way analogous to the erosion of the work ethic among welfare recipients, the values of compassion and concern for one's fellowmen are diminished among potential benefactors. Just as the availability of welfare benefits removes the burden of responsibility on the recipient for his own well-being, the provision of welfare benefits by the government relieves the would-be giver's sense of responsibility for helping his fellowmen. The idea that the relief of poverty is "society's responsibility" and is thus in the domain of government action rather than individual action, then, tends to stunt the development of individual altruism and compassion.

Opportunity and Incentive

The free society lays no claim to any particular distribution of income, nor does it rule out misfortune or failure. But it does allow every opportunity and incentive for recovering from misfortune and failure, and furthermore, it forces people to face up to their own moral commitments toward helping others, rather than abdicate responsibility behind a facade of ineffective government programs. It promotes healthy self-examination since the results of one's actions or lack of actions to help others are more readily seen in the free society than under the bureaucratic morass of the welfare state.

By relegating the act of giving to the category of paying one's income tax, the welfare state serves only to insulate individuals from the moral

decisions of whether to give and how to give. One never knows what part of his taxes is going to social programs, much less how the money is spent, or on whom. Yet the taxpayer is given some satisfaction in knowing that, like everyone else, he has done his part—even if in reality "his part" went to a perfectly able recipient who couldn't resist the temptation to take a free ride at the expense of the system.

In the free society, an individual who gives to a private charitable organization is aware of both the amount of the sacrifice he is making and, to a large degree, the actual use to which his donation is put. Unlike tax-funded bureaucracies, it is in the interest of organizations which freely compete for donations to give as much information about the nature and results of their activities as possible. Since both the benefactor and the organization have an interest in the outcome of a donation, there is the greatest possible chance that funds will be creatively and properly directed to individuals with genuine need.

The strength of American society lies in the values upheld by its individual members—not just values embodied in its laws, or even in documents like the Bill of Rights and the Declaration of Independence. Many of the poorest and most oppressive societies of the world have constitutions which are nearly identical to ours. The difference is one of moral heritage. Contrary to the grim caricature of the capitalist society as ridden with selfishness, callousness, and graft, our moral heritage includes a common respect and concern for our fellowmen, and an unselfish consideration for the rights and welfare of others. These elements of the American character are not undermined by a principled adherence to the rights of property and voluntary exchange. On the contrary, the freedom guaranteed by adherence to these rights is a necessary condition for the growth of that character. Unselfishness and compassion entail a moral independence and an honest self-examination that can only exist in the context of individual freedom. □

What Is a Doctor's Relative Worth?

by Jane M. Orient

Congress has decided that some doctors aren't worth nearly as much as they get paid. Their "inflated" fees are one of the primary targets of the Medicare budget-cutters. Prostate surgery, cataract surgery, coronary artery bypass, and total hip replacement are often given as examples of "overvalued" procedures.

On the other hand, some doctors think they don't get paid enough. Among these are internists, family practitioners, and pediatricians, who spend most of their time talking to patients and examining them. Insurance companies don't pay as much for an hour of conversation as for a few minutes of cutting or of manipulating a catheter or an endoscope. As a rule, patients are not willing to pay very much for a mere consultation either. Our society tends to place a higher value on technical skills than on "cognitive" ones. Patients seem to think that a new lens in their eye, an injection, or a sophisticated laboratory test is worth more than a clinical diagnosis or a piece of good advice (e.g., to stop smoking).

As an internist, I also think that I deserve to be paid more. And I suspect that some of those others deserve to be paid less. Unfortunately, none of the "proceduralists" have offered to share the wealth with me (and if they did, they might be accused of fee-splitting and sent off to jail). If I raise my fees too much, patients might decide to find another doctor. (In any event, physicians can't raise fees to Medicare patients above the government-imposed ceil-

ings called MAACs or Maximum Allowable Actual Charges.)

A voluntary solution to this perceived maldistribution of income does not seem possible. So what is to be done? Enter the government and its helpers, who promise to devise a "fair," if coercive, solution.

How Many Blood Pressure Prescriptions Are There in One Hernia Operation?

For a mere two million dollars, the Health Care Financing Administration (HCFA) and several foundations have funded a study that could revolutionize the way that physicians are paid. Researchers have developed the resource-based relative value scale (RBRVS), which assigns a "value" to each medical service in terms of its cost in "resources," relative to other services. For example, an "office visit, limited service, established patient" to an allergist is worth 62 RBRV units, whereas a "repair of an inguinal hernia, age 5 years or over" is worth 476 and an "initial history and physical examination related to the healthy individual, including anticipatory guidance; adult," if done by an internist, is worth 114.¹

Researchers at the Harvard School of Public Health, under the leadership of health economist William Hsiao, arrived at these figures by a complex process that started with calling a number of doctors on the telephone. The researchers wanted to determine the amount of time required to perform various services, and also the intensity of the effort required. How much skill was needed, and how much stress was involved? The doctors were

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asked to consider a "reference" procedure, such as a follow-up visit with a 55-year-old man on two types of blood pressure pills, and compare it with other services that they might provide. For example, the doctor might say that an intermediate telephone consultation with a patient who has a rash takes one-fifth as much physical effort but 10 times as much diagnostic acumen as seeing the man with high blood-pressure. Refining the information, researchers accounted for "intraservice," "preservice," and "postservice" work. Also entered into the final equations were overhead costs, including malpractice insurance and the cost of the required training.

Weighting the Scales

Some physicians (usually "proceduralists" by specialty) argue that the study was biased from the beginning. HCFA wanted the outcome to favor "cognitive" instead of "procedural" work, so they chose a study group that had previously reported the desired findings. Apparently, HCFA got what it was paying for.

The Harvard group also has been accused of violating one of the fundamental rules of scientific research. The researchers failed to specify in advance the method to be used for normalizing the rankings across various specialties ranging from allergy to psychiatry to plastic surgery. Ophthalmologist Robert Reinecke, MD, of Thomas Jefferson University Hospital, thought that Hsiao's group might have withheld the details in order to prevent some specialists from jury-rigging the rankings to beat the system. However, in response to queries at an informational meeting in Dallas, the project directory for the Hsiao study stated that the methodology had not been worked out, and that the researchers planned to try different formulae *until the data looked right*. In other words, the researchers could manipulate the methodology until the calculations supported their predetermined conclusions.² The results could then confirm the Statistician's Law: *"If you torture the data long enough, it will confess."*

Although the rankings passed statistical tests for reliability, many of them failed the test of common sense. For example, ear, nose, and

throat specialists noted that the removal of one lobe of the parotid (salivary) gland, a fairly simple procedure, had the same relative value as an extensive and difficult cancer operation. Obstetricians noted that a simple diagnostic D&C was assigned a higher value of intensity per unit time than performing a hysterectomy or attending a patient during a difficult labor.³

Some specialists agree that certain procedures may be overvalued, but they argue that the resulting payments enable them to continue to perform services that are undervalued. For example, the fees for cataract surgery subsidize medical treatment of glaucoma, a time-consuming service. Lowering the fees for cataracts might make it impossible for individual practitioners to survive, while high-volume "mills" take over the field. Similarly, reducing fees for D&C's might drive physicians to drop their obstetrical practice, because fees for delivering babies are inadequate to cover the malpractice insurance premiums. Price ceilings would also destroy doctors' ability to adjust their fees according to patients' ability to pay. Furthermore, they may become less willing to accept difficult cases.

A "Bait and Switch"?

Two strong boosters of the RBRVS, the American Society of Internal Medicine (ASIM) and the American Academy of Family Practice (AAFP), believe that the government has finally recognized the value of the "cognitive" services provided by their members. They have joined forces with a powerful lobby, the American Association of Retired Persons (AARP), to push for its acceptance.

The agenda of the AARP is clear, except perhaps to ASIM and AAFP. AARP leaders want to force physicians to work for the government for a fixed fee ("take assignment"). A ban on "balance billing" is the next step after the RBRVS. One impediment to this agenda is the perception that there are inequities in the current system of paying physicians. Once physicians agree to accept a system that is "fair," their case against a fixed-fee schedule is greatly weakened.

The government also might look favorably on the RBRVS, but not out of sympathy for

beleaguered internists and family doctors. HCFA needs a cost-containment tool. At first, it may appear to physicians that many will increase their incomes substantially, even if at the expense of their colleagues. However, this pay increase might be a temporary effect. The dollar value of the payment is determined by multiplying the RBRV units by a conversion factor. The conversion factor could be lowered at will. Alternately, new measures to "control the inappropriate volume of care" (i.e. rationing) could be introduced. Increases in fees could be offset by disallowing claims on the basis that the service was medically unnecessary. In fact, such denials already occur. (For example, HCFA denied payment for an "unnecessary" electrocardiogram on a patient who had a cardiac arrest in the intensive care unit.)

Descriptions of the RBRVS appear overwhelming in their erudition and their complex algebra. In one's struggle to understand what is included in the calculations, it is easy to overlook that which is left out: the value of a medical service to the patient.

Are all "office visits, limited service, established patient" of equal importance to the patient? The Harvard researchers never interviewed a single patient. If they had, a patient might have told them that some visits result in a lifesaving diagnosis or in relief of pain and anxiety. But some visits are for an expensive but purely optional diagnostic test, or for an opinion about a trivial problem. A hernia repair might allow a laborer to continue working. But the same hernia might not pose any inconvenience to a bedridden patient. A cataract operation might restore a patient's ability to live independently. But he might choose to have the second cataract removed only "because Medicare is paying for it," as one patient confided in me.

The Objective Versus the Subjective Theory of Value

The RBRVS considers only one side of the transaction. It equates the value of a service solely with the cost of its production. Thus, it is based on an old idea: the objective theory of value, one of the fundamental tenets of Marxist economics. (Of course, the objectivity of

some of the costs—such as the estimate of "stress"—is purely a pretense.)

The objective theory of value is often taken as axiomatic. In fact, the critique of this theory in the 19th century by Austrian economists such as Eugen von Boehm-Bawerk represented a revolution in economic thinking—a revolution that has yet to affect the Harvard School of Public Health.

The subjective theory of economic value, proposed by the Austrian economists, recognizes that "the value of all goods is bound up with man and his purposes . . ." (i.e., not solely with the impersonal operation of market forces). "In its subjective sense, value denotes the significance which a good . . . possesses for the well-being of a certain subject."⁴

While goods do have an objective value, Boehm-Bawerk noted that this is not necessarily proportional to their subjective value:

Two cords of beechwood, for instance, possess equal objective fuel value. And yet one of them may be the only fuel supply of a poor family in a hard winter and absolutely irreplaceable because of their lack of money. It will possess a far greater subjective value for the satisfaction of that family's wants than will the other cord which is owned by a millionaire. And again, where wood is to be had in such abundance that it constitutes a "free good," it may very well have no subjective value for anyone's well-being at all, despite the fact that its "objective fuel value" remains entirely unchanged.⁵

In the subjective theory of value, the individual actor, the purchaser of goods and services, is the unit with which economics is concerned. In private medicine, *the individual patient with his own needs and values is the unit of practice*. The ranking of values varies with each individual, depending on personal circumstances and expectations. A person may be willing to make great sacrifices to obtain certain services, but will purchase others only if they are very cheap. For example, to one person cancer chemotherapy or surgery may seem a burden so great that the expectation of benefit may not be worth the price (either in money or suffering). To another, a small chance of cure may be worth any amount of pain and all of his

worldly possessions. No third person can make a determination of the value of the service, even though its cost to the persons providing it may be exactly the same in the two instances.

According to the subjective theory of value, costs are basically *opportunity costs* incurred by a decision-maker, i.e., the value of the other goods or services he is willing to forgo in order to obtain the goods or services under consideration. Such costs must be borne exclusively by the person making the decision; they cannot be shifted to others. Nor can they be measured by others, since subjective mental experience cannot be directly observed. (However, the subjective value is reflected in the price that an individual is willing to pay.) Furthermore, costs are dated at the moment of final decision or choice.⁶ Recalibration of a relative value scale, say every year, is far too slow to account for changes in the personal circumstances of the actors in any economic transaction.

The objective theory of value reduces both producer and consumer to interchangeable units in a collective. It is the stock in trade of the would-be central planners, who wish to control the practice of medicine, to standardize and depersonalize both medical services and patients. Hsiao sees the RBRVS as a mechanism by which (presumably omniscient) planners can redistribute physicians to areas of need and encourage or discourage certain types of practice or behavior.⁷

Some persons who support the RBRVS do so because they think the alternative proposals for paying physicians would be worse. The method favored by HCFA administrator William Roper is capitation: fixed payment by the head regardless of the number of services that a patient requires or demands. (This method—the *Kopfpauschale*—was introduced in Germany about 1931).⁸ Others propose to pay physicians a fixed amount according to the diagnosis, as hospitals are now paid, regardless of what treatment is provided.

Forgotten in the debates in the corridors of power are two individuals who might be able to arrive at a price for services without the need for a \$2 million study: one doctor and one

patient, making a voluntary agreement. The doctor knows what it costs to keep his office open and the opportunity costs of providing certain services. The patient knows the value of a service in his individual circumstances and how much he is willing and able to pay. But the ability of individuals to make voluntary agreements is becoming ever more circumscribed in our welfare state, as the planners gain control of the resources.

Like the leaders of the AARP and other lobbying groups, many persons today believe that the relative worth of an individual doctor is not one cent more than Harvard researchers calculate and the government pays.

In the past, similar methods of central planning and wage and price controls inevitably have led to distortions in the market, especially shortages.⁹ After Hsiao and his colleagues figure out how many blood pressure prescriptions there are in a hernia operation, American health planners, like their Canadian counterparts, may be learning the calculus of rationing. The next questions will be like those featured in recent Canadian television specials: How many deaths on the waiting list for heart surgery equal a year of hemodialysis? How many clinic visits for preventive medicine equal a cataract operation? And at what age does the cost-benefit ratio for a pacemaker exceed what "society" is willing to pay? □

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Privatization in Northern Ireland—Making Politics Normal

by Nick Elliott

For most of us, party politics may be a dubious blessing, but for Northern Ireland it seems to be just what is needed. While in mainland Britain, strenuous debates have been fought about government intervention in the economy, Northern Ireland has been excluded. Not only would market reforms boost the Northern Ireland economy; they also would improve its politics.

Ever since the partition of Northern Ireland, the political parties there have been sectarian. The largely Protestant Ulster Unionists and Democratic Unionists want to maintain the union with the mainland. The SDLP (Social Democratic and Liberal Party) and Sinn Féin are mainly Catholic and advocate amalgamation with the South. The two main parties in mainland Britain, the Conservatives and Labour, do not stand candidates in Northern Ireland.

There are, no doubt, conservative Catholics who would support the Conservative Party, given the chance. And there undoubtedly are socialists who support the Unionists, but who would prefer to have a Labour Party to support. The parties in Northern Ireland do not represent the diversity of opinion existing there. The great issues that have fueled debate in Britain over the last 10 years—essentially about government involvement in the economy—have yet to be introduced to Ulster.

Of all the provinces of Britain, Northern Ireland has been least touched by privatization and deregulation. The British government has done

little to reduce the \$5 billion annual subsidy that it sends from the mainland to Ulster. Northern Ireland has been excluded from much of the free market legislation affecting the rest of Britain.

Recently, however, the government has announced that Short Brothers, the aircraft manufacturer, and the Harland & Wolf shipyard are to be privatized. These plans have provoked controversy, and what is most interesting is that all of the sectarian parties have come out in opposition. The only indigenous group to support the plans is the recently formed North Down Conservative Association.

This is possibly an encouraging first step toward making Northern Ireland politics normal. If the people in Northern Ireland were allowed to argue about the same things that people do in the rest of Britain, then politics would lose much of its sectarian nature.

There are plenty of suitable targets for market reforms. Northern Ireland has an unusually large public sector, which provides 42 percent of all employment. One of the most encouraging trends in Britain over the past decade has been the growth in self-employment—many more people now own their own businesses. The trend has yet to spread to Northern Ireland. It has a comparatively low start-up rate for new businesses, and the mainstays of the Northern Ireland economy are still staple industries such as shipbuilding, textiles, and agriculture. Little attempt has been made to stimulate local enterprise.

Part of the problem has been a conditioned reliance of Northern Ireland business upon subsidies from the British government. Subsidies to the manufacturing sector for 1986-87 were equiv-

alent to \$64 per week per employee. (Average earnings in Northern Ireland are \$300 per week.) Between 1976 and 1985, over half of the subsidized firms received two or more grants—which is a worrying sign of dependency.

Preserving the Past at the Expense of the Future

While employment in the rest of Britain has moved out of industry and manufacturing into services, and while the mainland economy has become far more dynamic, the past has been preserved in Northern Ireland. The Northern Ireland economy has failed to bring the same prosperity that has been enjoyed in the rest of Britain; unemployment has remained at 17 percent, while it has fallen in the rest of the country to 9 percent.

Subsidies have distorted the Northern Ireland economy, keeping jobs and capital in trades where there is no longer any comparative advantage, and keeping resources out of potential new enterprises. It is also likely that government funding has “crowded out” more efficient investment by the private sector. During 1984-87, government grants to industry amounted to 75 percent of all industrial investment.

Politically, it isn't good for Northern Ireland to be so dependent upon the British government as an outside benefactor. Rather than resulting from impartial economic decisions, jobs and investments take on political overtones. Even when civil servants try to be scrupulously impartial, their decisions appear to have political implications for those rewarded or disappointed. The government has laid itself open to charges of Protestant bias by heavily subsidizing the Protestant company Shorts. By contrast, profit-seeking decisions taken by firms in the market are not seen as a vote for one side or the other.

The politics of Northern Ireland would benefit from a climate of enterprise. In addition to reducing subsidies, the government might encourage

employee share ownership in Northern Ireland companies. Workers would feel less reliant on the British government for livelihood, and these steps would help to develop an enterprise culture as an alternative to the political culture.

Market reforms would bring other political benefits. Northern Ireland has been excluded from the radical reforms of secondary education being implemented in the rest of Britain. These reforms put parents in charge of running schools, allow them to opt for financial independence from government, and fund schools according to the number of pupils they attract. In England, Wales, and Scotland these reforms will introduce competition and raise the standards of education, but in Northern Ireland the reforms could foster political improvement as well.

Many of the funded schools in Northern Ireland have a strong religious bias. Parents have no choice but to send their children to these schools, even if they would prefer a secular or non-denominational education. Greater choice in education, as engendered in the mainland reforms, would allow more parents to avoid sending their children to sectarian schools.

A freer economy also would reduce the importance of sectarian politics to consumers and workers. As is true the world over, when you pick a product off a shelf, there is usually no way of knowing if it was made by someone who is black, white, or yellow. Trade crosses many boundaries, including sectarian divisions. Northern Ireland would benefit if business became more important, because the dominance of politics would diminish.

British politicians often have maintained that their Keynesian policies are necessary to “keep Northern Ireland afloat.” They never seem to consider that subsidies may just prolong inefficiency and dependency. They also have been unwilling to stir things up with radical policy changes, because they hold a cautious suspicion of Northern Ireland politics. British leaders could do nothing better than to upset the stale politics of Northern Ireland by shifting the focus of debate. □

Israel: The Road from Socialism

by Macabee Dean

In the last decade, Israel has undergone a great change in its thinking about state-owned companies. Most Israelis, including a large percentage of the socialists who formerly backed state-owned companies, now regard these firms as a drain on the nation's resources.

What brought about this change? To find an answer, we need to understand why the Israelis established state-owned businesses in the first place. And to do this, we must review the factors that preceded the founding of the State of Israel in 1948.

Years before the 1917 Balfour Declaration granted the Jews a homeland, Jews had been settling in Israel, then called Palestine. Many of them belonged to one or another of the various workers' movements which were in vogue around the turn of the century. In that era, socialism was believed to herald not only better times, but some sort of economic millennium.

An integral part of socialist dogma was the belief that capital was ruthlessly exploiting labor. This, it was believed, could be eliminated only when the means of production were owned and controlled by the socialist state.

This philosophy was rejected by the forerunner of Likud, today Israel's largest political party by a tiny margin, which is considered to be moderately "right" in the political spectrum. But at that time—and to a smaller extent even today—these dissenters were castigated as "fascists" by the socialists. And the word "fascist," in the days of Hitler's Germany and

Mussolini's Italy, was a snarl word of immense propaganda value. It could be used against anyone who wasn't a socialist of one type or another.

The leftist workers founded the Histadrut (the General Federation of Labour) early this century to unionize and thus protect the workers from "exploitation." The main problem, however, was not exploitation, but creating jobs, since the few Jewish capitalists, mainly landowners, preferred Arab labor to Jewish.

So the Histadrut went much further than merely unionizing the workers. It set out to gain control of existing means of production, to create new places of work for immigrants (a forerunner of the state-owned companies), and to situate these work places, if possible, in areas that would be critical in the event of war. (Today's settlements in the West Bank and Gaza Strip follow the same pattern as outposts which constitute a line of defense.)

In all fairness to the Histadrut, then, and to the State of Israel today, no profit-seeking businessman would have established enterprises in these militarily vulnerable areas. After years of subsidies, some still face difficult struggles for survival. Others barely make ends meet.

Thus, the Histadrut developed a dual personality: it was, and is, both a labor union and an employer. This conflict of interests has caused many of the problems that have beset Histadrut enterprises for decades.

The problems came to a head more than a year ago when the Histadrut's huge industrial sector, Koor, ran into grave financial difficul-

Mr. Dean, a veteran journalist, has lived in Israel since 1947.

ties. Typical is what happened to Alliance, its tire plant. Alliance was facing bankruptcy. The Histadrut knew this, yet it approved wage hikes—not wage cuts. The outcome: the plant was closed down, and the workers were thrown out of work. What is interesting here is that the government itself followed the same policy: giving wage hikes to faltering enterprises such as El Al, the national airline.

The long-range significance of the Histadrut, which considered itself (and was) an integral part of a state in the making, is that it embarked on building its own economic empire—in a way quasi-state-owned companies—before the State of Israel was founded.

The Histadrut gradually became involved in nearly every field of endeavor—agricultural settlements, agricultural marketing, housing, construction, quarrying, cooperative groceries, industry, transportation, insurance, banking, exports and imports, social welfare, health services (still the largest system in the country, encompassing two-thirds of all Israelis), and even education—although this once large network has shrunk over the years. Today, the Histadrut directly controls about 25 percent of the Israeli economy (according to its own claim) and has a huge influence on another considerable percentage.

This background is very important, for when the State of Israel was founded in 1948, the leaders of these socialist organizations (most of which today are banded together in a political body called the Alignment) became the major policy makers in the various socialist-dominated coalitions from 1948 until 1977. Thus we see that the setting up of state-owned companies was a continuation of a policy started decades earlier by the Histadrut.

A Mixed Economy

But, if socialistic thinking prevailed in Israel in 1948, why did Israel's leaders adopt a mixed economy—one featuring cooperatives, kibbutzes, government companies, and private firms? Why didn't they try to establish pure socialism? The answer is simple: Israel at that time (as today) depended heavily on financial help from abroad, mainly from the U.S. government and American Jews. The U.S. govern-

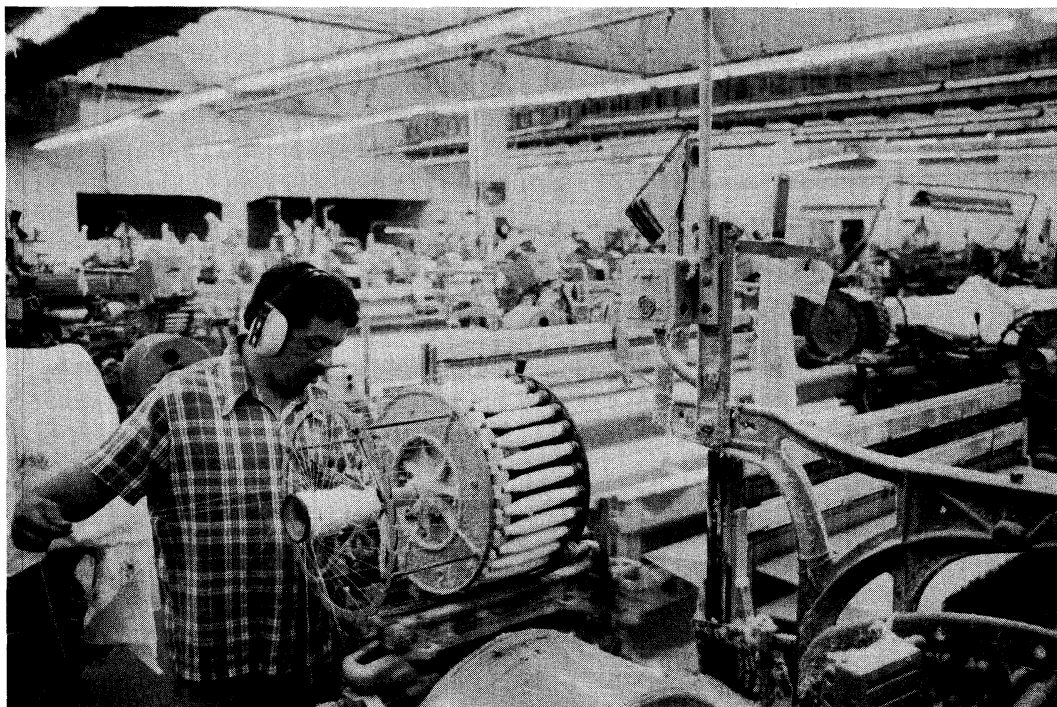
ment favored a free economy; and although many American Jews leaned toward socialism, they generally contributed only small amounts; the really big contributions came from the capitalistic sector.

Two of today's largest state-owned companies—Israel Chemicals (formerly the Dead Sea Works) and the Electric Corporation—were founded by private investors. The government took them over when both ran into financial hardships and faced dissolution. The Dead Sea Works' original installations were destroyed by the Jordanians in the 1948 war. Because investors were hesitant to put their money into the strife-torn Middle East, the company couldn't raise the immense sums needed to rebuild in a different location. Similarly, as Israel's population soared after 1948, the founders of the Electric Corporation couldn't raise enough capital to meet the Israelis' burgeoning demand for electric power.

Today, Israel has 159 state-owned companies. The total revenues of these firms in 1987 stood at 12.1 billion New Israeli Shekels (NIS) (At that time the exchange rate was NIS 1.60 to \$1; since then the shekel has been devalued to NIS 2.00.) These companies employ 65,000 persons, about five percent of the labor force. If we add the employees of the state-owned firms to those employed in the various civil services (state, local, and public institutions, and so on), we find that one-third of all gainfully employed Israelis work directly for various branches of government. And this does not include the armed forces.

The state-owned companies include some of the largest firms in Israel. In addition to the two already mentioned, Israel Chemicals and the Electric Corporation, they are: Bezek (communications), Israel Refineries (petroleum), El Al, Israel Shipyards, Israel Aircraft Industries, and Mekorot (which controls the nation's water supply).

Some of these companies made money in 1987, some lost. The money-makers included the Electric Corporation, NIS 73.2 million; Bezek, NIS 36 million; El Al, NIS 37.3 million; Israel Chemicals, NIS 36.7 million; Israel Refineries, NIS 22 million. The big losers were Israel Aircraft Industries, NIS 151 million; Beit Shemesh Motors, NIS 41 million; and Israel



A worker in Israel's troubled textile industry.

WIDE WORLD PHOTOS

Shipyards, NIS 21 million.

The purchase value of these companies is a matter for negotiations, but the government has quoted a figure of \$1 billion for Israel Chemicals and the same amount for Bezek. This is a fairly large sum even in most Western countries.

To sell these firms, the Israeli government will have to overcome the difficulty faced by the Dead Sea Works and the Electric Corporation: most businessmen still have doubts about investing in the strife-torn Middle East.

True, Egypt has signed a peace treaty with Israel, but most major Arab nations maintain a state of suspended hostilities. The Iraq-Iran war has just indeed wound down, but the Iranians still preach a type of Moslem fundamentalism that could spread to other Moslem countries, and is already wreaking havoc in Lebanon. Moreover, for years Lebanon has been torn by an internal civil war, and it was further battered when Israel launched a campaign in 1982 to force out 20,000 soldiers of the Palestine Liberation Organization. In the meantime, Qaddafi of Libya continues to threaten Egypt, and there have been serious troubles in Yemen, the Sudan, and Ethiopia.

The latest round of difficulties has been the Palestinian uprising in the West Bank and Gaza Strip territories occupied by Israel as a result of the 1967 Six-Day War. All in all, not a very promising region to set up a business.

Despite these difficulties, dozens of mainly American but not necessarily Jewish-run companies, some of them fairly large, have invested in Israel during the past few decades. They feel that Israel has advantages which overshadow the disadvantages: a strong and stable democracy, trained labor, plenty of highly skilled university graduates in the sciences, and easier access to the Common Market than they can gain from the United States.

Some of these companies have done quite well; others have not. Several have repatriated their investments, as they have from other countries, when they began to retrench their international activities. The picture which emerges is that these investors generally have done no better or worse than they would have in any other foreign country, despite the ongoing turbulence in the Middle East that shows no signs of subsiding.

What caused the great change in Israelis' thinking about state-owned companies? Sever-

al things.

Perhaps the outstanding reason was economic: Israel gradually realized that to compete in international markets it had to produce quality goods at competitive prices. This change in thought became essential following its agreement with the Common Market (not as a full member but as one enjoying most of the rights) which forced it gradually to scale down its customs duties. More recently, Israel and the United States signed a Free Trade Area agreement which stipulated a gradual reduction of duties.

Improving Efficiency

Israel government officials, therefore, had to run the nation's factories at peak efficiency if they wanted the nation to export; they also had to insure that better-made and lower-priced foreign goods didn't replace Israeli products within Israel itself.

All this meant overhauling Israel's industry, and the state-owned companies were hit particularly hard because their management had rarely attracted top men. They preferred the private sector where the salaries were much higher, and were paid in accordance with performance. Moreover, many of the Israeli directors of state-owned companies were hand-picked for their political views, not for their administrative ability and business acumen.

As Oudi Recanati, a leading Israeli banker, said in 1987 about the inability of state-owned companies to pay top managers competitive salaries:

One of the biggest drawbacks in state-owned companies is that there rarely is a direct relationship between performance and compensation for this performance. The compensation structure in state-owned companies is rigid. Any attempt to try to compensate an outstanding manager for his performance creates a web of complication in a system where nearly all salaries and wages are linked.

If the top man is given a pay hike—which he honestly deserves—it would start a chain reaction through the entire company. His deputies would also demand a hike, even if

they did not deserve it, and so on throughout the entire managerial and manpower structure. Giving the top man a deserved pay raise leads to giving everybody a pay raise. And then other state-owned companies fight for the same benefits. In the end, everybody gets a pay raise, which in effect means that the man who “performs” is robbed of his salary differential.

Privatization would allow establishing a system of compensation for performance whose effects would be enormously beneficial to the company. It would also lead to the complete separation of politics and management.

In a similar vein, consider the following 1986 statement by Natan Arad, spokesman for Moshe Shahal, Minister of Energy and Infrastructure. Shahal has been a life-long and dedicated member of the socialist Alignment:

The Minister firmly believes that private initiative is superior—in efficiency, in lowering prices through competition, and so on—than government regulation. The Minister believes that no matter how dedicated, hardworking and intelligent government-employed or government-regulated management is—and many of our men certainly fit this category—private management will turn in better results. This philosophy has proved itself abroad in other countries which once believed in direct government intervention in every phase of business life.

It is interesting that Arad made this statement only after the 1977 national elections had brought the moderate rightist Likud to power for the first time since the State of Israel was founded in 1948.

Although the Likud has always favored selling state-owned companies, it sold only a few in the past decade. Why?

The answer is patronage. Government companies provide a valuable outlet for patronage, especially for placing party adherents, civil servants approaching retirement age, and so on.

Undoubtedly, one of the reasons that the socialist Alignment came out for the sale of state-owned companies in the past few years—and did nothing during the 29 years it was in power—is that the Likud is now ap-

pointing its own men, ousting Alignment men if possible. The Alignment began yelling "politicalization," conveniently forgetting that it had initiated and for many years had benefited from the patronage provided by state-owned companies. All of these state-owned companies are connected in one way or another with a Ministry. The Minister appoints the Director-General and the Board of Directors, and fills lesser positions.

Since the state-owned company's Director-General wants to expand his power, he takes two major steps: he brings in the people he can best work with—not necessarily the best people available—and he sets up subsidiary firms that he can control from top to bottom. One government company, Paz, which owns 45 percent of the gasoline stations in Israel, was recently sold for \$95 million to Australian businessman Jack Liberman. As a state-owned company, it had set up 28 subsidiaries that were sold with it.

Gradually the Alignment's demand for privatization gained the support of many members of the Likud (whose ideals about selling the state-owned companies never wavered). Pressure to sell the companies began to mount. Serious efforts were initiated.

Efforts to Privatize Move Slowly

During the past four years, the government has sold only three of its companies and has sold shares in another three, out of 30 companies marked for sale. This still leaves 129 state-owned companies that haven't been put up for sale. Some undoubtedly will be put up for sale, but some cannot be sold since they perform government services, and no one expects that they will ever make a profit; others are subsidiaries of major companies; and some will never be put up for sale for strategic reasons. It is hard to conceive, for example, that the government will sell any of its industries closely connected with the defense effort, such as Israel Aircraft Industries.

There are reasons why more of the 30 haven't been sold despite the government's serious intentions. One frequently mentioned is that the government doesn't know how to en-

gage in a "hard sell." As the saying goes in Israel (and probably throughout the world): those who know how to make money go into private business; those who do not become civil servants regulating the country's economy.

To this must be added the resistance of members of the Knesset who ask: "Why sell a company making a nice profit? How can we know that the new owners will be able to maintain the same level of productivity and sales?" One always hopes that a better buyer will come along, outbidding an investor who makes a good offer, but who may lack the marketing outlets and promotional ability to foster the company's growth. Preferable is a businessman who will offer less, but who possesses the marketing facilities and the promotional ability to see that the company flourishes in the future.

The government must carefully check out each potential investor. What if one of them, through a front company, is run by an Arab citizen living in a country that is openly hostile to Israel? On a more practical scale, what if the potential buyer has a reputation of buying a company, then stripping it of its assets, leaving it an empty shell?

Other reasons fall into several categories.

Incumbent senior officials often fear they will be thrown out of their jobs, since new owners usually put their own people in key positions. Elderly people of top managerial status find it difficult to obtain work on the same level. And since they were put in their posts by political friends, they can often still mobilize these friends for help.

These senior officials will fight tooth and nail to delay the sale, and to muddy affairs, hoping that the interested buyer will back out. One method of delaying a sale is to play around with the books. The State Comptroller in 1986 accused Paz of indulging in "sophisticated" and "creative" bookkeeping soon after it was mentioned for sale. This change would certainly prevent any potential buyer from getting a clear picture of the company's worth.

Perhaps the following example will illustrate how difficult it is to figure out the worth of a state-owned company.

Early in the 1980s, El Al was plagued with a series of strikes; it was also flying deeper and

deeper in the red. In 1982, after a four-month strike that culminated in a lock-out, El Al was placed in "temporary" receivership (which is still its status).

Although the staff was cut 40 percent, the national carrier managed to fly almost the identical amount of hours, and almost the same passenger load. The company moved from the red to the black.

Interestingly, in 1987 when there was considerable talk of selling El Al, the government suggested a figure of \$800 million. The best offer received was for \$300 million. This discrepancy shows the huge difference—much more than the usual "bargaining" gap—which exists in all negotiations between the government's idea of a company's worth and the potential buyers' assessments.

The problem of selling state-owned companies seems so formidable that an outside agency, First Boston, has been called in to work out a marketing strategy.

Buying shares in a state-owned company has its own pitfalls: both wages and the prices of the company's goods may be fixed by the government in an effort to keep the cost-of-living index down; most importantly, the Treasury sometimes has the power to overrule the board on dividend policy, and the government can decide that, for the sake of national interest, some state-owned companies will not be run according to accepted business practices. In this case the government, not the market, decides the size of the profits, if there will be any profits at all. Hence, an investor is buying a company over which he has no control.

No businessman in his right mind would invest in a state-owned company under these conditions. Indeed, when the government was interested in selling shares in Israel Chemical's Bromine group, it had to waive these provisions. Yet assuming that these provisions are abolished all together, can the government allow a monopolistic company—such as electricity, or water—to set prices? Both could lead to demonstrations and near-riots by a wide swathe of citizens who felt they were being taken for a ride.

Another reason why it has been difficult to sell state-owned companies is that rank and file Israeli workers, at one time even supported

by the Histadrut, had a policy of demanding something akin to a "transfer of ownership" payment. (This policy has largely disappeared in recent years.) Although they weren't losing their jobs, they demanded severance pay (often double and triple ordinary severance pay), since somehow they believed they were *technically* losing their jobs because of the transfer of ownership, although they continued to work, i.e., they were hired immediately and never missed a paycheck.

There are certain unusual "benefits" that workers in state-owned companies receive. For example, the 7,000 workers of the Electric Corporation receive free power. In itself, this is no big deal, although they do use about three times the national average; 30 use eight times and one person uses eleven times the national average.

This waste is irritating to the consumers, and is especially annoying to every Minister whose province includes the Electric Corporation. They have all solemnly promised to end this practice. No one has succeeded, for within a few days after the Minister makes his public announcement, stories begin to appear in the press that the workers are considering "turning off the country's lights." This expression does not mean throwing a switch to put the country into darkness, but rather that there will be a series of unexplainable breakdowns which will reduce power output.

What does the future hold? In all probability the government will continue to sell its companies, if possible to foreign investors for hard currency. At least it claims that it will abstain from setting up new state-owned companies except as a "last resort."

One such "last resort" occurred in 1983 when the four leading banking networks were tottering on the brink of collapse. The government moved to guarantee the price of the shares of these banks on the stock market, picking up several billion dollars of such shares in the process. So, today, although these four banks are not in the legal sense "state-owned" companies, they are close to it since the government holds about 70 percent of their shares, and can find few buyers.

Clearly, the road from socialism will offer many challenges in the coming years. □

Sports in America

by Tibor R. Machan

When I arrived in America from Hungary in 1956, one of my laments was that Americans didn't do as well as they could in the Olympic Games. The Soviet Union and other Soviet bloc countries did comparatively better, as anyone who was familiar with the record could tell.

Everyone in my family had been involved in sports. My father rowed and later became one of Europe's better rowing coaches. He even coached in the U.S. for a while, at Philadelphia's renowned Vesper Boat Club. My mother was 1942 foils champion in Hungary and is still a coach in Salzburg, Austria. My stepfather was a saber fencer in Budapest and is today the U.S. Olympic fencing coach. My sisters were top swimmers in Budapest. I myself did a little of everything until I decided that I had other priorities and confined myself to mere exercise, not serious athletics.

One advantage of being an athlete in Communist Hungary had been that if one showed talent and perseverance, one's life was made much better by the state. Under most statist political systems—ones that hold the state as a higher being than the individuals who comprise it—sports become a kind of public exhibition of collective excellence. That was especially true in Hungary and is still true in most of the Soviet bloc countries, as well as in China and in some of the rightist states such as South Korea. If one demonstrates ability and willing-

ness to become a world class athlete, one is freed from all normal responsibilities of life and is kept in considerable luxury and privilege. For this one sells one's soul and, especially, one's body to the state as long as it holds up.

In my ignorance of the American political tradition, I was appalled at how little investment the American government made in amateur athletics. I noted that, with all its fabulous talent, America could win at virtually any of the Olympic events, if only sufficient resources and discipline were invested in that goal.

But of course here is the rub. American society may include some of the greatest talent for practically any task, including any facet of athletics. But it is not primarily a statist system. Government in this society is—or at least is supposed to be—a servant of the people. Individuals and their own goals are of paramount importance, not showing off the system, proving to the world how fabulous the social organism happens to be.

Therefore, in America many of the Olympic events are truly amateur sports. Of course, there are exceptions and gray areas—tennis and basketball, for example. But in the main, the athletes compete because that is what they want to do. And these athletes tend to have a variety of goals in their lives, which shouldn't be surprising for relatively free men and women. Unlike, for example, the East German swimmers, many top American swimmers take time from their training to devote to studying, family, and fun. Why not? Life has much more to offer than being a single-minded athlete. Sport, after all, is supposed to be something of

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He recently edited Commerce and Morality for Rowman and Littlefield.



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an enjoyment in one's life, not a mission of slave labor.

But I didn't understand this when I first came to the United States. I was somewhat of a converted nationalist and didn't realize that what made this a nation worthy of respect had little to do with winning the most medals at the Olympics, having the most productive economic system, being first in space, or any other single purpose that some people might prefer to take as a sign of collective success. What was vital for this nation—and there are signs that this has not been entirely forgotten even now, except perhaps by most of our intellectuals and politicians—was that each individual had the liberty to strive for his own goals in life, provided he or she didn't trample on the similar efforts of others.

So now when I watch the Olympics my thinking and emotional reactions are very different from that first time I came to the United States. I scoff at all the nationalism injected

into the commentary. I am usually bemused and even elated, in contrast to the network commentators, when it is noted that Americans are not doing as well as the Soviet bloc athletes—who usually appear glum even after delivering a 9.95 performance in gymnastics!

Free people do not put all their energy into a showy project such as the Olympics, except, now and then, spontaneously. Thus the 1984 Los Angeles Olympics disturbed me, although I realized that most people were celebrating the rejuvenation of the country, of which the American athletes' success in Los Angeles tended to be a symbol. But some of the nationalism began to grate on me.

I am a refugee to this country not because it manufactures Olympic winners, or the greatest technology in the world, or for any other single achievement found in it, but because it is the best environment for individuals to pursue their own happiness, according to their own individual talents, abilities, and choices. □

Readers' Forum

To the Editors:

Thomas DiLorenzo's excellent article on "Monopoly Government" in the June 1989 issue of *The Freeman* has one important misstatement. The reason why government is in business does not have anything to do " . . . with the desire to supplement agency budgets with commercial profits" either on the Federal, and certainly not on the local level. It has to do with the prime motivating factor of virtually every politician: getting re-elected! The common name for this is patronage.

Here is how it works: The voter turn-out for the primary election, i.e., the one in which candidates get on the ballot, is always very small. However, those persons who are the beneficiaries of patronage can always be counted upon to vote. Their jobs depend on it. Thus, it is to every politician's benefit to dispense as much patronage as possible in order to assure himself a place on the ballot for the next election.

In addition, in many localities, such as New York, there are stringent "election laws" for getting on the ballot even for the primary. Among the requirements are a certain number of names on petitions. For a newcomer, getting the required number of names is an arduous task at best. For the incumbent, it's a lot easier, especially if he has dispensed a lot of patronage.

So there you have it. A great deal of government activity in the commercial sector has to do with the structure of the re-election process.

LAWRENCE M. PARKS
New York

Dr. DiLorenzo replies:

I agree completely with Dr. Parks' view that political patronage is a prime motivating force with any politician. I have coauthored two books (*Underground Government*, Cato Institute, 1983; and *Destroying Democracy: How Government Funds Partisan Politics*, Cato, 1985) that explore some of the more deceitful tricks that politicians play in their quest for re-election through the patronage system.

I disagree, however, that the importance of patronage conflicts with my contention that governments operate monopolistic, commercial enterprises in order to supplement agency budgets. After all, it takes money to finance patronage jobs. Driving private enterprises from the market is a way in which government enterprises at all levels—especially the local level—finance additional patronage opportunities. In addition to the patronage jobs provided by the monopolistic governmental enterprises themselves, "profits" can be used to create even more patronage jobs elsewhere in the bureaucracy. Thus, we are subjected to a vast system of what I call monopoly government. To add insult to injury, the people who benefit at the expense of the taxpayers call themselves "public servants."

THOMAS J. DiLORENZO
University of Tennessee
Chattanooga

Intellectuals

by John Chamberlain

The title of Paul Johnson's new book, *Intellectuals* (New York: Harper and Row, 385 pp., \$22.50), is a catch-all that promises a history of those who live by their brains. But what we get is highly selective. Though he ends his series of entertaining short biographies with a glance at Evelyn Waugh, George Orwell, Cyril Connolly, and others who don't fit his schematization, the book is about a specific breed of intellectuals who have taken Karl Marx's words about changing the world seriously.

What is the common denominator that unites Jean-Jacques Rousseau, Percy Shelley, Karl Marx, Henrik Ibsen, Leo Tolstoy, Ernest Hemingway, Bertolt Brecht, Bertrand Russell, Jean-Paul Sartre, Edmund Wilson, Victor Gollancz, and Lillian Hellman, each of whom gets a major chapter? The common factor is that they are all leftists. Johnson does not hold them to consistency. Bertrand Russell, for example, blew hot and cold on the Soviet Union — at one time, when the U.S. had a monopoly on the atom bomb, he advocated wiping Moscow off the map; world government would naturally follow. Hemingway, a genius at story telling, followed a fashion in leftism that put him at odds with John Dos Passos on the Spanish Civil War in a way that Katy Dos Passos, a fervent supporter of the anti-Stalin anarchists, quite rightly labeled as opportunistic. Edmund Wilson, F. Scott Fitzgerald's friend at Princeton, began as a man of letters, not a reformer. He shifted as a *New Republic* editor in the depression to do some first-rate reporting of the "American jitters" and going on from there to

track Lenin's road to the Finland Station. But in late middle age he reverted to his origins as a man of letters.

Leo Tolstoy's world-saving was suspended in midstream to make way for the writing of *War and Peace*, possibly the world's greatest novel, and *Anna Karenina*. These were works of true genius. But Tolstoy thought less of them than of his efforts as a self-constituted messiah.

Marx "howled gigantic curses" against those who would interfere with the revolution he saw coming, but he brought up his daughters in a thoroughly conventional way. He didn't want them to have vocations. He talked about science, but he himself was incapable of good scientific research. Engels had to supply him both with cash and information about the working classes.

Shelley could be heartless in his thinking, but his poetry was certainly not heartless. Ibsen, no collectivist, wrote plays about individuals. Sartre wrote under the influence of both drink and drugs. He hoped that Europe could be created as an entity, but he groveled to the Soviets and admitted lying about the things he had seen in Russia. Camus's gibe was that Sartre, as an existentialist, tried to make history from his armchair.

Rousseau, among the leftist intellectuals, is the main malefactor. His theory that society should be governed by a "general will" led inexorably to Lenin's totalitarianism. The American Founding Fathers wanted nothing of any "general will" beyond a commitment to pluralism and the safeguarding of minority rights.

One could wish that Senator Sam Nunn of Georgia, who has suggested that all adolescents should serve a compulsory term in doing good as defined by government, should read Paul Johnson on Rousseau. Nunn's own ideal "general will" would surely be humane, but no group of politicians can be trusted to formulate compulsory goals for a country. That should be left to individuals on a voluntary basis, subject to amendment as situations change.

The egotism of Johnson's leftist intellectuals is almost incalculable. Johnson quotes a contributor to a book on Rousseau's Social Contract as saying that Rousseau was a "masochist, exhibitionist, neurasthenic, hypochondriac, onanist, latent homosexual afflicted by the typical urge for repeated displacements, incapable of normal or parental affection, incipient paranoid, narcissistic introvert rendered unsocial by his illness, filled with guilt feelings, pathologically timid, a kleptomaniac, infantilist, irritable and miserly." Johnson documents much, though not all, of this. Yet Tolstoy could say that "Rousseau and the Gospel" were "the two great and healthy influences of my life." Johnson professes himself to be baffled. He lets Sophie d'Houdetot, Rousseau's last lover, sum things up by saying "he was ugly enough to frighten me and love did not make him more attractive. But he was a pathetic figure and I treated him with gentleness and kindness. He was an interesting madman."

The madness of some of Johnson's intellectuals did not extend to Victor Gollancz, who packaged and sold Rousseauistic literature for his Left Book Club in London between the wars. Money-making is a rational objective. But the West, waiting for the evidence, might have been a little quicker than it was in noting that the Rousseauists were lovers of humanity who did not actually care for human beings. They treated their own wives, children, and friends and relatives abominably. Sartre boasted he could "run" four mistresses beside Simone de Beauvoir at a time. Paul Johnson supplies the evidence with detail that is most amusingly stated. But he really owes us more than that.

After all, we have had good conservative, classical liberal, and libertarian intellectuals, too. A counter book could be written around

Mises and Hayek, Albert Jay Nock and William Graham Sumner, Bastiat and Adam Smith, Carl Menger, Eugen von Boehm-Bawerk, and Leonard Read. The book would not be as titillating as Johnson's current work: family life on the Right remains generally clear of the sort of scandal that Johnson gossips about so zestfully. But if it is ideas that we care for, the counter book should be forthcoming. □

UNFAIR COMPETITION: THE PROFITS OF NONPROFITS

by James T. Bennett and Thomas J. DiLorenzo

Hamilton Press, 4720 Boston Way, Lanham, MD 20706 • 1989 • 214 pages • \$17.95 cloth

Reviewed by Peter Frumkin

At first blush, the operation of a museum gift shop seems harmless enough. Who could care if a worthy institution like the Richmond Museum makes a little cash on the side by selling postcards and other small items? Probably no one. But what about a nonprofit YMCA that serves young professionals at a lower cost than a local private health club, driving the club out of business? In this case, the issues become less clear and the questions more complex. Are some nonprofits using their nonprofit status to compete unfairly with their for-profit counterparts? Do nonprofit organizations enjoy subsidies that make true competition impossible? How can the need of nonprofits to raise funds be balanced with the concern of the business community that an unfair advantage exists which distorts the market? These are just some of the questions that James T. Bennett and Thomas J. DiLorenzo raise in their stimulating new study of the nonprofit economy, *Unfair Competition*.

Tax-exempt organizations are one of the fastest growing segments of the economy. In 1987, annual revenues exceeded \$300 billion—or about 8 percent of the gross national product. They have, however, only begun to attract significant attention from researchers.

The very fact that many nonprofits are actively engaged in for-profit commercial activities may come as a surprise to some. After all, thoughts of the nonprofit community hardly conjure up im-

ages of profitable operations generating significant revenues. In reality, however, many nonprofits are growing increasingly dependent on the funds which their various business ventures generate.

Is this a development that should be greeted with enthusiasm as a harbinger of lower costs to consumers? If the analysis contained in *Unfair Competition* is correct, there may well be hidden costs—and stiff ones at that—which need to be weighed before we accept the continued profiteering by the nonprofits. Bennett and DiLorenzo argue in fact that the phenomenal growth of the nonprofit sector has been achieved on the back of private business, with small for-profit firms suffering the most from the unfair competition of tax-exempt commercial organizations.

Nonprofits enjoy a whole host of advantages—chief among them being tax-free status and reduced postal rates—that give them an unfair advantage in the marketplace: “The effect of these special privileges is that governmental policy not only reduces the costs of nonprofit organizations, but it also raises the costs of doing business for their for-profit competitors. Profit-seeking firms must pay higher taxes and postal rates to offset the subsidies accorded nonprofits. Thus, because of this preferential treatment, competition between nonprofits and for-profits is inherently unfair.”

Attempts by government to address the problem of unfair competition have been few and far between, and those few measures that have been taken have been largely ineffective. The Unrelated Business Income (UBI) Tax which was intended to level the playing field by taxing the revenues of nonprofits has, for example, proven difficult if not impossible to enforce. Bennett and DiLorenzo explain that the courts have not been able to give a rigorous and consistent definition of just what constitutes an “unrelated” business activity by a nonprofit. And because the UBI tax was to apply only to “commercial activity which is not significantly related to the purposes for which the nonprofit organization was established,” enforcement and collection by the IRS has been less than successful. For their part, nonprofits have taken an extremely expansive view of what constitutes a

related purpose, making the under-reporting or non-reporting of revenues commonplace.

Even if nonprofits enjoy an unfair advantage over private businesses due to tax breaks and postage subsidies, why should anyone worry? Bennett and DiLorenzo’s answer is simple: unfair competition impedes the development of small business by making it hard for them to enter markets and compete. This is significant because two-thirds of all new jobs are created by businesses with fewer than 20 employees. The authors note that because commercial enterprises run by nonprofits are exempted from taxes and receive other subsidies, taxpaying businesses must bear an extra burden by paying higher taxes than they would otherwise to make up for exemptions enjoyed by their “nonprofit” competitors. Bennett and DiLorenzo conclude that unfair competition ends up crowding out of the market precisely those firms which are the principal source of new jobs—ultimately reducing the rate of economic growth.

The solution to unfair competition that Bennett and DiLorenzo offer is clear: “Nonprofits entering a commercial undertaking must form a for-profit subsidiary that must obey all the same laws and regulations that apply to for-profit enterprises.” For according to the authors it is only when we move beyond hidden subsidies and the ineffectual regulations of UBI taxes that both consumers and producers will be able to enjoy the benefits of even-handed competition.

Unfair Competition makes a powerful case that the time to crack down on the profiteering of nonprofits is upon us and the future of free markets and fair competition rests in the balance. Some may differ with the recommendations of the book and favor less radical and sweeping reforms. One may hope a solution can be found which will both allow nonprofits to continue to operate on a fee for service basis and which will also ensure that the interests of private for-profit businesses are not damaged in the process. Any such compromise must, however, start from the premise that free enterprise and a level playing field are non-negotiable items. □

Peter Frumkin is a graduate student at Georgetown University where he is studying public policy.

THE HIGH COST OF FARM WELFARE

by Clifton B. Luttrell

Cato Institute, 224 Second Street SE, Washington, DC 20003 • 1989
149 pages • \$19.95 cloth, \$9.95 paper*Reviewed by E. C. Pasour, Jr.*

Government programs haven't solved the economic woes plaguing U.S. agriculture. Despite record expenditures on farm programs during the 1980s, financial stress in U.S. agriculture during the Reagan era was at its highest level since the Great Depression of the 1930s. Luttrell's short book describes government farm programs and demonstrates why they have been an expensive failure.

The book is divided into 11 chapters. Chapters 1 and 2 describe government intervention in agriculture following World War I that culminated in the Agricultural Adjustment Act of the Roosevelt New Deal. Chapters 3 through 6 analyze price support programs for crops from their beginning in the 1930s until the present time. Chapters 7 through 10 discuss other programs, including food stamps, subsidized credit, and price supports for milk and sugar. Chapter 11 describes the winners and losers, emphasizing that farm programs are a "high-cost way to aid low-income farmers."

Historical data are presented for a range of activities including production and exports of farm products, levels of price supports and market prices, sugar imports, government expenditures on food stamps, Farmers Home Administration loans, farm income by farm size, and expenditures by the U.S. Department of Agriculture (USDA).

Farm programs today are remarkably similar to those instituted during the 1930s. And government expenditures on farm programs, adjusted for inflation, have increased dramatically during the past 50 years, despite remarkable changes in the farm economy. Indeed, USDA outlays since 1980 have been higher each year than net farm income.

Luttrell pinpoints numerous inconsistencies and inefficiencies of price supports, subsidized credit, and other farm programs. For example, milk, sugar, and peanut programs raise food prices to consumers. At the same time, more than \$10 billion is spent on food stamp programs to make food more available to lower-income con-

sumers. Again, while espousing self-help and providing foreign aid to assist less developed sugar-producing nations, the United States has impeded economic development in these countries, notably in the Caribbean area, through sharp decreases in sugar quotas which limit their economic independence.

Of course, farm programs are inconsistent with competitive markets. Price supports that raise domestic prices above world price levels not only spawn protectionism to prevent the substitution of lower-priced imports by U.S. consumers, they also create the "need" for export subsidies to make U.S. products competitive in international trade. The massive export subsidies under Public Law 480 ("Food for Peace") and similar programs not only continue today but have been substantially increased in recent years.

Luttrell shows that most of the benefits of farm programs go to farmers whose incomes, on average, exceed those of the nonfarm population. For example, in 1985 the top 4 percent of farms (measured by value of products sold), with average net income of well over \$100,000 per year, received about one-third of all government price support payments. In this reverse Robin Hood approach, the programs provide the lion's share of government payments to a relatively few higher-income farmers. Moreover, the benefits of higher product prices are quickly incorporated into higher prices and costs of land and other farm assets. Consequently, farm programs have little effect on the long-run profitability of U.S. agriculture.

What is the reason for this apparent anomaly in which the "government taxes so many for the benefit of so few"? Although Luttrell briefly addresses this topic, it would have been helpful to devote more space to the reasons why government tends to spend great sums on agricultural programs.

There are two explanations for the persistence of government farm programs — "market failure" and income redistribution. In the former view, government farm programs persist because the decentralized market process isn't capable of coordinating economic activity in agriculture. Luttrell demonstrates that the evidence doesn't support this conclusion and that government intervention in agriculture frequently destabilizes markets for farm products.

The income distribution explanation appears

to be more consistent with the evidence. The political process is short-run oriented, and farmers (and other groups) often exert disproportionate amounts of influence in the political process because program benefits (as Luttrell stresses) are highly concentrated and the costs are widely diffused. For example, the sugar program that costs the average U.S. family no more than \$50 per year benefits the 12,000 to 13,000 domestic producers of sugar and sugar substitutes, on average, by thousands of dollars per year. It isn't surprising that sugar producer interests exert more effort to influence the political process than do consumers!

How should the nation move to restore market forces in agriculture? Luttrell suggests a five-year adjustment period in returning to a competitive system. He also puts forth a controversial "decoupling" proposal in which farm programs would be dismantled, and current farmers would receive government payments unrelated to agricultural production until death or the age of 70. Luttrell recognizes that economic theory cannot be used to justify income redistribution to farmers. Moreover, he staunchly advocates the dismantling of farm programs, leaving no doubt about the inevitable result if agriculture isn't decontrolled: "... ever-increasing costs to taxpayers and consumers, resulting in further regulation and more highly inefficient, centralized decision making." □

Dr. Pasour is professor of economics at North Carolina State University at Raleigh.

A THEORY OF SOCIALISM AND CAPITALISM: ECONOMICS, POLITICS, AND ETHICS

by Hans-Hermann Hoppe

Kluwer Academic Publishers, 101 Philip Drive, Assinippi Park, Norwell, MA 02061 • 1989 • 275 pages • \$40.00 cloth

Reviewed by Robert W. McGee

This book is an interesting blend of scholarship and polemic. The text is 210 pages, followed by 48 pages of notes, a 13-page bibliography, and a brief index, which makes it a good source document for anyone who wants to research any of the many interesting points that Hoppe raises. It

is decidedly anti-statist and presents a strong case for capitalism on both a priori and empirical grounds.

When I read a book, I make marginal notations and underline the points that I think are worth reading a second time. With this book, I found that I had to restrain myself because I was making so many notations that it slowed my reading. Practically every paragraph has at least one point worth reflecting upon. Hoppe's writing style is entertaining in spots, and some of the examples he gives do a good job of pointing out the absurdity of commonly held collectivist viewpoints. The text is also heavy in spots, as is often the case with philosophy, but Hoppe partially overcomes this weightiness by summarizing what he has just said in the first few paragraphs of the next chapter. These short summaries provide a good overview of the previous chapter and give readers a second chance to digest what has just been read.

After a brief introduction, Hoppe explains the relationship of property, contract, and aggression to the two economic systems—capitalism and socialism. Capitalism is the institutionalized policy of nonaggression that recognizes and respects property and contract. Socialism is the system that aggresses against property and contract. One who aggresses increases his or her satisfaction at someone else's expense. Someone gains and someone loses. One who enters into a contract, on the other hand, is part of a win-win situation because both parties expect to benefit by the voluntary exchange. Socialism is an economically inferior system because, by relying on aggression, it causes less property to be created, and the property that is created is not put to optimal use. Politics and force, not economics and voluntary exchange, determine how property is allocated. Aggression is used to take from some people to give to others.

Hoppe spends the next four chapters explaining how different ways of deviating from a pure capitalist system lower investment, increase consumption, and cause a change in the composition of the population by favoring nonproductive over productive people. Under Soviet-style socialism, the style advocated by Marxian socialists, the means of production

are nationalized. Investment must be made by caretakers of property rather than by owners, since there are no owners. Such an arrangement is inferior to capitalism for a number of reasons. For one, caretakers do not have the same incentive to care for "socialized" property as they would have to care for their own. Second, there is less incentive to maximize utility of the property since the caretakers do not get to keep what they produce. Also, the lack of a pricing system makes it impossible to plan rationally. Less urgent needs get satisfied at the expense of more urgent ones. Socializing the means of production causes relative impoverishment, a conclusion that can be drawn logically, since socially owned assets must necessarily be used less efficiently than privately owned ones. Where the incentive to produce is lessened, there will be less production.

Substantial empirical evidence also exists to verify this conclusion. East and West Germany are offered as examples. The populations are homogeneous, yet the West German economy thrives while the East German economy stagnates. The difference is caused by the economic systems used to allocate resources.

The second variety of socialism is the social-democratic model. Under this system, the idea of socialized production is exchanged for taxation and equalization. The means of production can be privately owned, with some exceptions, such as education, traffic, communications, central banking, the police, and the courts. Individuals have the right to own and produce, but not to keep all of the fruits of their labor. Some of these fruits belong to "society," which means the rights of the natural owner have been aggressively invaded. Thus, the difference between Soviet-style and social-democratic-style socialism is one of degree. In the first case, private ownership isn't permitted. In the second case, private ownership is permitted, but the state determines how much of the fruits can be kept by the rightful owner. Ownership rights are purely nominal. Social-democratic socialism settles for partial expropriation and the redistribution of producer incomes. The results, as with Soviet-style socialism, are reduced incentives

to produce and relative impoverishment.

The third form of socialism is the socialism of conservatism, the ideological heir of feudalism. Like social-democratic socialism, conservative socialism allows private ownership, but not the right to keep all the fruits of private ownership. But whereas social-democratic socialism distributes from the producing haves to the nonproducing have-nots, conservative socialism distributes from the producing haves to the nonproducing haves; it aims at maintaining the status quo rather than increasing equality. The difference between the two kinds of socialism lies in the group of nonproducers who receive the fruits of other people's labor. Also, whereas the social-democratic form uses taxation to achieve its goals, conservative socialists favor the use of price controls, regulation, and behavioral controls. Again, the result is relative impoverishment, since use of any of these techniques causes productive resources to be misallocated from higher uses to lower uses.

The fourth form of socialism is that of social engineering. Whereas the Soviet, social-democratic, and conservative brands of socialism all fail on economic grounds, the fourth type of socialism doesn't claim to be economically superior to capitalism. It states, in effect, that even though socialism might be economically inferior to capitalism, it is morally superior. This empiricist-positivist Popperian style of socialism sees empirical proof of capitalism's superiority as ill-conceived. Socialism is made immune to criticism because any failures can be explained away as caused by some as yet uncontrolled intervening variable. We can never know in advance what the outcome of some policy will be. We must try it first. Then, if the policy fails, we can explain it away.

Hoppe then defends capitalism on ethical grounds and shows why socialism is indefensible. Under socialism, an individual's rights are determined by his class. Some individuals have an obligation to pay taxes, and others have a right to consume them. The computer industry, for example, must pay to subsidize farmers, the employed must subsidize the unemployed, individuals without children must subsidize those with children. The whole sys-

tem is based on aggression.

The remainder of the book is devoted to the theory of the state, capitalist production, the problem of monopoly, and public goods theory. The state exists on the principle of divide and conquer, and the continuous threat of violence. It attempts to control basic services such as education, traffic and communications, the supply of money, and the production of security. Hoppe points out that monopoly cannot exist without government support, and that many of the services provid-

ed by the state can be provided more economically by the market. Public goods do not exist. Anything that is worth providing can be provided by the market. If the market does not provide a particular good or service, it is because consumers have determined that it isn't worth producing. Having the state step in to provide something that the market does not results in misallocating resources from higher to lower uses. ☐

Professor McGee teaches accounting at Seton Hall University.

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OCTOBER

1989

VOL. 39

NO. 10

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

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The Freeman is the monthly publication of The Foundation for Economic Education, Inc., Irvington-on-Hudson, NY 10533 (914) 591-7230. FEE, founded in 1946 by Leonard E. Read, is a nonpolitical educational champion of private property, the free market, and limited government. FEE is classified as a 26 USC 501 (c) (3) tax-exempt organization. Other officers of FEE's Board of Trustees are: Thomas C. Stevens, chairman; Ridgway K. Foley, Jr., vice-chairman; Paul L. Poirot, secretary; H.F. Langenberg, treasurer.

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Bound volumes of *The Freeman* are available from The Foundation for calendar years 1969 to date. Earlier volumes as well as current issues are available on microfilm from University Microfilms, 300 North Zeeb Road, Ann Arbor, MI 48106.

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.

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China: Why the Worst Got on Top

The recent slaughter of student demonstrators in China's Tiananmen Square led me to reread "Why the Worst Get on Top," a chapter in F. A. Hayek's classic *The Road to Serfdom*, written in 1944. Why were the Chinese authorities so brutal? Why did the soldiers shoot their own countrymen? Consider Hayek's perceptive comments about totalitarian leaders and their minions:

"To be a useful assistant in the running of a totalitarian state, it is not enough that a man should be prepared to accept specious justification of vile deeds; he must himself be prepared actively to break every moral rule he has ever known if this seems necessary to achieve the end set for him. Since it is the supreme leader who alone determines the ends, his instruments must have no moral convictions of their own. They must, above all, be unreservedly committed to the person of the leader; but next to this the most important thing is that they should be completely unprincipled and literally capable of everything. . . .

"Yet while there is little that is likely to induce men who are good by our standards to aspire to leading positions in the totalitarian machine, and much to deter them, there will be special opportunities for the ruthless and unscrupulous. There will be jobs to be done about the badness of which taken by themselves nobody has any doubt, but which have to be done in the service of some higher end, and which have to be executed with the same expertness and efficiency as any others. . . . The readiness to do bad things becomes a path to promotion and power. . . . It is only too true when a distinguished American economist [Frank Knight] concludes from a similar brief enumeration of the duties of the authorities of a collectivist state that 'they would have to do these things whether they wanted to or not: and the probability of the people in power being individuals who would dislike the possession and exercise of power is on a level with the probability that an extremely tender-hearted person would get the job of whipping-master in a slave plantation.'"

—BRIAN SUMMERS

On Envy

It is ludicrous to envy anyone who succeeds in a capitalistic economy. Those who achieve great financial success do so through their productivity and are our most efficient servants. Their genius and energy produce the cheapest, the best, or the most desirable products that we buy. If they didn't, we wouldn't buy, and they wouldn't be so rich. Ours is truly a symbiotic relationship. Our good fortune is their good fortune—and vice versa. Their genius and energy are ours for the purchase price of their goods and services.

—JIM RUSSELL
Beachwood, Ohio

Beyond Numbers

The success of recent privatization efforts can obscure the fact that privatization seeks merely to redress the damage done by collectivist actions and principles. Often those principles are left essentially unchallenged, even after property has been returned to private hands. The strong anti-property, anti-capitalist bias of government officials is still largely intact. Some officials may have concluded that government action in the marketplace is inefficient, but few think it immoral.

We will not make real progress in shrinking the size of government if we only react to government programs and if our reaction consists only of bar graphs and balance sheets. The figures, while providing empirical evidence against state intervention, apply to only one specific case at any time; there is nothing to carry over, no "big picture" to leave people with. The fact is that most people will countenance a good bit of inefficiency if they believe it to be for a good cause.

The goal should be to nip plans to expand government in the bud, before a protective constituency sprouts up. To accomplish this, the mind-set of decision-makers in government must be changed. Such a change can occur only when the intellectual battle moves beyond simple number crunching. For success, the conflict must be waged where notions of freedom and liberty are the most compelling—the realm of ideas.

—JEFF A. TAYLOR
Kingstree, South Carolina

The Worst Polluter

Crude waste disposal practices, which the Federal government banned in the private sector a decade ago but allowed to continue at its own nuclear weapon plants, are largely responsible for extensive environmental damage at those plants. . . .

At the Portsmouth Uranium Enrichment Complex in Piketon, Ohio, workers dumped oil on the soil and plowed it under until 1983, failing to analyze it for cancer-causing solvents that have now contaminated the underground water and threaten drinking water supplies. . . .

At the Savannah River Plant near Aiken, S.C., wastes laden with radioactive and chemical pollutants were dumped until the mid-1980's into seepage lagoons. . . .

At the Pinellas Plant in Largo, Fla., toxic substances have been discharged into the Pinellas County Sewer System. . . .

The reports make clear, and experts agree, that the pollution was allowed to continue long after techniques for controlling it were thoroughly understood.

—MATTHEW L. WALD,
writing in the December 8, 1988,
New York Times

Equal Rights

Do rights exist in the individual or in the group? If rights exist in the individual, then there are no other rights that come with belonging to any group. A cajun does not have more rights because he belongs to a group labeled "cajuns" because there is no such thing as "cajun rights." A black does not have more rights than non-blacks because he joins other blacks to form a politically active group. Therefore, there's no such thing as "black rights" per se, but only *individual* rights that are the same for any black, white, cajun, and everyone else.

—KEVIN SOUTHWICK,
editor, *Centre Democrat*,
Bellefonte, Pennsylvania

A Triumph for Bootstraps Capitalism

by Clint Bolick

Ego Brown never fancied himself a crusader. His ambition is more that of a classic entrepreneur. His dream, as Mr. Brown describes it, is to “spread the shine” with shoeshine stands on street corners throughout Washington, D.C., and eventually in other cities as well.

The story of Ego Brown in many ways exemplifies the great American tradition of bootstraps capitalism: the methodical climb up the economic ladder by means of creativity, talent, and hard work. Indeed, Ego Brown’s little enterprise took on added luster by providing employment opportunities to the homeless—a classic case of an entrepreneur doing good by doing well.

But along the way, Mr. Brown encountered an unexpected obstacle—a District of Columbia law that forbade him from pursuing his chosen business. This law and thousands of others like it form an oppressive barrier that prevents entrepreneurs like Ego Brown from earning their share of the American Dream.

The resulting battle for the right to earn a living free from excessive governmental interference cast Brown in the unlikely role of champion in the cause of economic liberty. His pathbreaking triumph is a beacon to others outside the economic mainstream that opportunity still exists in America.

An Entrepreneur in Action

Ego Brown launched his career after he quit his job as a voucher examiner for the Navy seven

Clint Bolick is Director of the Landmark Legal Foundation Center for Civil Rights in Washington, D.C., and author of Changing Course: Civil Rights at the Crossroads (New Brunswick, N.J.: Transaction Books, 1988).

years ago. “I used to look outside and think about how good it would be to work for myself,” he recalls. He cast about for the right opportunity to do just that.

Mr. Brown quickly discovered a lucrative potential market in the thousands of scuffed shoes pounding the sidewalks of downtown Washington. “It’s an image city,” he says. “People care about their appearance and they wear nice clothes, but they forget about their feet.”

He set out to remedy this anomaly by providing the “finishing touch”—a quality shoeshine. Drawing upon the talent he developed as a youngster shining shoes for pocket money, Mr. Brown went to work. He started out in a barber shop near Howard University, but soon hungered for his own business. In 1985, he obtained a vending license from the District of Columbia, invested in a portable two-seat shoeshine stand, and set up shop at the corner of 19th and M Streets, N.W. Attired in his trademark tuxedo, Brown quickly attracted a large clientele for his distinctive “Ego Shine.”

Mr. Brown dismisses the notion that shoeshining is degrading to blacks. “I’m out to change that stereotype,” he says. “I’m a shoeshine *artist*. I provide a valuable service, and I do it with a touch of class.”

The success of his first stand encouraged Brown to expand his business. That’s when the idea of employing homeless people occurred to him. He recalls that “when I used to see these people on the streets, I’d dig into my pockets and give them money. Then one day I realized I wasn’t helping them. They didn’t need a handout. What they needed was an opportunity, a chance to lift themselves by their own bootstraps.”

Thereafter, Ego Brown enlisted workers from

the ranks of the homeless. He provided his homeless recruits a shower, clean clothes, a shoeshine kit and training—and most important, a renewed sense of dignity. Brown estimates he employed as many as 20 homeless men, both black and white, at shoeshine stands in downtown Washington. His efforts were so successful, in fact, that a District of Columbia social worker regularly referred enterprising homeless people for the “second chance at life” Ego Brown offered.

But during the summer of 1985, these efforts came to an abrupt end as District of Columbia police shut down Mr. Brown’s business. They cited a 1905 law providing that “No permit shall issue for bootblack stands on public space.” Regulated vendors peddling goods and services ranging from hot dogs to photo opportunities with cardboard celebrities were allowed to operate, but shoeshine stands were prohibited.

Mr. Brown appealed to his elected representatives for help, to no avail. Although Mayor Marion Barry was calling for massive private sector assistance to cure the homeless problem, he ignored Brown’s plight, apparently preferring to have homeless people sleeping on the streets rather than earning their livelihood on those streets.

Thwarted by this anachronistic law, Brown struggled to stay in business by shining shoes in private establishments. But by late 1988, he was a step away from the welfare rolls, his dream dimmed to a faint glimmer.

Sordid Origins

The District’s shoeshine stand prohibition was a relic of the Jim Crow era. Governments during that time frequently placed severe constraints on economic activities pursued by blacks. Though ostensibly race-neutral, these laws were designed to prevent blacks from gaining economic self-sufficiency.

The shoeshine ban was such a law, adopted in a political environment permeated by racial bigotry. A 1906 District of Columbia Health Service report reflected the government’s prevailing attitude when it spoke of blacks as “a race just entering what is termed civilized life.”

The same District Board of Commissioners that adopted the bootblack ban took a number of

other steps designed to subjugate blacks. W. Calvin Chase, editor of *The Bee*, Washington’s black daily newspaper during this period, assailed the District government for erecting a public whipping post and enacting stringent licensing requirements for the building trades. Chase called the whipping post “a pet scheme to deter the white wife-beaters by whipping the negroes. The moment a white man is thrashed, the law will go out of business.” Of the builder licensing requirements, Chase asked “[W]hat becomes of the minor builders, who are fully competent to construct a house, but not able to pass an examination?” (*The Bee*, January 7, 1905)

The shoeshine ban fit neatly into this pattern. According to the 1900 census, the public streets of Washington provided a means of living to 1.5 percent of the city’s employed black male population as “bootblacks,” “hucksters,” and “peddlers.” By prohibiting bootblacks on the streets—hence confining them to hotels and barber shops as employees rather than independent entrepreneurs—the government eliminated an important outlet for economic self-sufficiency.

Today, oppressive economic regulations such as occupational licensing laws and government-conferred business monopolies proliferate at the state and local levels. These laws often far exceed legitimate public health and safety concerns. Like their Jim Crow antecedents, these laws are race-neutral but impose their harshest burdens on people outside the economic mainstream—primarily minorities and the poor.

From the Street to the Courtroom

For more than 50 years, the courts have consistently declined to protect entrepreneurs from arbitrary or excessive economic regulation. Moreover, establishment civil rights groups have ignored such barriers to opportunity, preferring to focus on social engineering schemes like quotas, business set-asides, and welfare.

As a result, in May 1988 the pro-free enterprise Landmark Legal Foundation launched its Washington-based Center for Civil Rights, which initiated a long-range economic liberty litigation program. The Center hopes to restore the basic civil right of individuals to pursue a trade or profession—a civil right that provided substantial impetus for many of the major civil rights laws,

including the Fourteenth Amendment and the Civil Rights Act of 1964. The Center promptly filed its first economic liberty lawsuit against Mayor Barry and the District of Columbia on behalf of Ego Brown and two homeless men who worked for him.

In light of a half century of adverse legal precedent, the Center faced an uphill battle. The District cited scores of decisions in which the courts refused to strike down economic regulations, no matter how onerous. But the Center argued that the shoeshine ban went too far, violating the Fourteenth Amendment's equal protection, due process, and privileges or immunities clauses. Allowing the District to extinguish opportunities in this quintessentially entry-level business, the Center charged, would destroy economic liberty.

Ego Brown's lawyers suffered a setback in October 1988, when Federal District Court Judge George H. Revercomb denied an injunction on procedural grounds. But Judge Revercomb expressed strong sympathy for the merits of the case, declaring that individuals have a Constitutional right "to follow a chosen profession free from *unreasonable* governmental interference," adding that "the federal courts' role in protecting American citizens from unreasonable economic regulation has been one of the hallmarks of American liberty, prosperity, and progress."

Heartened by Judge Revercomb's language, the Center pressed forward. Finally, on March 22, 1989, Judge John H. Pratt declared the shoeshine ban unconstitutional and permanently enjoined its enforcement. "We would have to 'strain our imagination,' " Judge Pratt declared, "to justify prohibiting bootblacks from the use of public space while permitting access to virtually every other type of vendor." The District is free to adopt reasonable regulations, he ruled, but may not altogether prohibit shoeshine stands.

An Entrepreneur Vindicated

Ego Brown's victory in the courts may signal a crucial turning point in the battle to protect eco-

nomic liberty. The Center plans to use the *Brown v. Barry* decision as a building block for other assaults on excessive economic regulation, and already has filed a challenge to the Houston Anti-Jitney Act of 1924 on behalf of entrepreneur Alfredo Santos.

For Mr. Brown, the ruling means vindication and a chance to pursue his dream. His enthusiasm waned during the four years following the forced demise of his business. Brown remarked a week before the court decision, "I lose sleep because I can't understand why."

But following his triumph, Ego Brown displayed the resilience that is the hallmark of a successful entrepreneur. "I plan to get back on the streets and prove—to myself more than anybody else—that my idea, my dream can become a reality." Asked if he feared competition from other shoeshine entrepreneurs, Brown replied to the contrary. "It would stroke my ego to see someone else out there with me," he said. "I would think I had something to do with that, that I inspired someone to go into business. I beckon competition."

And compete he will. Even before spring reached full bloom in the nation's capital, Ego Brown was back on the streets of Washington, pursuing his dream. His stand was booming, and homeless people were learning the trade. Well-wishers were streaming by yelling, "Way to go, Ego!"

For countless others like him, however, arbitrary barriers remain. For a nation whose moral claim is staked in its doctrinal commitment to opportunity, such barriers are a matter of shame. Challenging such barriers—securing for all individuals the ability to control their own destinies—is part of the unfinished business in the quest for civil rights.

But Ego Brown's successful struggle provides hope to would-be entrepreneurs that one day our nation will honor that basic opportunity that is every American's birthright—every American's civil right. □

Speculators: Adam Smith Revisited

by Christopher L. Culp and Fred L. Smith, Jr.

Financial middlemen are in disfavor everywhere. From the movie *Wall Street* to the pages of *The Wall Street Journal*, they have become the villains of our age. Our modern media and intellectual leaders recognize a range of legitimate economic activities such as farming, distribution, storage, and manufacturing, but see little value in such unfamiliar, "immoral," and "unproductive" activities as corporate takeovers, insider trading, and junk bond financing. These activities involve too much mental acumen and too little honest sweat.

To reinforce their biases, journalists quickly assign pejorative labels to those things they don't understand: "insider" trading, "junk" bonds, "leveraged buy-outs," "hostile" takeovers, "poison pill" defenses, "greenmail," and those old favorites, "speculation" and "profiteering." The plot outline of the media story varies, but when the story ends, the middleman always winds up wearing the black hat.

Those in the media are not alone in their condemnation. Politicians and other social commentators find it useful to chastise such middlemen as serving no useful purpose. In fact, these entrepreneurs are typically portrayed as being mere paper-pushing, tape-watching profit maximizers who exist only to skew the distribution of wealth. But if middle-

men are so non-productive, we might well ask why competitive capitalist societies have created so many types of them. Some insight into this question is gained when one realizes that today's respected service and distribution workers were once also condemned as parasitic middlemen.

We should not be surprised that the Michael Milken of today are caricatured and pilloried. What is not understood is often condemned, and few people understand the value of entrepreneurial activities. Mankind is reactionary—the new, the novel, and the unusual may be essential, but such activities rarely receive honor in their own day. Today's insider traders and junk bond salesmen were yesterday's draymen and warehousemen. In their day, transportation and storage were viewed as suspiciously as innovative financial vehicles are today.

The story is told well in Adam Smith's discussion of the Corn Laws in *The Wealth of Nations*. Smith reviewed 18th-century public attitudes toward two new forms of wealth creation: "forestalling" and "engrossing" (terms picked for the same connotative reasons that "junk" and "hostile" are the adjectives of choice for high risk, high yield bond financing and changes in corporate control today). "Forestalling" was a new economic activity involving corn purchases during times of plenty in the hope that the corn could later be resold at a profit. "Engrossing" described a similar arbitrage activity focusing on price differentials among different locales within England. Engrossers, for example, bought low in Birming-

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ham and sold high in London—or rather they hoped to do so. Both activities had become possible only as storage and transportation costs dropped.

The Role of the Middleman

Forestalling and engrossing were soundly criticized as sterile middlemen activities that produced no new corn but only raised prices. Such speculation, the conventional wisdom held, could only hurt the general public.

However, Smith explained clearly that such middlemen played an essential role. If speculators predicted scarcity and it failed to materialize, they lost money. They not only had to sell the corn at a loss, but also pay its storage and/or transportation costs. When the scarcity was real, however, Smith explained that “the best thing that can be done for the people is to divide the inconveniences of [that scarcity] as equally as possible through all the different months, and weeks, and days of the year” and, of course, across the nation. Smith noted that the corn merchant—the specialist in this commodity—was the most appropriate party to carry out this “most important operation of commerce.”¹

Moreover, Smith noted, the risks were clearly shifted from the consumers to these specialists. When engrossers and forestallers were wrong (a situation all too likely in commodity markets) and prices fell rather than rose, they bore the consequences of their follies. On the other hand, when these speculators were correct and shortages did occur, both they and the citizenry benefited. As Smith explained, “By making [the people] feel the inconveniences of a dearth somewhat earlier than they might otherwise do, he prevents their feeling them afterwards so severely as they certainly would do, if the cheapness of price encouraged them to consume faster than suited the real scarcity of the season.”²

Smith detailed the consumer advantages of making uniform the supply of foodstuffs over time and avoiding the feast or famine problems that existed before there were middlemen.³ In modern terms, forestalling and engrossing were creative forms of voluntary risk-shifting, in which risks were transferred

from risk-averse consumers and growers to risk-taking speculators.

Smith stated that “after the trade of the farmer, [there is] no trade contributing so much to the growing of corn as that of the corn merchant.”⁴ He continued, “The popular fear of engrossing and forestalling may be compared to the popular terrors and suspicions of witchcraft. The unfortunate wretches accused of this latter crime were not more innocent of the misfortunes imputed to them, than those who have been accused of the former.” To Smith, “the corn trade, so far at least as concerns the supply of the home-market, ought to be left perfectly free.”⁵

Moreover, Smith explained that entrepreneurs seek profits not necessarily *because* their actions will benefit consumers; clearly, entrepreneurs have profit-maximization in mind. Yet, speculative entrepreneurship carries positive external benefits for society *a priori*. It is ironic that the profit-seeking activities of forestallers and engrossers yield such residual benefits, while the actions of politicians, who are generally viewed as those responsible for promoting the welfare of society, often do more harm than good.⁶

The reader will notice the clear similarity between the speculators and arbitrageurs of today and Smith’s corn merchants. Indeed, the forestallers and engrossers were simply pioneers specializing in the fields of risk management, information provision, and information processing. As in Smith’s time, such middlemen provide society with services that are no less valuable because they are intangible; speculators are willing to take risks that consumers would prefer to avoid.

The Benefits of Speculation

Speculation comes in many forms and has many benefits. Speculators, for example, constantly question the validity of conventional market wisdom by taking risks which others view as foolish. Even when conventional wisdom is correct, speculators provide a *de facto* cushion of insurance that improves the resiliency of society against economic risks. Speculators also serve a moral purpose by making entrepreneurial activity, and resulting economic

growth and prosperity, possible.

Additionally, speculators enhance the efficiency of firms and the deployment of capital in the economy at large. If inefficient management of a corporation, for example, is detected by speculators, capital can be redistributed through the takeover process, with substantive residual benefits arising in society through better allocation of resources. Furthermore, the *threat* of takeovers serves as an implicit economic regulator of corporate management. Publicly held corporations typically become takeover targets when their stock becomes undervalued. This is generally the result of mismanagement or the inefficient use of capital resources. To avoid becoming takeover targets, then, firms have the incentive to operate efficiently.

Forestallers and engrossers in Smith's day—and corporate raiders and junk bond specialists today—are merely entrepreneurs, and thus inseparable from capitalism. Unfortunately, unlike 18th-century England, we have no Adam Smith to explain their role to the American public. Our society finds it all too easy to shift the blame for declining moral standards and failing projects to today's forestallers and engrossers.

Rudolph Giuliani, Anton R. Valukas, and Oliver Stone play before the masses on their respective theatrical stages when they portray and prosecute the evil speculators. Adam Smith did not have to contend with television and Hollywood or crusading prosecutors; he was able to argue directly to policy makers. He did not need to simplify his message for the 30-second sound-bite. Nonetheless, Smith did make a strong case and his viewpoint eventually prevailed. The pejorative terms gradually lost their evocative power as people began to

understand what these activities entailed.

Our challenge is to teach the American public about the value of the modern counterparts of Adam Smith's forestallers and engrossers. This task is made even more difficult by the absence of any great Corn Law debate today. Accusations of embezzlement and corruption on the financial markets pale in comparison to the melodrama of impending starvation in 18th-century England. Despite the absence of a life-threatening crisis, though, this issue is as important today as it was in the days of Smith. Failure to consider the necessity of speculation for a growing economy will lead to the decline of entrepreneurial activity.

Attacking speculators deprives society of the vital economic and moral functions they serve. Morality cannot be restored to society by regulating and censuring the speculative class; this action would only sell our future short. □

1. Adam Smith, *An Inquiry into the Nature and Causes of the Wealth of Nations*, edited by R.H. Campbell, A.S. Skinner, and W.B. Todd, Volume I (Indianapolis: Liberty Classics, 1981), p. 534.

2. *Ibid.*, p. 533.

3. Many modern views of commodity futures markets depict them as insurance markets, in much the same way that forestallers and engrossers provided *de facto* insurance for consumers. While this is not altogether inaccurate, it is far more precise to represent these markets as intertemporal allocations of supplies. Forestallers and engrossers controlled the amount of commodities supplied in the present largely through the amount they held in inventory for future consumption. The present-day analogue is found in futures exchanges, where the price of a commodity futures contract is, in large part, a reflection of the fundamental intertemporal supply and demand forces acting on the commodity. This view of futures and forward markets has been discussed, at least briefly, by such noted economists as Piero Sraffa, John Maynard Keynes, Holbrook Working, Paul Samuelson, and, more recently, Steve Hanke. For a detailed discussion of this issue, see Steve H. Hanke, "Backwardation Revisited," *Friedberg's Commodity and Currency Comments*, December 20, 1987.

4. Smith, p. 532.

5. *Ibid.*, p. 534.

6. The theory of the public choice, contributions to which won James Buchanan the Nobel Prize in Economics in 1986, helps reveal why politicians and bureaucrats often pursue their own interests at the expense of consumer welfare.

High-Definition TV: Government or Market Choice?

by Gary McGath

High-definition television (HDTV) promises to be the biggest breakthrough in video broadcasting since color. It will offer wider pictures with much more detail and clarity; watching TV will be almost like seeing a movie in a theater.

The technology for HDTV exists today, and it is even in operation in Japan. Unfortunately, there isn't an industry standard for American HDTV. In accordance with conventional wisdom on broadcasting, the Federal Communications Commission has to approve a standard. There is no shortage of ideas—the FCC has about 20 proposals under consideration.

The problem is one of trade-offs between the higher quality offered by HDTV and compatibility with the existing National Television System Committee (NTSC) technical standards adopted by the FCC in 1941. A TV channel occupies a certain bandwidth, a “space” in the spectrum of broadcast frequencies. If HDTV signals could occupy more than one channel's bandwidth, the task of sending a high-quality picture would be easier; but then fewer stations could operate in a given geographic area without interfering with one another.

Ideally, a broadcast signal would occupy the same bandwidth as an existing TV channel, would be received by existing TV sets, and would contain extra information that the new HDTV sets could receive. But trying to do this brings

technology up against certain limits. According to a mathematical principle called Shannon's Law, for a given bandwidth and a given ratio of signal strength to interfering noise, there is a maximum amount of information that can be transmitted in a given time. Whether it's possible to meet the physical limitations and provide full compatibility with existing TV is a hotly debated question. If it isn't possible, the signal either has to use more than one channel or give up full compatibility with today's broadcasting.

Complex trade-offs like these are involved in most technological standards. It's easy to suppose that the best way to deal with these trade-offs is to let the government decide for everyone and guarantee that different companies won't produce equipment that meets different and incompatible specifications.

But the market is capable of resolving competition among proposed standards; it produces results that are acceptable to consumers. When the government sets the standards, there is no reason to suppose that its choices will reflect what buyers actually want.

As an example of how the market works, consider the case of VCR's. Initially, there were two standards, the Beta and VHS systems. Today, VHS is the clear winner, not by anyone's decree, but by the people's choice to buy it. The Beta purchasers may appear to be the victims of inefficient competition; but I still have a Beta recorder in my living room, and mail-order catalogues still offer a wide selection of Beta tapes. No doubt

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these will dwindle away in time, but by then I'll be ready to buy a next-generation VHS recorder. Although other formats have appeared from time to time, they have succumbed to the buyers' judgment that the improvements they offered weren't worth the investment in new equipment.

VHS isn't necessarily the optimal solution; many people consider Beta tapes superior. But most people couldn't tell the difference; VHS was satisfactory, and it was better positioned in the market, so it became the *de facto* standard.

Satisfying the Consumer

Commercially successful standards like VHS satisfy the consumer; government-mandated standards may satisfy only the wishes of the people who devise them. An example of the latter is the computer programming language Ada, which is the standard for Defense Department computer work. Not surprisingly, it's one of the most complicated computer languages ever devised; it has provisions for doing virtually anything, often in several ways. Any commercial implementation must pass rigorous tests for compatibility before it can be called "Ada." Outside of government-related work, Ada gets little use; it's too complicated to learn and too costly in computer resources.

The proposals before the FCC will put an initial premium of \$500 to \$1,500 on an HDTV set compared to a conventional set, even though studies have indicated that most people who are shown both images don't consider the improvement worth more than \$100. The costs of new technologies decrease with time only if they find a market to begin with. The new broadcasting equipment for HDTV also will be expensive; a large potential audience will be needed to justify its cost. If the FCC selects a system that no one is willing to pay for, it will go nowhere.

Government approval of a standard doesn't automatically lead to market success, as is illustrated by the FCC's early experience with color television. In 1950, the FCC approved the CBS system for color TV, which involved a color wheel rotating in synchronization with successive frames of the picture. Not only was this method incompatible with existing black-and-white sets, but it also added a major mechanical component to the TV sets of the day. Because the CBS sys-

tem was a commercial failure, the FCC reversed itself in 1953 and approved RCA's system, which is the one used today. When the government sets standards, it isn't likely to resist political favoritism. There are currently about 20 major television manufacturers in the United States; of these, Zenith is the only one that is domestically owned. Not surprisingly, Zenith's proposal is one of the leading candidates—perhaps because it really is one of the best, though it's hard to avoid the impression that its political position plays a major role.

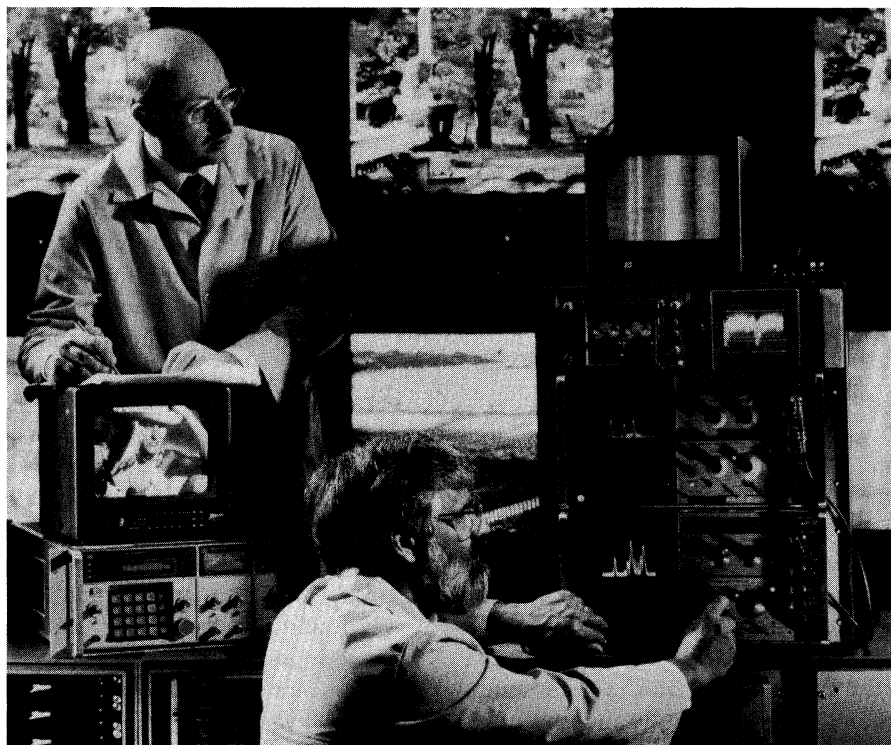
Because many people in the U.S. electronics industry see HDTV as a chance to make a comeback against the Japanese, this will lead government organizations to favor home-grown technology, whether it's better or not. Commerce Secretary Robert Mosbacher has said, "I believe that we should insist that United States firms closely benefit from the [HDTV] effort."

The ideal implicit in the FCC's approach is a single standard that would serve the country for the next 30 years or so. Fixed standards offer some significant economic advantages: people don't have to replace obsolete equipment or get multiple sets to receive incompatible formats. The equipment, however, becomes obsolescent, and nothing can replace it. Today's National Television System Committee broadcasting standard is in fact ancient technology, established in the early days of television. If computers had suffered the same fate, we'd still be using room-sized machines with less power than today's five-pound portables.

It may be that the market would have taken the same route. Perhaps the established base of TV sets would have precluded significant changes in technology until a major leap in quality became possible. On the other hand, an evolutionary market might have resulted in TV sets today that would provide movie-theater quality for the same price that we actually have now.

Letting the Market Decide

What path might HDTV follow, if it were left to the choices of the market? Its first appearance wouldn't be on the broadcast market, but on a market like cable where there is a greater emphasis on quality and a closer link between the viewer and the broadcaster. Viewers could be guaran-



Zenith's "Spectrum Compatible" High-Definition Television System will allow broadcasters to use currently unavailable TV channels for HDTV transmissions without causing interference.

teed a full schedule of HDTV programming, and could be directly billed for premium-quality broadcasting. Cable networks would have an incentive to make the necessary capital investment. We could expect to see cable companies offer discounts for advance subscriptions, enabling them to raise capital, and to determine whether the market really is there.

Of course, the cable companies may choose a standard unsuitable for broadcast TV. Since the developers of the technology would want the widest possible market, this isn't very likely, but it could happen. Although this would be a disaster for lovers of homogeneity, the investors whose financial future is at stake would have judged that the over-regulated, overcrowded, commercial-laden world of broadcast television is a dying medium, without enough of a future to justify holding cable technology back to its level.

A non-broadcast path to HDTV could open

up remarkable possibilities. Fairly soon, fiber optics—fine strands of transparent material that carry light, instead of electricity, through cables—may replace metal wire for non-broadcast communications. If this happens, tremendous amounts of bandwidth will be available, and true digital television would become possible. Finding bandwidth for signals sent over the airwaves would become as obsolete an exercise as finding a hitching post. But if the FCC holds non-broadcast TV back to the level of the broadcast medium, this won't happen.

A market decision represents the sum of the choices of many people, each having limited knowledge and a stake in the outcome. A governmental decision represents the choices of a few people who have limited knowledge and a stake only in the politics of what they decide. Of the two modes of decision-making, the market will give people what they want. □

The Confession of Yevgeni Turchik: Part-Time KGB Agent

Editors' Note: This interview appeared in Glasnost (issue 12), a dissident publication founded in Moscow in 1987. The interview was submitted to Glasnost by Aleksandr Chernyayev. An English translation has been provided by the Center for Democracy in the U.S.S.R., 358 W. 30th Street, Suite 1-A, New York, NY 10001.

August 30, 1987, Tambov. During a Christian meeting of the Baptist group "Initiators" in the home of the activists, the Tolstopyatovs, Yevgeni Turchik confessed that he was a KGB agent. He is now serving a compulsory labor sentence (9 Molodyozhnaya Street, Room 153, Uvarovo, Tambov District).

After his confession, several conversations were held with Turchik, two of which were tape-recorded. The conversation below was held in the city of Kirsanov at the apartment of an activist of an Orthodox revival group.

Two weeks after his confession, Turchik was transferred to work at the site of agricultural construction in the city of Uvarovo. Rasskazovo, where he used to live, is 20 miles from Tambov, where he traveled every day (although only visits to one's close relatives were permitted, and no more than twice a month). Uvarovo is 80 miles from Tambov. Turchik has not been able to get permission to leave Uvarovo.

We, Yevgeni's friends, visited him later in Uvarovo. Yevgeni was not allowed out of the dormitory the day we arrived at his job. We were able to talk with him for five minutes in the presence of police functionaries, who heard literally every word. Yevgeni informed us that

Colonel Khilko, having learned of Turchik's public confession, came to him and tried again to get him to cooperate. He threatened Yevgeni that the statement/confession he had made would be considered slanderous or made under the influence of drugs. Yevgeni answered: "I only told the truth."

Tell us about yourself Yevgeni.

I, Yevgeni Turchik, was born in 1954 in the city of Donetsk. My parents . . . I didn't know my father. They were atheists and they taught me from the time that I was a child that if I wanted to get anywhere in this world I had to learn to deceive and to rob others. My mother told me straight out: "Take what you want from people who are smarter." So that's what I did. And then, for stealing somebody else's property, a camera, I was arrested. . . .

When did you first become acquainted with religious believers, Yevgeni?

I did not believe in God—probably because everyone around me was an atheist. And I personally did not know any religious people. I had heard about believers. In the newspaper *Tambovskaya Pravda* there was an article about believers—"Sufferers in Christ"—and our instructors showed it to us.

The assistant director of the political section of the colony held a meeting at which he spoke about this article. He said that there is a certain group of people here, believers, called "Initiators," who work for the CIA and have connections abroad, that they receive literature from

abroad and are involved in anti-Soviet propaganda.

Not long after that I happened to meet one of them. I was really rather surprised; here we had just been talking about them, and suddenly along comes Ivan Tolstopyatov. It was, of course, interesting for me to get to know him. At first we all laughed at him and thought that this peasant was a little dim-witted. But he was very different from everyone else. He was always ready to help and to make suggestions, and he was very honest. He first told me about Jesus Christ—that He is God, that He loves me and that He died for me.

The bosses weren't pleased that Tolstopyatov had been talking to us about God, and they split up our section. I ended up in another section and didn't see Ivan any more. I corresponded with him and with other believers. I thought that my letters were being read, and only about a year passed before I was summoned to the office of the director of the colony.

Two men in civilian dress were waiting for me there. At first they said that they were journalists and then they started asking me if there was any way they could help me. I asked them straight out: "What do you want from me?" KGB Colonel Yuri Khilko told me who they were and where they were from. They told me: "We chose you, one in a thousand. You must help the motherland. We'll help get you transferred to compulsive labor where you'll be able to visit Tambov without any problems. You must help us fight the Baptists. We know that you correspond with Lyudmila Tolstopyatova, the daughter of a Baptist minister. That's very good. They'll accept you and you can tell us what they do and what they say. Try to find out if they print anything and to determine if you can where G. V. Kruchkov, the leader of the Council of the Evangelical Christian Baptist Churches, is."

How fast did they do everything they promised you?

After about two months I was transferred to compulsory labor and I found myself in the city of Rasskazovo.

And then you started attending the meetings of believers. How did the believers receive you?

They accepted me as one of their own. I didn't think that such a thing was possible—they accept

a stranger as a close member of their own family. And that started me thinking about what Colonel Khilko had said. He told me that believers hid behind their religiosity, that they oppose all that is good and that everything they do is constructed on hypocrisy and lies.

How did you pass information about the believers to Khilko?

I would meet them [the KGB] in the Rasskazovo Hotel, unless it was in Tambov, where they had a special apartment. We would arrange the meetings over the phone at the following numbers: work 99-427, home 291-47. These numbers are in Tambov. I would give them written reports about the believers and sign them with the pseudonym "Kashtanov." I would write: "Sources report that. . . ." and so on, where I had been and what I had seen and heard. It went on like this for half a year.

How many reports did you write in this half year?

There were a lot of them. After all, I wrote one every week. They wanted to know literally everything: who dresses how, who is friends with whom, do any of the believers go to the cinema or to a disco, who had a fight, what do they preach, what do they talk about after the meetings, what topics are discussed at the youth sessions for the study of the Word, etc.

Did you give them the books that the believers gave you?

Yes. They were especially interested in books published by "The Christian," but they wanted to see others as well. When I gave Colonel Khilko a copy of *Father Arseni*, a book that I had been given by Orthodox believers whom I had met, he photographed the whole thing. They were even interested in religious calendars and bookmarks. Basically they were interested in all religious literature.

Were the KGB agents interested in Orthodox believers?

Yes. They were especially interested in what the Orthodox were preparing for the 1,000th anniversary of Christianity in Russia. They were also interested in religious conversations among the Orthodox held outside of the church and how

the Russian Church clergy behaved.

Did they pay you for your activities?

They didn't exactly shower me with money. Every time I received a sum of money I had to sign a receipt, which was also signed with a pseudonym. There was an interesting occurrence once—Colonel Khilko took a receipt from me for 50 rubles but gave me only 25. He said that he had expenses for photographic materials. That seemed a little underhanded to me, but I didn't ask any questions, of course.

When did you first want to break with the KGB agents?

Sometime in March I prayed aloud at a meeting. It wasn't hypocrisy; it was a real prayer. I had already started believing in God then. When Colonel Khilko found out about this he told me: "You were right to pray out loud, you're a real actor. But if it was serious, it was psychological stimulation and there is nothing blessed about it. In general, there are no gods and no devils."

Sometimes after a meeting I would feel the close presence of God and of the Holy Spirit, but when I met with them [the KGB] again or called them on the phone I would lose everything and become completely empty, and this scared me. And then, at such times, I started to think that I couldn't go on like this.

Which of your friends was the KGB especially interested in?

Sasha Chernev. They asked me to make copies of the keys to the Chernevs' apartment. The Chernevs entrusted me with the keys, but I

copied them and gave them to Colonel Khilko. He asked me to describe the Chernevs' apartment and to tell him when the Chernevs were usually not at home. I think that the KGB operatives made visits to the Chernevs' apartment and maybe bugged it.

How did your confession come about?

My position was weighing down on me and then, finally, I told Tolstopyatov's wife everything. I thought that they would hate and despise me, but I saw that they still loved me and they were compassionate. You won't believe it, but when I left them after that I thought that they would throw rocks at my back, but they said: "May God bless you, dear." After that I didn't wonder anymore about whether I had to end my relationship with the KGB. I ended it for good. I'm still a convict and they'll use that against me, of course. They'll try to get me to work with them again, but I won't go back into that hell again. I'm weak and it's possible to scare me, but God, my God, is strong. I don't think the Lord will abandon me anywhere.

What do you think scares the KGB more than anything else?

Glasnost, glasnost, glasnost. That's what they're all afraid of. And I believe that if the Christian world learns about my turning to God, these enemies of Christians, these KGB agents, will be limited in their activities against us. I ask all Christians who read this confession to pray for me; that will be the strongest support.

Dear Christians, pray for me, God's sinful slave, Yevgeni. □

Lenin on Religion

Every religious idea, every idea of God, even flirting with the idea of God, is unutterable vileness, . . . vileness of the most dangerous kind, "contagion" of the most abominable kind. Millions of filthy deeds, acts of violence and physical contagions are far less dangerous than the subtle, spiritual idea of a God decked out in the smartest "ideological" costumes.

—from Lenin, *Works*, Vol. 35

The Real Child Care Crisis

by J. Brian Phillips

The statistics are familiar. More than half of all women with children under the age of six have jobs outside the home; almost 40 percent of all working mothers are single, widowed, divorced, or married to men who make less than \$15,000 a year; and the average cost of day care is \$3,000 per child. The conclusion is also familiar: government must do something.

But the private sector already is providing a wide range of child care services. National child care chains, such as La Petite, Kinder-Care Learning Centers, and Children's World Learning Centers, aim primarily at middle-income families. Lepercq de Neuflyze, a New York investment bank, recently put \$3 million into 14 preschools targeted at the upper-income market. And, across the nation, thousands of people operate for-profit child care facilities.

Of course, not every parent can afford such services. But the private sector has generated a number of options. For example, many employers, becoming increasingly aware of the problems their employees face in finding child care, are offering a variety of programs.

Some companies, such as Merck, Campbell Soup, and Apple Computer, operate on-site child care facilities for employees' children. Others, like IBM and BankAmerica, subsidize community centers. In all, the Conference Board estimates that 150 businesses and 600 hospitals have established on-site or near-site child care operations.

A growing number of firms such as IBM, Merck, Hewlett-Packard, SmithKline Beckman, and Transamerica offer alternative work sched-

ules to give parents more time to care for their children. Control Data, Pacific Bell, The Travelers Companies, J.C. Penney, New York Life, and many smaller companies allow some employees to work at home via computer terminals. Rolscreen, an Iowa manufacturer, has used job sharing to overcome a labor shortage caused by a lack of child care options.

Real estate developers also recognize the growing importance of child care. "Developers are using day care as an amenity the way they used to use shrubbery and health clubs," real estate magnate Leonard N. Stern told *Fortune* magazine (November 21, 1988). Office buildings, apartment complexes, residential subdivisions, and business parks increasingly are offering on-site child care for tenants.

Perhaps the most ignored child care option is the most widely used: home-based care by a relative or hired sitter. Nearly 70 percent of all child care is provided in this manner. Similarly, some parents form co-ops—resources are pooled and parents watch their children on alternate days.

Parental Responsibility

Without a doubt, there is a tremendous need for child care services. Most of this need, however, is being met by the private sector—entrepreneurs, employers, developers, relatives, friends, neighbors, and church groups. But for a small, vocal minority, these alternatives are insufficient. They believe that child care, like education, is a right. And, like education, they believe others should pay for it.

The public school system, few would argue, is

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in terrible shape—violence, drugs, crumbling buildings, falling test scores, uninterested teachers, and rebellious students. Increased government controls haven't improved the educational system; in fact, the opposite is true. Yet, in the name of improved quality and affordability, many people want to subject the child care industry to similar controls.

This brings us to the real essence of the child care debate. Contrary to popular belief, parenthood is not a right, but a responsibility. And, with few exceptions, parenthood is avoidable.

What child care advocates seek to avoid is not parenthood, but the responsibilities that follow. Many people give more thought to the financial ramifications of a home or car purchase than to those involved in raising a child. Yet, the lifetime costs of raising a child can easily approach those of buying a house.

Some argue that children are innocent victims of their parents' irresponsibility or misfortune. While this may be true, the childless neighbor, whose tax dollars would pay for government child care programs, is no less innocent. Subsidized child care, in fact, is an undeserved reward. Like all undeserved rewards, it provides an incentive for irresponsible people to continue their irresponsible ways.

Of course, unforeseen events sometimes change an individual's or a family's financial situation. But bad luck is no justification for a coercive redistribution of wealth. Such people must rely on the voluntary charity of others. One person's need is not a claim on the property of others.

Conclusion

The free market can operate effectively only when people are responsible for their actions. When the market provides consumers with a choice of goods and services, the consumer must decide which suits his wants, desires, and values.

The market provides many child care options. Cost and quality vary widely, and parents are free to choose which best suits their budget and requirements. When consumers refuse to accept a substandard product, the market responds accordingly. This is as true of child care as any other product or service.

But a growing number of parents refuse to accept the responsibility of choosing. They want the government to mandate standards, to provide licensing, and to pay for child care. They want the government to assume their responsibilities as parents. Sadly, this is the real crisis in child care. □

Specialization and Exchange

by Gene Smiley

I have spent the last 17 years teaching economics to college students. During this time my wife and I have owned two homes, neither of which we built ourselves. To furnish our homes we have purchased chairs, tables, sofas, coffee makers, stoves, refrigerators, television sets, stereo systems, lamps, computers, and an indescribable mosaic of other home furnishings. When we wanted an automobile, a lawn mower, and a snow thrower we also purchased these.

Like almost everyone else, I have found that I can be better off if I specialize in a few activities—such as college teaching—and let other people specialize in producing other services or products, and then trade with them. The advantages of this market process are so obvious that most of us simply take them for granted.

The metropolitan Milwaukee area where we live produces a multitude of products, most of which are shipped to other areas of the country or sent abroad. Much of that production requires machines and tools produced in other parts of the world. Elsewhere in our state many products, such as automobiles, motorcycles, tractors, paper goods, and magazines, are shipped to other states and countries.

The gains that arise from such specialization in production and market exchanges are the same whether we consider two individuals, the citizens of two cities, the citizens of two states, or, *just as important*, the citizens of two nations. For some reason, however, many people deny that *interna-*

tional specialization in production and the consequent exchange of products are beneficial.

Recently such thinking led American officials to “convince” Japanese leaders to restrict auto exports to the United States. The U.S. government has continued to prohibit the importation of inexpensive sugar and cheese products. Because some Japanese computer chip makers refused to go along with a world cartel set up by the United States government to raise chip prices, U.S. officials imposed large tariffs on selected Japanese computer imports. For some years now American steel firms have received protection from imported steel through “voluntary restraint agreements.” The list of U.S. trade restrictions goes on and on.

Congress is preparing a number of trade bills designed to “protect” American firms and labor even further. Michigan Senator Donald Riegle has said that these moves “will strengthen our nation—and begin to restore our international financial standing.”

If the citizens of the United States can be made better off by reducing international exchanges and thus specialization, then the same logic must apply to individual states. The citizens of Wisconsin, Michigan, New York, California, or any other state should be made better off if their state governments reduce or eliminate trade with other states. Why stop there? Why not give the citizens of Los Angeles, San Francisco, Chicago, Milwaukee, Detroit, or New York an improved quality of life by having their city governments reduce or eliminate trade with other cities? It would be even

better if, say, the residents of the Sherman Park neighborhood of Milwaukee were prevented from trading with all outsiders. Finally, if this restriction of trade is so beneficial, then let us have the government stop the members of each household from trading with any other household. Let each household become self-sufficient.

The logical conclusion is that if specialization and trade are harmful at the international level, then surely they must be harmful all the way down to the level of each individual. We recognize that this is absurd because it would impoverish us all. Voluntary specialization and trade at any level simply are not harmful.

If the government imposes quotas or tariffs on, say, imported steel, then reduced supplies and higher prices for imported steel allow domestic steel producers to sell more steel and raise their prices. That, in fact, is what has recently happened. Firms that purchase steel, such as the producers of stainless steel kitchenware, are facing rising prices. Rexworks, a small industrial firm in Milwaukee, found that even though it had an excellent year in production and sales, unanticipated increases in steel prices wiped out \$2 million in profits. Meanwhile the steel producers are reaping huge gains.

These harmful effects extend far beyond the direct purchasers of the protected products. The reduced sales of foreign steel decrease the number of American dollars foreign countries receive. Because foreigners have fewer dollars, their demand for American exports must fall.

American exporters find that there is less foreign demand for their products, and their sales and prices and incomes fall.

While the measures designed to protect selected U.S. firms raise their incomes, they reduce the incomes of American firms and individuals that serve foreign markets. Consumers who buy protected products must pay higher prices and face a reduced range of choices. The benefit for the protected firms and industries, then, comes at the expense of consumers in general and firms that export.

Unfortunately, the losses incurred by those who are harmed by the protective measures will be greater than the gains of those who are helped. In free markets, specialization and exchange encourage people to engage in those activities for which they are the most productive. Trade protection stifles this process, so that total output falls. And, when this occurs, we begin the long trek down the road to the general impoverishment of our society—in the name of “protecting” those firms whose owners and employees are enriched at everyone else’s expense.

We have gone through this before. In June 1930, during the early stages of the Great Depression, Congress tried to protect Americans by enacting huge tariff increases. Such intervention served only to lengthen and worsen the depression. Current proposals are inviting another Great Depression. The freedom to choose our specialization and to exchange with whomever we wish is the only way to guarantee prosperity. □

Free Trade

If a person advocates free trade domestically, he cannot logically advocate protective tariffs and other similar measures that prevent goods and services from moving freely across national boundaries. It is simply not true that a nation and a people are made more prosperous by compelling themselves to pay two and three times as much as they need to pay for the goods and services they want. It just does not make sense to improve the means of moving goods from one nation to another, and then to cancel out the savings in transportation costs by passing laws to hamper the resulting trade. I am convinced that such contradictions arise more from lack of understanding than from evil intentions.

DEAN RUSSELL

IDEAS
ON
LIBERTY



The Minimum Wage: An Unfair Advantage for Employers

by Donald J. Boudreaux

Suppose you want to help the sellers of a specific product. One thing you might want to do is try to ensure that a buyers' market for that good or service isn't created.

A buyers' market is an economic situation that favors buyers over sellers. For example, everyone hopes that the real-estate market in his hometown will be a sellers' market when the time comes to sell his house. No one wants to have to sell a house when real estate is in a buyers' market. Nevertheless, people who advocate minimum-wage legislation to improve the lot of unskilled workers in effect support government creation of a buyers' market as a way to help sellers of unskilled labor.

Freely Moving Prices: The Great Equalizer

Economics and common sense teach us that, other things being equal, as the price of a product rises, more units will be offered for sale but fewer units will be demanded by consumers.

If a price is too low, there will be an excess demand for the good or service in question, and buyers will compete for the limited quantities available by offering higher prices to sellers. If a price is too high, there will be an excess supply, and sellers (who cannot sell all that they wish at the high price) will compete for customers by offering lower prices. So long as there are no government-imposed restrictions on prices, prices

will tend to adjust in each market so that the quantities demanded will be equal to the quantities supplied.

It is important to realize that prices change only when there are bargaining inequalities between buyers and sellers. Prices rise only when the amount demanded by buyers is greater than the amount supplied by sellers; prices fall only when the amount demanded by buyers is less than the amount supplied by sellers. Put another way, prices rise only when there is a sellers' market, and prices fall only when there is a buyers' market. *The rise or fall of prices, however, eliminates the inequality of supply and demand and, thus, eliminates the conditions that people describe as sellers' markets and buyers' markets.* Freedom of price adjustments ensures equality of bargaining power among buyers and sellers. Freely moving prices are the great equalizer.

Employers compete for human labor services, like most things of value in a society based on private property in a market in which sellers and buyers engage in voluntary exchanges. Wage rates (in combination with other forms of compensation) are determined in the labor market. If this market isn't hampered by government, wages will constantly adjust so employers and employees enjoy equal bargaining power.

Of course, unskilled workers aren't as productive as workers with greater skills, and so wage rates for skilled labor tend to be higher than wages for unskilled labor. It is a myth, however, that highly skilled workers enjoy greater bargaining power with employers than do workers

with fewer skills. If wage rates are free to adjust to their market-clearing levels, unskilled workers will enjoy as much bargaining power as the most highly skilled workers, because freely moving wage rates adjust so that the amount of each type of labor demanded will tend to equal the amount supplied. Employers can have no bargaining advantage over even the most unskilled workers if wage rates are free to move to the levels at which the amount of labor services demanded is equal to the amount supplied by workers. Freely moving wage rates are the great equalizer of bargaining positions among employers and employees.

The Minimum Wage: The Great Unequalizer

Minimum-wage legislation prohibits wages from falling low enough to equate the number of people seeking jobs with the number of jobs being offered. As a result, the supply of unskilled labor permanently exceeds the demand for unskilled labor at the government-mandated minimum wage.

Minimum-wage legislation thus creates a buyers' market for unskilled labor. And as in all buyers' markets, buyers (employers) have an unequal bargaining advantage over sellers (unskilled workers).

Consider, for example, a grocer. Suppose he decides that a clean parking lot will attract more customers, and that this will increase his sales by \$10 per day. Of course, the grocer will pay no more than \$10 a day to have his parking lot cleaned. He then investigates how best to get this done.

Suppose there are two options available to him. One way is to hire a fairly skilled worker who can clean the parking lot in one hour, while the second way is to hire two unskilled workers who, working together, will get the job done in the same time. Other things being equal, the grocer will make his decision based upon the relative cost of skilled versus unskilled labor.

Let's assume the skilled worker will charge \$6 an hour, while each of the unskilled workers will charge \$2.50 an hour. In a free labor market, the grocer will hire the two unskilled workers be-

cause, in total, it costs him \$5 per hour for the unskilled workers whereas it would cost \$6 for the one skilled worker.

But what will the grocer do if a minimum wage of \$4 per hour is imposed? To hire the two unskilled workers will now cost him a total of \$8 an hour. The skilled worker now becomes the better bargain at \$6 an hour. Minimum-wage legislation strips unskilled workers of their one bargaining chip: the willingness to work at a lower wage than that charged by workers with more skills. The result is unemployment of the unskilled workers.

Consider another effect of the minimum wage. Because there are more people who want jobs at the minimum wage rate than there are jobs to go around, employers have little incentive to treat unskilled workers with respect. If an employer mistreats an unskilled worker, the employer need not be concerned if the worker quits. After all, there are plenty of unemployed unskilled workers who can be hired to fill positions vacated by workers who quit.

In addition, the permanent buyers' market created by the minimum wage encourages employers to discriminate in their hiring and firing decisions on the basis of sex, race, religion, and so on. Suppose an employer has two minimum-wage jobs available, but there are ten unskilled workers who apply for the jobs. Because the workers are prohibited from competing with each other on the basis of wage rates, other factors must determine which of the workers will be hired. If the employer dislikes blacks, and if there are at least two non-black workers who have applied for employment, no black workers will be hired. With a surplus of unskilled workers, there is no economic incentive to stop this bigoted employer from indulging his prejudices.

Conclusion

Minimum-wage legislation creates an excess supply of unskilled labor and gives the buyers of unskilled labor an unfair bargaining advantage over the sellers of unskilled labor. It is a fantasy to believe that the welfare of unskilled workers can be improved by such legislation. Unskilled workers shouldn't be restricted to a permanent buyers' market. □

Free Market Money in Coal-Mining Communities

by Richard H. Timberlake

“In the company town, or mining camp, . . . United States coin and currency were not in good supply. . . . During the heyday of the old company town, scrip circulated more freely than U.S. currency and was indeed the coin of the realm. . . . Eleanor Roosevelt . . . in the mid-thirties, during [one of] her humanitarian crusades, attacked the use of scrip by coal mining companies as a very evil thing. . . .

Although many mourn the days of a bustling and active coal economy, little can be said to support the . . . issuance of scrip.” (Truman L. Sayre, “Southern West Virginia Coal Company Scrip,” in *Trade Token Topics*, reprinted in *Scrip*, Brown, 1978, pp. 343-344)

1. The Possibility of Free Market Money

Ever since the abolition of the operational gold standard in the early 1930s, the federal government through its agent, the Federal Reserve System, has been almost the sole creator of the monetary base, and has also been the licensing agent for the banks that create most of the demand deposits used in the United States. No money of any significant amount can be created today without some sanction or act of the Federal Reserve System.

This condition has encouraged the notion that government is a necessary, or at least desirable,

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regulator of any monetary system—that without government involvement any monetary system quickly degenerates into “chaos.” If this supposition were valid, the evolution of money could hardly have occurred. The barter system that preceded early monetary systems, in which government had no part, would not have been superseded if the resulting monetary systems were destined to be chaotic. This logic suggests the possibility and perhaps the feasibility of a non-government money. However, the practical efficacy of such a system cannot be deduced from a theory that merely suggests its possibility, but must be sought from historical evidence of monetary arrangements that have developed spontaneously in the private sector.

This paper examines one such incidence of private money creation—the issue and use of scrip, which occurred primarily in the isolated economic environments of mining and lumbering company towns during the first half of the twentieth century. Fortunately, numismatic collections and records reflect the operational character of the scrip systems in these communities so that some evaluation of their monetary properties is possible.

Much of the recent research on the creation of private money has focused on that issued by private banks in the presence of a dominant legal money such as gold. (White 1984, Sylla 1976, Rolnick and Weber 1982) The issue of scrip, however, had nothing to do with banks. It was issued by private mining and lumbering enterprises. While it, too, was redeemable in a dominant money, its issue and acceptance were not critically dependent on any dominant money. For this

reason, the phenomenon of scrip issue is especially revealing.

2. Legal Restraints Against the Issue of Private Money

Proscriptions against the arbitrary or casual issue of money appeared at the very beginning of this country's political formation. First, the Constitution stated: "No state shall . . . emit bills of credit, [or] make anything but gold and silver coin a tender in payment of debt." (U.S. Constitution, Art. 1, Sect. 10) No money except gold and silver was to be the legal tender issue of any governmental unit.

Money to be money, however, does not have to be *legal* tender. It can be what one might call *common* tender, i.e., commonly accepted in payment of debt without coercion through legal means. Indeed, privately issued money to exist at all would have had to be common tender, and would have had to earn its acceptability in a market environment.

Even though the states and Congress were constrained to monetizing only gold and silver, the general laws of contract and commercial instruments sanctioned the appearance of moneys issued by privately owned commercial banks. (Hurst 1973) In addition, "Nothing in the Constitution barred private manufacture of coin, and through the first half of the nineteenth century Congress did not act against private coinage. . . . General contract law allowed any contractor to issue his notes and coins and circulate them so far as the market would take them." (Hurst 1973)

Free enterprise in the issue of common tender money was accidentally encouraged in practice by the federal government's ineptness in establishing a useful denominational spectrum of fractional currency during much of the nineteenth century. (Carothers 1967) Private transportation companies—canals, turnpike companies, and railroads—issued significant amounts of such currency between 1820 and 1875. Municipal and state governments did likewise. Redemption of transportation currency when called for was in services rendered, while state and local government currency was redeemed as tax payments. (Timberlake 1981)

The paucity of government-issued fractional currency was catastrophically aggravated by the

first issues of greenbacks during the Civil War. The metallic values of subsidiary coins rose rapidly above their monetary values in the summer of 1862, and the coins disappeared from circulation. These circumstances provoked not only the ill-conceived issue of postage stamp currency, but also extensive private issues of minor coin. (Carothers 1967, Faulkner 1901) The act that authorized postage stamps as currency in 1862 also outlawed the private issue of notes, memoranda, tokens, or other obligations "for a less sum than one dollar intended to circulate as money or to be received or used in lieu of lawful money of the United States." (Act of Congress, *12 Statutes at-Large*, 592, July 17, 1862) Then in 1864, even the private issue of gold and silver coin was forbidden, again, "when the coins were intended for use as current money." (Hurst 1973)

3. The Appearance of Scrip as an Economizing Medium

The lack of adequate denominations in government-produced money was not the only factor that stimulated the private production of money. Shortly after fractional coinage was stabilized around 1885, coal mining and lumbering became major industries. Both coal mining and lumbering enterprises had to be organized in the vicinity of the contributory resources, so were often located in isolated areas with low population densities significantly distant from commercial centers. Coal-producing regions were hilly or mountainous areas where agriculture had been marginal and other commercial development had lagged. "The 'Main Street,' " noted one observer in describing a coal mining community "was often railroad tracks." (Brown 1978) Coal mining entrepreneurs, therefore, had unique problems to contend with in organizing their enterprises.

Their common problem was what is known today as a lack of infrastructure—no streets, no churches, no schools, no residences, no utilities, and no banks or financial intermediaries. The specialized industries that might otherwise have provided these services were dissuaded from doing so by the high start-up costs and the enduring uncertainties of dealing with low-income communities that might be there today and gone tomorrow. Alternatively, the coal mining companies could deal with such conditions because they

were in a better strategic position to change uncalculable uncertainties into calculable risks. (Fishback 1986, Johnson 1952) Mining companies, therefore, built residences, churches, schools, and water works, and opened company stores or commissaries. In so doing, they became both buyers of labor from, and sellers of commodities to, the coal miners and their households. This kind of organization invited an economy in the community's payments system—the use of scrip in lieu of ordinary money.

"Scrip" has become a generic term for the issue of a localized medium of exchange that is redeemable for goods or services sold by the issuer. Originally printed cards or "scraps" of paper, scrip evolved into metallic tokens with many of the physical attributes of official coins. Indeed, scrip in the very beginning was more in the nature of a trade credit, or demand deposit, at the single local general store. Ledger credit scrip, however, gave way to scrip coupon books, which "eliminated the tedious bookkeeping chores that were incident to over-the-counter credit (day book or journal entries followed by ledger entries)." (Brown 1978)

The use of scrip not only implied an issuer—the mining company—and a demander—the miner, it also required a supplying industry. The institutions that supplied coupon scrip were companies already in business printing tickets, tokens, and metal tags for various other kinds of enterprise. They advertised extensively in mining catalogues during the first half of the twentieth century touting the advantages of their own scrip systems. The Allison Company of Indianapolis, for example, noted that when one of its coupon books was issued to an employee, "He signs for it on the form provided on the first leaf of the book, which the storekeeper tears out and retains for the [company] time-keeper, who deducts the amount from the man's next time-check." Then, when the employee buys goods from the company store, "he pays in coupons, just as he would pay in cash, and the coupons are kept and counted the same as cash. . . . The coupon book is a medium of exchange between the company employees and the company store." (from 1916 *Mining Catalog*, Brown 1978) Other scrip-producing ticket companies emphasized the safety of the scrip coupon system in coal mining communities "where little or no police protection

is afforded." (adv. of the International Ticket Co., in the *Keystone Catalog* of 1925, Brown 1978)

The Arcus Ticket Company of Chicago advertised a list of advantages of scrip to both the employer and employee, one of which for the employer was the fostering of employee good-will by avoiding misunderstandings on charge accounts. The advantages to the employee included keeping the "'head of the house' better informed as to the purchases made by his family from day to day. . . . This frequently puts a check to extravagance and debt." (*Keystone Catalog*, 1925 in Brown 1978) Local scrip of this type was very similar to modern day travelers checks. The costs of travelers checks were also the costs of coupon scrip: each unit could be used only once. It had to be signed out when it was issued and signed when it was spent. (Brown 1978)¹

The transactions costs of coupon scrip eventually encouraged the increased use of metal scrip. This medium became cheaper overall than coupon scrip, in spite of metal's higher initial cost, largely due to the invention and development of the cash register after 1880. Pantographic machines also were instrumental in reducing the unit costs of metal tokens. (Brown 1978)

Instead of receiving cash, the scrip-issuing "cash registers" paid out metal tokens, made a record of the pay-out and to whom it had gone, and kept a grand total of the amount issued. The scrip registers would eject a specified "dollar" amount of scrip when a lever like that on a slot machine was pulled. In a 1927 advertisement, the Osborne Register Company (ORCO) of Cincinnati pictured a 10-year-old child who, in a demonstration, issued \$600 worth of metal scrip in various amounts to 200 hypothetical employees in 55 minutes, implying an average emission of \$3 per employee every 16.5 seconds. (Brown 1978)

4. The Positive-Sum Benefits of Scrip

The economics of scrip issue, as with all exchange between economic agents, required that both the issuer (the coal mining company) and the acceptor (the employee) benefit from the transaction. The company necessarily had contact with the outside world. It bought machinery and other resources and sold coal in a national mar-

ket. All these activities required the use of standard money.

Scrip was used essentially as a working balance of money with which the coal operator could make advances to his impecunious employees between paydays. It was issued at the request of the miner to the extent of the wages he had already earned, and it was redeemable in standard money on the next payday. The amounts were usually small—five or ten dollars, or even less. To the worker it amounted to an interest-free, small-sum loan that he could get with almost no effort. It enabled him to buy ordinary household goods at the company store. To those workers who had “gone out and got drunk” on the previous weekend, or who had suffered some kind of household emergency, scrip was a blessing only measurable by the cost of its common alternative. (Clark 1980, Johnson 1952)

Its alternative in a conventional urban setting without scrip was the pawn shop, loan shark, or installment peddler. (Johnson 1952) An industrial worker in the same unfortunate position in, say, Detroit, Pittsburgh, or Chicago, had access to money between paydays only by borrowing against his household capital at a pawn shop where he paid exorbitant interest rates if he reclaimed his pawned goods.

The scrip system could be abused in such a way that a discount would also appear in some scrip transactions. Since the company store did not sell liquor—for the obvious reason that its sale would encourage absenteeism and worker inefficiency—workers would at times obtain scrip from the company clerk and sell it for conventional currency in order to buy liquor. The bootlegger (during Prohibition) or other liquor vendor, whose shop was not likely in the neighborhood of the company store, faced significant costs in redeeming the scrip for conventional money, thus giving rise to a discount. (Brown 1978, Caldwell 1969)²

In spite of the obvious advantages of the scrip system to both worker and mine owner, scrip, the company store, and the company town have been universally bemeaned. (Brown 1978) The accounts of their operations include contradictions that appear sometimes in the same paragraph. (For example, see quote of Sayre used as an epigraph, p. 1, Brown 1978.) All accounts, while critical of the scrip system, acknowledge, first, that it

was issued at the behest of the miner; second, that its issue cost the miner nothing; and, third, that it was redeemable in standard money on payday. The dogma of scrip's critics was that the company store, in which the scrip had to be spent, raised prices to monopolistic levels and thereby exploited the defenseless miner. (Dodrill 1971) Fishback's and Johnson's studies of prices in company stores versus those in independent stores refute this popular prejudice. Prices were four to seven percent higher, but so were costs. (Fishback 1986; Johnson 1952)

The advantage of scrip issue to the mine operator was that it was one worker perquisite he could offer to attract labor into a somewhat unattractive environment. He already offered housing and mercantile services; by issuing scrip against future wages he also provided commercial credit with virtually no interest charges to the borrowers. (Johnson 1952) The practice, indeed, was so widespread that it can only be viewed as a traditional perquisite of the trade. A company that did not offer the scrip privilege would have been at a competitive disadvantage.

The mine operator thus became a quasi banker. His cost for metal scrip during the 1920s varied from slightly less than 1 cent to 5 cents a unit for scrip tokens of simple design made in aluminum. In brass or nickel silver and with scalloped edges and more intricate designs, costs could run as high as 11 cents a piece. (All these values are unit costs in thousand-unit lots, and are from advertisements of several different scrip manufacturers between 1925 and 1940, in Brown 1978.)

Scrip sales information from the Ingle Company sales journal of 1928 reveals that the average denomination issued was about \$.25. (Brown 1978) Since the average cost per token was only about 3 cents and could have been even less, an investment by the coal company bank in, say, 5,000 pieces cost it about \$150 for the scrip coin, and perhaps \$100 more for a scrip-issuing machine. To carry out this same banking function with regular U.S. currency would have required an investment in cash alone of \$1,250, as well as substantially greater security costs to protect the money. One observer noted, “The mining company could pay almost its entire payroll in company scrip, disturbing only a few dollars of actual working capital.” (Sayre, in Brown 1978) Of

course, paying out scrip gave workers some additional claims on the working capital of the company stores. So the monetary economy of using scrip was in part offset by higher costs of merchandising goods.³

The difference between the payment system costs of scrip and of real money was a form of seigniorage revenue the coal mine operator realized and shared with his employees. They received interest-free loans; he was able to offer a fringe benefit that tended to reduce what would have been a higher working capital requirement.

While scrip was usually specialized to one company in a particular community, many coal mining companies had mines in different regions. Their scrip was good in all the different locations where their mines operated. As the scrip-using communities gradually came to experience more extensive commercial relations with each other, their localized scrips became interchangeable. Even some independent stores accepted coal company scrip. (Brown 1978)

Given the proscriptions against the private printing or coining of money by the Acts of 1862 and 1864, one may wonder how scrip could have been issued and used legally. The key is the word "intended" in the proscriptive laws. The courts ruled that scrip was not *intended* to circulate as money: first, because it was redeemable only in merchandise until payday; and, second, because it resembled money only superficially and was clearly distinguishable from standard money. (The coin under the court's scrutiny was a 50-cent token, but weighed only one-fifth as much as a standard 50-cent piece.) Any token that was redeemable in lawful money *on demand* was construed to be illegal, and whether the token in question was coin or pasteboard did not matter. (Brown 1978)

5. The Environments in Which Scrip Appeared

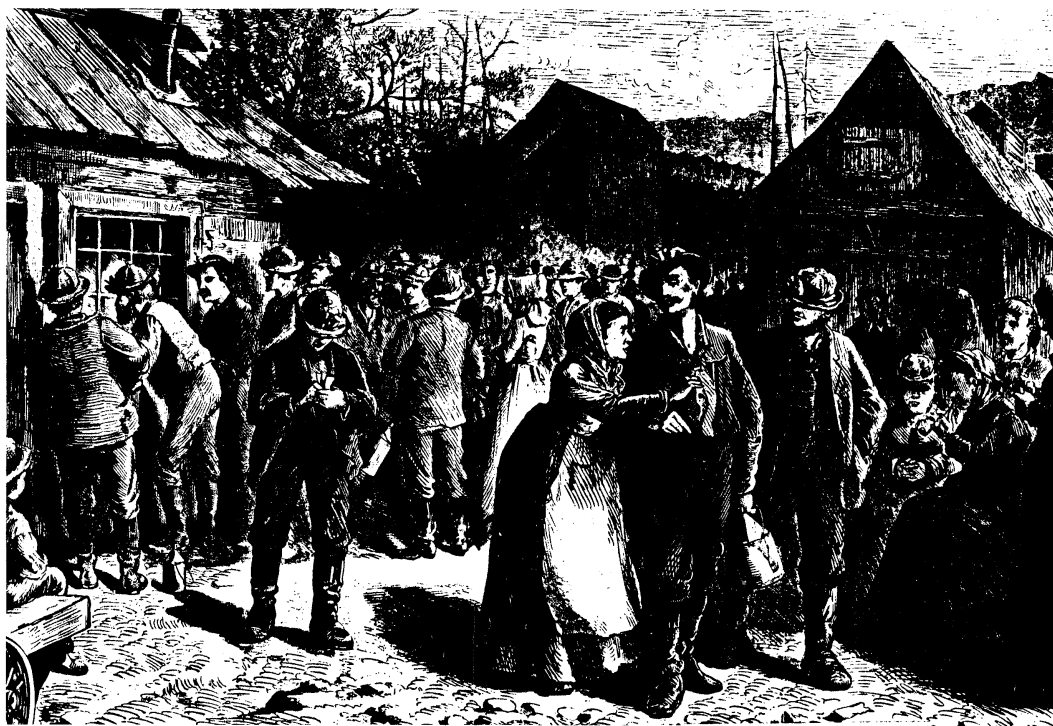
The extent of scrip use has many dimensions—temporal, geographical, and industrial. Its most notable occurrence in the twentieth century was in the coal mining regions of West Virginia, in part because the state government passed a "wide open" scrip law some time before 1925. However, it was extensively used in other states as well. The Tennessee Coal Iron and Railway

Company, for example, ordered 547,500 pieces between 1933 and 1937 from the Ingle-Schierloh Company of Dayton, Ohio. (Brown 1978) Another source lists 20,000 coal company stores in the United States, Canada, and Mexico all of which used scrip between 1903 and 1958. (Dodrill 1971)

Numismatic records indicate that scrip was also used extensively in several other industries—fishing canneries, agriculture (to pay crop-pickers), fruit canneries, logging and lumbering companies, and paper companies. (Brown 1978, Trantow 1978. Trantow's index lists over 1,100 companies that issued scrip currency in 40 states.) One scrip numismatist cites a Chicago newspaper of 1845 that regularly quoted the discounted prices of coal scrip, city scrip, canal scrip, railroad scrip, Michigan scrip, Indiana State scrip, and Indiana land scrip, as well as the notes of private and chartered banks. Private businesses issuing such scrip numbered in the thousands. (Harper 1948) Furthermore, as Brown observed, "The use of paper scrip was much wider than the use of [coin] scrip . . . [but] only a comparatively small amount [of the paper] has survived." Therefore, the extent of scrip use must have been much greater than the vestiges in metallic collections would indicate. (See also Caldwell 1969.)

Just as Brown in his work seemed unaware of scrip that had preceded the issues by coal companies, Harper in his study of *Scrip and Other Forms of Local Money* thought that intensive use of scrip only appeared in the United States during the depression years, 1932-1935. His research uncovered several sources of "depression" scrip: (1) issues by local governments due to decreases in tax revenues; (2) issues by chambers of commerce after local bank failures as a means of "corralling as large a proportion of the depression diminished volume of business as possible for their membership"; (3) issues by "home-owned stores as a weapon against . . . chain-store competition"; (4) issues by "barter groups as a means by which the unemployed could more conveniently exchange services"; and (5) issues by charitable organizations to needy persons as "commodity orders" for foodstuffs. "Local money in some form," he concluded, "is likely to recur in response to a public demand under substantially similar circumstances."

Most of this "depression" scrip had appeared



Miner's pay day.

REPRINTED FROM SCRIP BY STUART E. BROWN

in earlier times—for example, municipal scrip that was redeemable as tax payments. The depression scrip, however, was usually linked to a dated stamp scheme that required the holder to fix low denomination (2- or 3-cent) stamps to the scrip at specified times. The stamps were to provide the revenue to redeem the scrip and to encourage spending, but they added an undesirable burden that greatly reduced the efficacy of the scrip's use. They also detracted from the scrip's effectiveness as an addition to the existing stock of ordinary money. (Harper 1948)

6. Implications of the Scrip Episode

The phenomenology of scrip issue has significant implications. First, no one had any incentive to leave scrip behind for monetary researchers to count or to analyze. Demanders of such currency would not regard it as a store of value for any time longer than the period between paydays. Suppliers, to whom the scrip was an outstanding demand obligation, would redeem it first if they liquidated, merged, or closed down their enterprises. In addition, everyone who used it and

benefited from it was aware of its questionable legality. Archival records of its outstanding quantities, therefore, are almost nonexistent. (Timberlake 1981)

Scrip's unrecorded existence is emphasized as well by the research that has uncovered its former use. Each scholar who has unearthed one of the diverse scrip appearances has treated the phenomenon as unique, and with good reason. Each one was widely separated in time, place, and circumstance from the others. Yet, each one had characteristics similar to the others. All episodes combined emphasize the feasibility of the spontaneous production of money in the private sector.

The coal mining scrip episode adds significantly to the total scrip experience for a number of reasons. First, it lasted for over 50 years, so it was not just a temporary happenstance. Second, it appeared in a wide range of independent communities. In West Virginia alone, almost 900 coal mining companies employing about 120,000 miners issued scrip in one form or another. In other areas of Appalachia—southern Virginia, eastern Kentucky, eastern Tennessee and southwestern Pennsylvania—the experience was similar.

Third, scrip's tenure was not dependent on the previous existence of standard legal tender money. True, the coal company was bound to redeem the scrip on payday, but this guarantee was only a flourish that enabled scrip issuers to avoid violating the proscriptive laws against the issue of private moneys. As it was, many children living in coal mining communities did not see a dollar of "real" money until they grew up and left the area. (Caldwell 1969)

The self-sustaining nature of the scrip system, without recourse to standard money, stemmed from the fact that both the demander and supplier of scrip were active participants in both the labor market and the household goods market at the company store. This intimacy in two markets by both participants enabled them to evaluate wages paid and received in real terms, that is, by the quantity of household goods that the scrip wages could purchase. A decline in the purchasing power of scrip at the company store would simply have indicated to the miner that the real value of his services to the company had declined. He thereupon would have moved to another location or occupation. If the decline in real wages was due to an industrial depression or the competitive decline of the coal industry, as occurred simultaneously in the 1930s, both mine workers and mine operators would realize reduced real returns in the mode of any resource owners under similar circumstances.

A fourth important result of the scrip system was its reflective emphasis on the returns to the capital structure of the payments system. In the scrip system the money was supplied endogenously: the coal company banks, the borrowing miners, and the scrip suppliers were all parts of an economy of private ownership. Scrip money was not dependent on any outside money, but was produced under the same conditions and incentives as any common commodity. The mining companies rather than the workers produced the scrip because in working without wages until payday, the workers were implicitly extending credit to the company. Scrip issue was a means of clearing this debt before the regular payday. In addition, the coal mining company had the collateral value of the mined coal to secure the "loan."⁴

Both the companies and the workers realized the seigniorage returns from its existence. While the scrip system was small-scale and had a low

profile, the government could ignore it because it posed no threat to the government's monopoly over the production of money. However, if scrip issue had shown any tendency to become a national practice, the proscriptive laws against private coinage would surely have been interpreted and enforced much more rigorously.⁵

An observer of the scrip system might conjecture that the experience of the isolated communities could have ramified into an intercommunity system using some kind of scrip clearinghouses (i.e., scrip banks) if the laws restraining the private issue of money had not existed. Over time, technological and organizational developments could have led to economies of scale and enterprise. Probably as few as three or four or as many as two dozen issuers of scrip money might have appeared. Some of the minters of scrip—Ingle-Schierloh, Osborne, Insurance Credit, Adams, Dorman, and others—would have expanded their enterprises to include management of intercommunity scrip systems and ultimately their probable evolution into credit card systems. Such an extension of function would have been analogous to automobile dealers expanding into the car leasing business—a sort of horizontal integration to reap certain economies of scale.

Had the scrip system become intercommunal and given rise to scrip-on-deposit in scrip banks necessitating bank reserves and clearing operations, some high-powered scrip into which local scrips could be converted would probably have appeared. The experience of the ages seems to confirm this evolution. (Friedman and Schwartz 1986) Less clear is why the high-powered money has to be issued or regulated by the state. The question of whether or not the market system could, alternatively, produce a private monetary base that would prove to be both stable and serviceable has not been attempted or allowed, and will remain unimaginable until a general belief in market efficacy becomes pervasive. That time as yet seems nowhere near.⁶ □

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The author is indebted for support and suggestions to the sponsors and participants of the Manhattan Institute Monetary Conference of 1986, especially to David Glasner and Anna Schwartz. My colleague, Price Fishback, and Milton Friedman also made valuable suggestions, as did Huston McCulloch and two referees for the *Journal of Money, Credit, and Banking*.

1. This comparison must be qualified. Many travelers checks, as well as other U.S. currency, are currently used as hand-to-hand media in foreign markets. Sometimes travelers checks return from abroad with more than a dozen endorsements on them. They are called "checks," but like food "stamps," they are a quasi currency.

2. Scrip was frequently advertised as redeemable only to the worker to whom it was originally issued. This condition applied in some mines. However, for metallic scrip, it could hardly have been enforced, and would have detracted from the utility of any scrip if it were enforced.

3. I am indebted to Huston McCulloch for this observation.

4. I am indebted to Huston McCulloch for suggesting these details.

5. In a thought-provoking paper, David Glasner argues convincingly that governmental assumption of a monopoly role over money enabled governments to enhance their fiscal powers, particularly during war emergencies (Glasner, "Economic Evolution and Monetary Reform," especially the section: "A Rational for Government Monopoly over Money"). In short, not only is seigniorage an important revenue to the state, but capital expropriation through debasement of money's function as a unit of account may be even more lucrative.

6. However, the commercial bank clearinghouse system in the United States during the second half of the nineteenth century is an example of a private lender of last resort that produced base money efficiently at critical times. (Timberlake 1984)

The Forgotten Right of Association

by David Hood

The Century Club of New York City, an all-male social club, was told by city officials a few years back that it no longer could refuse to admit women members. The Club, thinking that private clubs weren't subject to such public regulation, took their case to the Supreme Court, arguing that the rights of privacy and association gave them the power to set their own membership rules. After all, this was the way the courts had always viewed private clubs.

In 1988, though, the Court decided that it would begin to make the rules. In a powerful opinion written by Justice Sandra Day O'Connor, the Court ruled that all-male clubs could no longer exclude female members, since such exclusion denied the women access to business deals with club members. No longer would the Century Club, or any similar men's club, be allowed to hang a "No Girls Allowed" sign outside their "clubhouse."

No consideration was given to the rights of club members to associate with whomever they please. Freedom of association traditionally has been one of the central foundations of the American way of life. This freedom enjoyed some measure of protection throughout our nation's history, as an inherent part of our First Amendment liberties. As early as the 1830s, Alexis de Tocqueville noted this American trait with favor in his book *Democracy in America*. "In no country in the world has the principle of association been more successfully

used or applied to a greater multitude of objects than in America," he wrote. Unfortunately, our judiciary's support for the right of citizens to associate freely with each other has greatly wavered over the years, as "substantive state interests" have been allowed to supersede human liberty.

Freedom of association can take many forms. The doctrine would allow people to organize formal groups under any mutually agreed-upon guidelines, including criteria for membership. It also would allow a person to become friends with anyone he chooses, or to invite any person onto his property. (One possibly legitimate caveat would be cases of criminal conspiracy.) The obvious corollary to these liberties is the freedom *not* to associate, since state action to force association between two parties is as unjust as preventing them from voluntarily associating.

Modern jurisprudence has taken a curious view of this right. Associational liberty has been upheld in some situations. Landmark cases in this century allowed trade unions to organize, for instance, and prevented governments from outlawing certain political groups like the Communist Party. Privacy also has been seen as an important value. One 1961 case defended, correctly, the right of the NAACP to withhold its membership list from the State of Alabama. (*NAACP v. Alabama*, 357 U.S. 449)

However, the courts have recently eroded the rights of private citizens to choose with whom they will associate. Associational freedom has lost out to "state interests" like foisting racial or sexual equality upon unwilling

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subjects. In 1964, for example, two cases were decided that prevented private property owners from deciding who could enter their premises. The Heart of Atlanta Motel and a Birmingham, Alabama, restaurant called Ollie's Barbecue were told that they could no longer refuse to serve blacks. The fact that these businesses were on private property was not seen as an obstacle to state determination of who would be allowed to associate there.

A similar intrusion into freedom of association was witnessed in 1988 when the Supreme Court decided that certain private clubs in New York City had to abide by a city law that required them to admit women.

Now, all these decisions were greeted favorably by the media. I must confess that I myself find it difficult to suppress my elation that a bunch of racists and sexists were told to shape up by the Supreme Court. However, we must not allow our personal evaluations of other citizens' beliefs to obscure what is really going on in these cases. Even the Nazi has his freedom of speech protected by the First Amendment. The Flat Earth Society is allowed to associate and promote its ideas. Freedom of thought necessarily entails the freedom to be *wrong*. That is why the above court decisions can be seen as having fundamentally negative consequences for human freedom, especially that of associating with other human beings.

The Ideal of Autonomy

Why is freedom of association so important? Tocqueville championed this right by arguing that its roots are firmly planted in the ideal of autonomy: "The most natural privilege of man, next to the right of acting for himself, is that of combining his exertions with those of his fellow creatures and of acting in common with them. The right of association therefore appears to me almost as inalienable in its nature as the right of personal liberty. No legislator can attack it without impairing the foundations of society."

Thus the right can be seen as central to individual autonomy, or the power of a person to control his own actions. One should be allowed to associate with whomever he wants, just as one should be allowed to think whatever

thoughts he wants. Freedom of association is just as important to individual autonomy as freedom of speech.

Indeed, freedom of association is an integral part of those liberties more commonly thought to reside in the First Amendment. Can we truly have freedom of speech if the audience is determined by the law rather than by private choices? Can we exercise freedom of the press if the readership is regulated by the state? Can we have freedom of religion if congregations are determined by government? The freedom of association sets the stage for the exercise of all these other freedoms.

Another way to think about freedom of association is under the rubric of contract law. Membership in a private club can be seen as a form of contract between the prospective member and the current members. This is how the right traditionally has been enunciated in English common law. Just as the state cannot violate freedom of contract between competent adults, so should it be prevented from interfering with the freedom to form contractual associations. Also, the state never should have the power to compel parties to contract with each other, but it certainly did in 1988 when New York's Century Club was forced to admit women members.

Charles Murray spells out another benefit of associational liberty in his book, *In Pursuit*. Associations, he writes, are an integral factor in one's pursuit of genuine happiness. This is especially true of church groups, social groups, and neighborhood associations. Murray argues that free human interaction as a process is much more important to people than any results-oriented form of welfarism. Freedom of association thus can be seen as a bulwark of the private sphere, through which most people derive their happiness and self-worth.

The key issue in legal battles over freedom of association is the definition of "public" versus "private" interaction. It is obvious that arbitrary criteria like race or gender shouldn't be utilized in governmental decision-making, since laws should apply equally to all. However, it is difficult to see why private decisions should be subject to the same rules. Government has neither the ability nor the right to dictate how people should conduct their per-

sonal lives, providing that private interactions are conducted by *mutual assent* among the parties involved.

Access to the benefits of association with certain persons should not be an "overriding state interest" that justifies abrogation of associational liberty. Blacks who want some good barbecue are free to go to a shop that has a more sensible admissions policy than that practiced by Ollie's Barbecue. There certainly were such places, even 25 years ago. Women who want membership in New York clubs should find ones that don't shoot themselves in the foot by prohibiting female membership. More fundamentally, though, the state should not be in the business of providing "access to commercial opportunities" in the form of possible business deals with certain club members. The government might just as well tell us whom to invite to our homes for dinner, or with whom to play golf, since many business deals are conducted in these settings as well.

Also remember that if the sexist club members don't want women there, it is highly unlikely that they will seek out the new women members to make them business propositions!

Coercion is hardly ever the answer when one is faced with people who make the wrong decisions. This is especially the case when asso-

ciational freedom is at stake. The correct path is not to seek state intervention into the make-up of private associations; it is persuasion, or competition through the formation of alternative associations. Assuming that the "bad" organization doesn't enjoy monopoly status (like a bar association), the marketplace eventually will lead to the adoption of more legitimate admissions practices, since the "old boy network" clubs will be missing out on the increased vitality and productivity brought to other clubs by their female or minority members. Just as it would be bad business these days to restrict one's barbecue consumers to whites only, it is equally bad business to restrict one's business dealings to members of an all-male club.

The world will not end just because the Rotary Club and Century Club have to admit women members. In fact, the clubs themselves may be better off in the long run. However, the principle of free human interaction itself is ending, if government decides it can invade the private sphere of its citizens with impunity. Freedom of association is an integral part of our Constitutional liberty, as well as a primary means of pursuing happiness. But in the final analysis, it is also an important weapon in the continual struggle against "Big Brother" statism. A society not free to associate is not free to do much else, either. □

Education for Privacy

We are living in a world and in a time when powerful leaders with millions of fanatical followers are committed to the forcible regimentation of their fellow men, according to formulas which have no initial authority but that of their own private dogmatism. They not only refuse to recognize the right of private thought and a personal conscience to be considered in the management of public affairs, but they have abolished the concept of the individual as a private personality and have reduced him to the level of the bee in the hive. To restore the individual to his former dignity as a human being is the urgent need of the day.

—MARTEN TEN HOOR

IDEAS
ON
LIBERTY



Movie-Goers Can Think for Themselves

by Tibor R. Machan

Bull Durham is a nice little movie, about minor league baseball and love and good times and friendship. But it recently came in for a strange criticism.

This and other movies, including television shows, are being charged with a kind of subliminal advertising. Some charge that these films are being used by Hollywood producers to peddle brand-name products. (In *Bull Durham* it was beer and other products, none of which I remembered after I saw the movie or even noticed as I watched it.)

Of course, films that deal with contemporary life would be entirely artificial if producers disguised brand products used in the course of the action. I have always felt cheated when someone in a movie picks up a pack of cigarettes or a can of beer and hides the label. Mind you, I never remember a visible label, but I do remember when it is artificially hidden from view.

What exactly are these critics complaining about? They are insulting movie-goers by implicitly accusing them of being robots who cannot keep from going out and buying what is shown on the screen. Imagine it. The viewer is conceived of, not as a person with a will of his own, nor as someone who knows what he wants, but as a mechanism that responds automatically to subtle stimulation. The movie makers, by implica-

tion, are accused of being manipulative and exploitative.

The evidence for both these charges is feeble. People aren't robots available for easy exploitation: the advertising industry has learned that you cannot sell things that people don't want. Of course, people may want silly and useless things, but they have to want them before they really pay attention to brand-name ads. If this weren't so, advertising campaigns wouldn't flop as often as they do. (Even ads we love to see don't always manage to sell the products we are invited to buy—we like the jokes, the characters, the themes, the scenery—but not necessarily the product or service.)

Furthermore, why must these critics assume that movie makers have nothing else in mind when they include various brand-name products in their films? Why not assume that they simply wish to be realistic? Why not consider the possibility that they see the phoniness of pretending that while everything else in the film fits the picture, those disguised products do not?

Consider, also, that every movie "advertises" the actors who appear in it, the locales in which the movie takes place, the kind of clothing worn by the characters, and so on. No one, as yet, has complained about that.

I am confident that this special attack on the movies is yet another way in which the critics express their hatred for the market. These critics are power-seekers—admittedly for motives that seem sincere and virtuous to them.

But these motives are not virtuous, however sincere they may be. They are dangerous and should be exposed as such. They are subtle messages to the public that consumers are generally inept, and need the wise guidance of intellectuals who will occupy various seats of power and tell film makers and television producers what to do.

Let us respond to these folks forcefully, and tell them to take care of their own problems and leave us to cope with ours. We are able to handle anything offered us on the screen—we can even walk out if we find something offensively pushy. □

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A Critical Examination of Socialism

by John Chamberlain

“All through our childhood they hung around the houses of our minds, the Four Uncles: Uncle Shaw, Uncle Wells, Uncle Galsworthy, and Uncle Bennett.” The quotation, which is from memory, is from Rebecca West’s essay on the Four Uncles, written for the old *New York Herald-Tribune*.

I cite it here because it did much to fix in peoples’ minds the idea that Fabian Socialism had taken over in England for good. The two Uncles who contributed to the Fabian essays, Shaw and Wells, were powerful voices.

Russell Kirk, author of *The Conservative Mind*, was an early objector to the idea that England, under Fabianism, was lost to the West. Biding his time, he has projected the idea of a series of books to be published under the general heading of the Library of Conservative Thought.

“Our Library of Conservative Thought,” he says, “will not amount to a corpus of infallible writings from which zealots might derive a conservative Thirty-Nine Articles; rather, we mean to recognize the diversity of conservative ideas—if you will, the varieties of the conservative experience.”

As the first book in his series, Kirk has picked *A Critical Examination of Socialism* by William Hurrell Mallock (New Brunswick, N.J.: Transaction Books, 302 pages, \$37.95 cloth). “This book,” Kirk writes in his introduction, “grew out of a series of lectures that William Hurrell Mallock delivered in the United States during 1907. Mallock was an English man of letters, of an old Devonshire family; he had risen to celebrity as a wit at the age of twenty-eight, when he published *The New Republic, or Culture, Faith, and Philosophy in an English Country House*. He had

been born a year after the Communist Manifesto was published; he would live to see the destruction of the old order in eastern Europe and other lands. . . . this *Critical Examination* has been selected . . . because the debate into which Mallock entered more than eighty years ago has not yet ceased, and because the book is a good example of Mallock’s polemical skill.”

Mallock crossed swords with all the theorists who believed in some variant of the labor theory of value. To him, the theory only accounted for muscle work, not brain work. The principal producer of wealth, according to Mallock, was ability. “Ability,” he wrote, “is a kind of exertion on the part of the individual which is capable of affecting simultaneously the labour of an indefinite number of individuals, and thus hastening or perfecting the accomplishment of an indefinite number of tasks.” It is, adds Kirk, “the faculty that directs labor; that produces inventions, devises methods, supplies imagination, organizes production and distribution, maintains order.”

Labor without ability, says Kirk in his interpretation of Mallock, “is simply the primitive effort of natural man to obtain subsistence. Recognizing that mankind cannot prosper by mere labor, society hitherto has endeavored to encourage Ability by protecting Ability’s incentives. In destroying those incentives, the Marxists would bring down civilization. So Mallock told his American audiences in 1907, and so, in much of the world, it has come to pass.”

Socialists think that men of ability should work out of pure idealism. But the man of ability presumably has a family and the prospect or reality of heirs. What chance does idealism toward an abstraction called the State have in competition

with the family?

Kirk finds sustenance for these opinions in a very odd place. Mikhail Gorbachev, in his book *Perestroika*, says, "Equalizing attitudes crop up from time to time, even today. Some citizens understand the call for social justice as 'equalizing everyone.' But society persistently demands that the principle of socialism be firmly translated into life. In other words, what we value most is a citizen's contribution to the affairs of his country. We must encourage efficiency in production and the talent of a writer, scientist, or any other upright and hard-working citizen. On this point we want to be perfectly clear: *socialism has nothing to do with equalizing.*"

Gorbachev, says Kirk, "unlike Shaw, finds it necessary to take into account the claims of Ability, so strenuously advanced by Mallock eighty years ago." Maybe "capability" would be a better word to use when talking about the subject—it has a slightly broader sound. But it makes no real difference.

There is an implicit bargain between the man of organizing ability and the ordinary muscle worker. Neither can do without the other. The organizer must have someone to organize. Just to keep things happy the organizer, after his own family has been cared for, will allow a portion of brain-work profit to go to the muscle worker.

Socialists, according to Mallock, do not have the mental qualifications to understand machinery. "They have never made two blades of grass grow where one blade grew before. They have never applied chemistry to the commercial manufacture of chemicals. They have never organized the systems or improved the ships and engines by which food finds its way from the prairies to the cities which would else be starving. . . . They would never set themselves to devise, as was done in the English midlands, some new commodity, such as the modern bicycle, which was not only a means of providing the labourers with a maintenance, but was also a notable addition to the wealth of the world at large. They fail to do these things for the simple reason that they cannot do them; and they cannot do them because they are deficient alike in the interest requisite for understanding how they are done, and in the concentrated practical energy which is no less requisite for the doing of them."

Mallock does not use such terms as "en-

trepreneur," or even "enterpriser." The words change; the realities remain the same. Capable men will seize opportunities without worrying about definitions of the word "ideology," which has some strange uses in the dictionary. Kirk doesn't like the word, and he offers Mallock's book as helpful to freeing us "from the chains of ideology." Whatever those "chains" may be, it is good to be reminded that the man of ability need not respect them. □

HONG KONG

by Jan Morris

Random House, 400 Hahn Road, Westminster, MD 21157 • 1988
359 pages • \$19.95 cloth

Reviewed by Russell Shannon

"**H**ong Kong," says British writer Jan Morris in her new book, "has always been the brazen embodiment of free enterprise." Although Hong Kong has existed on the principle of *laissez faire* as a British colony for 150 years, it is only since the 1949 revolution in China sent hordes of refugees to this tiny place that it has truly flourished.

That, of course, is ironic. At the same time that Mao Zedong in mainland China was proving that Communism simply doesn't work, industrious Chinese people in Hong Kong were eagerly showing how effectively capitalism does. While China with its vast natural resources stagnated, Hong Kong, with almost nothing to boast of but an excellent harbor, proved the assertion that American economist Julian Simon makes so well in his book, *The Ultimate Resource*: "Our cornucopia is the human mind and heart," he wrote, "and not a Santa Claus environment." As Simon puts it further on, "The ultimate resource is people—skilled, spirited, and hopeful people who will exert their wills and imagination for their own benefit, and so, inevitably, for the benefit of us all."

Ironically, politically speaking, the government Britain provided for Hong Kong is scarcely more democratic than the one provided for one billion Chinese by Beijing. As Morris points out, the population of Hong Kong "enjoys freedom of speech and opportunity, but no freedom at all to choose its rulers."

How all this came about is the subject of Morris's fine book. Skillfully alternating chapters on

Hong Kong's historical development with portraits of its present people, procedures, and problems, she offers the reader both great delights and much insight.

The picture she paints is certainly not all pretty. Initially, Hong Kong was a focal point for the opium trade. Over the years, it has been plagued by piracy, corruption, counterfeiting, and discrimination. In one particularly poignant tale, the author points out that Chinese coolies were not allowed to use the tram to carry heavy supplies of items such as coal and ice to British homes nestled in the upper elevations. "In 1921 a compassionate clergyman discovered that one small laborer, aged six, spent twelve hours a day, six days a week, carrying fifty-eight-pound loads of coal from the waterfront to a house of lofty eminence."

Nor is Hong Kong's capitalism pure. Confronted by massive influxes of refugees in recent years, the government has felt obliged both to establish public housing and to provide low-cost medical care.

But throughout its existence, private enterprise has been the prevalent factor in this British colony. Most notable, of course, were great British merchants, such as Jardine, Matheson, and Swire. Yet the extent of private enterprise is truly astonishing. A century ago, even "public lavatories were run by private contractors." In more modern times, elements of public transportation, such as the underwater tunnel which connects the island of Hong Kong with Kowloon on the mainland, are profit-making enterprises.

What will happen when Hong Kong reverts to Chinese control in 1997? The question arose on my own brief visit to the area two years ago when, with a group of American economists, I visited a joint American-Thai feed mill in Shenzhen, one of the flourishing new enterprises just inside the Chinese border north of Hong Kong. In response to this question, the young American finance officer who had been our able and outspoken guide responded that he believed the question should be reversed: we really should be asking what will happen when Hong Kong takes over China!

The return of Hong Kong to Chinese control, Morris feels, is inevitable, because it was taken under what the Chinese consider the "unequal treaties" imposed on a declining Chinese empire

by emerging Western empires during the last century. Yet while noting that once-prosperous Shanghai, under Communist domination, has been reduced to "dingy impotence," to a large extent the author echoes the young American finance officer. Rapid commercial and manufacturing developments not only in Shenzhen but also northward to Guangzhou (Canton) already bespeak Hong Kong's strong influence on its great northern neighbor.

The reader who completes the tour through Morris's pages will not put the book down with a heavy heart. Rather than lament the plight confronting Hong Kong's residents, one is more inclined to take comfort from the success of the Chinese in Hong Kong (as well as in nearby Taiwan) which amply demonstrates that prosperity is not a uniquely Western phenomenon. Furthermore, the success of the Chinese expatriates may have had more than a little to do with turning the present regime in Beijing away from the pathetic failure of Marxism and toward the principles of the free market. That may well be the most important achievement of this tiny but remarkable colony. □

Professor Shannon teaches in the Economics Department at Clemson University.

THE FATAL CONCEIT: THE ERRORS OF SOCIALISM

by F. A. Hayek

The University of Chicago Press, 5801 South Ellis Avenue, Chicago, IL 60637 • 1989 • 180 pages • \$24.95 cloth

Reviewed by Robert Taylor

At the ripe old age of 90, Nobel Laureate Friedrich von Hayek has loosed one final curve ball at the academic world. While intended as a capstone work to summarize his lifelong contributions to the social sciences, this book takes a somewhat novel tack by examining the origin and nature of ethics.

Like Marx, Hayek sees an inherent contradiction in Western capitalistic societies. Unlike Marx, however, Hayek sees this contradiction in terms of an ethical dualism, not a materialistic dialectic, and he also feels that this contradiction is both necessary and beneficial—though nonetheless problematic.

Hayek approaches ethics from an entirely dif-

ferent angle from most philosophers. While philosophical ethics usually entail rationalistic system-building from certain assumptions about human nature or from bits of empirical data, Hayek's ethics are non-rationalistic and based upon the historical process. Hayek rejects the explicit, rationalistic construction of most ethical systems because such constructions rest upon the "fatal conceit" of human reason. Reason, Hayek argues, is incapable of commanding the information necessary to design an ethical system.

Hayek believes that ethics lie somewhere between instinct and reason. Ethics—like language, the marketplace, and the common law—are a spontaneous order that, in the words of Adam Ferguson, is the product of "human action, but not human design."

Our ethical system was not designed by anyone; it is traditional, handed down from generation to generation, and learned by imitation. Its progress and development were achieved by a process of social evolution: those cultures which adopted "good" ethical systems survived and flourished, while those with "bad" ones either floundered or adopted more successful ethical systems. This subtle process of trial-and-error has produced Western ethics, a highly successful system.

In what way do Western ethics contain a "contradiction"? To understand this proposition, one must examine Hayek's theory of the actual historical development of ethics. Hayek holds that the original human ethical system was that of the small group—the hunter/gatherer tribe. These "small group" ethics were both solidaristic and altruistic. The primitive tribes at the dawn of human history were each united by a shared purpose—rudimentary survival in an uncontrollable, hostile environment—that superseded the different purposes of the tribes' individual members.

As time passed, agricultural techniques were developed and cities were founded. These events provided a basis for two further developments that made "small group" ethics untenable: economic trade and population growth. Trade placed members of closed communities in constant contact with "foreigners" who usually did not share the group's purposes or beliefs. Population growth, spurred by relative economic security, made the small group rather large, with the result that members of the same group were often

strangers to one another and often pursued different ends.

These social changes were matched by changes in the ethical sphere. "Small group" ethics were not applicable to diverse, cosmopolitan communities; groups that failed to adapt became isolated and economically stagnant. Through the social evolutionary process, "small group" ethics were gradually replaced by what Hayek calls "extended order" ethics. "Extended order" ethics abandoned commands that sought collective ends in favor of abstract, generally applicable rules that facilitated varied individual ends. These ethics served as an impersonal mechanism for the coordination of individual actions and plans, whereas "small group" ethics were dependent upon the highly personal rule of the tribal leader, who directed the group to a common goal.

While "extended order" ethics replaced "small group" ethics as the dominant system, "small group" ethics continued to exist side by side with their more successful counterparts. Families, friendships, and businesses continued to operate according to the solidaristic principles of "small group" ethics for obvious reasons. Love, camaraderie, and shared purpose—so necessary to human fulfillment—are possible only within the small group. Thus, contemporary Western ethics are a heterogeneous mixture: "extended order" ethics tell individuals and groups how to act within the larger social order, while "small group" ethics instruct individuals how to behave within the confines of the various voluntary organizations to which they belong.

But, as Hayek notes, individuals have only a "limited ability to live simultaneously within *two* orders of rules." The dividing line between the two ethical structures often becomes fuzzy in application, leaving individuals confused concerning their obligations. For instance, one would clearly have an obligation to assist a friend or family member in financial need. But what about a needy stranger who accosts one on the street? Or a fellow businessman, teetering at the edge of bankruptcy, with whom one is competing in the marketplace of the extended order?

Hayek warns that, as strong as the tension may be, the balance between the two systems of ethics must be maintained. Both systems serve vitally important functions within their own spheres: "small group" ethics provide for warmth and

compassion essential to man as a social animal, while "extended order" ethics provide a coordination function necessary to maintain economic security and further growth in both population and wealth.

While no one (with the possible exception of Ayn Rand's followers) is calling for an extension of "extended order" ethics into the realm of the small group, there is an influential intellectual group, the socialists, calling for just the opposite: the reconquest of the West by "small group" ethics. Needless to say, Hayek looks upon this prospect unfavorably. Hayek, while admitting that such an event might initially satisfy our instincts, points out its long-range consequences: poverty, starvation, and widespread death. "Extended order" ethics, Hayek notes, are chiefly responsible for making possible our present level of population and economic well-being; their abandonment would lead to chaos and primitive tribalism, a tribalism which, lacking large-scale coordinating capabilities, would be unable to sustain Earth's population.

The ethical dualism Hayek sees in Western society is ultimately incapable of resolution. The socialist alternative, argues Hayek, is reactionary and inapplicable to the complex yet subtle extended order of the modern world. Hayek's final message in *The Fatal Conceit* is wise counsel that should be pondered by all: the maintenance of a classical liberal society, an extended order composed of individuals and voluntary organizations freely interacting, is, without exaggeration, a matter of life and death. □

Robert Taylor is a junior studying political science and economics at the University of Tennessee at Knoxville. This review is adapted from a column in the campus newspaper, The Daily Beacon.

ROOSEVELT AND STALIN: THE FAILED COURTSHIP

by Robert Nisbet

Regnery Gateway, 1130 17th Street NW, Washington, DC 20036
1988 • 120 pages • \$14.95 cloth

Reviewed by Richard M. Ebeling

Once at a press conference in the 1930s, a reporter asked President Franklin Roosevelt what his political philosophy was—was he a communist, a fascist, a liberal? Roosevelt seemed bewildered by the question,

and after hesitating for a few moments replied, "Why, I am a Christian and a Democrat." Roosevelt's bewilderment seems never to have left him. He just did not think in terms of ideologies. For Roosevelt, Hitler and Mussolini were merely "gangsters," and the law-abiding nations of the world were using their police to take them off the streets.

The same naivete hovered over Roosevelt's relationship with Joseph Stalin. World politics seemed to be nothing more to Roosevelt than local ward politics writ large—a matter of alliances, horse-trading, personalities, and power. Personal loyalties and relationships were the heart of politics for the President. The same methods that got things done in Albany or Washington would work with Stalin at Teheran and Yalta, Roosevelt believed. The absurdity of Roosevelt's view of how to deal with the Soviets, and the disastrous results that followed, are the themes of this book.

While the personal relationship of ward politics was to be Roosevelt's means of dealing with Stalin, what were the ends he wished to attain? Nisbet explains that the President viewed himself as fulfilling the mission Woodrow Wilson began in World War I: to take upon himself the moral leadership of making the world safe for democracy, *of molding the world* in his own image of American freedom. Having given the nation a New Deal at home, Roosevelt wanted to give the entire world a New Deal. But the attainment of this goal was going to require the leadership and prodding of the two great powers, the United States and the Soviet Union.

What made Roosevelt see the Soviets as the natural partner for this task? In Nisbet's words, "Somehow in Roosevelt's vision all the ugly [of Soviet brutality] was squeezed out and what was left was a system in Russia not extremely different from his own New Deal. . . .the Soviet Union, with all warts conceded in advance, was still constitutionally pledged to its people to provide jobs, medical care, and welfare very much on the order of his own New Deal. . . .There was also the constitutional pledge to build a classless society. . . .the Soviet Union was forward-looking, progressive in thrust." Stalin and the Soviets, in other words, were just like us, only a bit more uncouth.

In Roosevelt's mind, the enemy of peace and order in the postwar era wouldn't be Soviet Communism, but the imperialism and colonialism of

the European empires, particularly Great Britain's. This was the threat to a future of Soviet-American "democracy."

But Stalin was suspicious of the capitalist West, Roosevelt argued. He had to be coaxed into trusting the West and working for the worldwide "New Deal." This was the motive behind Roosevelt's infamous remark that "I think if I give [Stalin] everything I possibly can, and ask nothing from him in return, *noblesse oblige*, he won't try to annex anything and will work with me for a world of peace and democracy." (Roosevelt's dreams were reinforced by leftist intellectuals and government employees—a handful of whom later were found to be Soviet agents—who surrounded the President during the New Deal days and the war years.)

Stalin didn't have to worry about pushing his own postwar demands. At the November 1943 Teheran Conference, where Roosevelt and Stalin met for the first time, the President held informal, secret meetings with the Soviet dictator. Roosevelt himself suggested that the Baltic states of Estonia, Latvia, and Lithuania, and the eastern portion of Poland that Stalin had seized as part of his 1939-1941 nonaggression pact with Hitler, should remain under Soviet rule. All he asked of Stalin was that he remain quiet about it so Roosevelt could get the Polish vote in the 1944 election. Roosevelt also accepted the idea of postwar eastern European governments that would be "friendly" to the Soviet Union. And Stalin was promised vast territorial gains in the Far East, if he would agree to join in the war against Japan once Hitler had been defeated. All Roosevelt asked in return was Stalin's participation in the President's dream of a peace-keeping United Nations in the postwar era.

As Nisbet demonstrates, the Yalta Conference of February 1945 only formalized what Roosevelt had promised at Teheran. The importance of this later conference, Nisbet explains, was that "Yalta performed a service to the Soviets that was almost as important to Stalin as the occupied areas themselves. This was the invaluable service of giving moral legitimation to what Stalin had acquired by sheer force." Yalta legitimized and jus-

tified the Soviet domination of Poland, Czechoslovakia, Hungary, Romania, Bulgaria, East Germany, and Mongolia. It gave moral standing to the Soviet Empire.

At the Yalta Conference, Roosevelt felt morally bound to legitimize Stalin's claims. As the President's confidant, Harry Hopkins, wrote Roosevelt at the conference, "The Russians have given us so much at this conference that I don't think we should let them down." What had Stalin given? He agreed that in the new United Nations, the Soviet Union would have only three votes—one for the U.S.S.R., one for the Soviet Ukraine, and one for Soviet White Russia—instead of 16 votes, one for each of the Soviet Republics.

And what did Stalin think of his own Yalta promises to work for a new Rooseveltian world order, and to guarantee free elections in the eastern European nations that the Red Army had conquered on its way to Berlin? In early April 1945, less than two months after the signing of the Yalta agreements, a Yugoslav Communist delegation led by Tito was in Moscow. At a late-night banquet in their honor, Stalin ruminated on the postwar era. In his book, *Conversations with Stalin*, Milovan Djilas recounts that Stalin at one point explained, "This war is not as in the past; whoever occupies a territory also imposes on it his own social system." And as for the future, Stalin assured his guests, "The war shall soon be over. We shall recover in fifteen or twenty years, and then we'll have another go at it."

Here was the true Stalin, the real "Uncle Joe," as Roosevelt and Churchill affectionately used to call him. And was his own postwar vision limited to eastern Europe? At the Potsdam Conference in July-August 1945, President Truman went up to Stalin and congratulated him on the successes of the Red Army, successes that had brought Soviet power to Berlin in the heart of Europe. Stalin glumly replied, "Czar Alexander reached Paris" during the war against Napoleon in the 19th century. It appears that Stalin had dreams, too. □

Professor Ebeling holds the Ludwig von Mises Chair in Economics at Hillsdale College.

THE FOUNDATION FOR ECONOMIC EDUCATION, INC.
Irvington-on-Hudson, New York 10533

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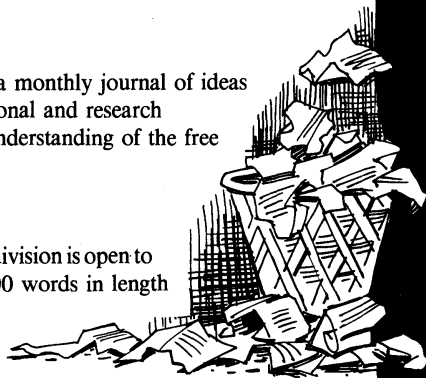
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NOVEMBER

1989

VOL. 39

NO. 11

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

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The Freeman is the monthly publication of The Foundation for Economic Education, Inc., Irvington-on-Hudson, NY 10533 (914) 591-7230. FEE, founded in 1946 by Leonard E. Read, is a nonpolitical educational champion of private property, the free market, and limited government. FEE is classified as a 26 USC 501 (c) (3) tax-exempt organization. Other officers of FEE's Board of Trustees are: Thomas C. Stevens, chairman; Ridgway K. Foley, Jr., vice-chairman; Paul L. Poirot, secretary; H.F. Langenberg, treasurer.

The costs of Foundation projects and services are met through donations. Donations are invited in any amount. Subscriptions to *The Freeman* are available to any interested person in the United States for the asking. Additional single copies \$1.00; 10 or more, 50 cents each. For foreign delivery, a donation of \$15.00 a year is required to cover direct mailing costs.

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Bound volumes of *The Freeman* are available from The Foundation for calendar years 1969 to date. Earlier volumes as well as current issues are available on microfilm from University Microfilms, 300 North Zeeb Road, Ann Arbor, MI 48106.

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.

FAX: (914) 591-8910

Cover illustration of
Henry Hazlitt. ©
Deborah Melvin Beisner,
1989

PERSPECTIVE

Is Aid Helping Prolong the Sudanese War?

The government of the Democratic Republic of Sudan has become increasingly dissatisfied with the United States and other Western governments for failing to provide sufficient aid. This was never more evident than following last year's flooding in northern Sudan, when Information Minister Abdallah Mohamed Ahmed called the U.S. "miserly" and said, "[their response] has let us know who our true friends are." (*The Daily Nation* [Nairobi, Kenya], August 26, 1988)

Gone are the days when gifts, regardless of size, were gratefully received. Foreign aid has come to be expected as a right, and provides a large chunk of many Third World nations' budgets. Many Third World governments limp from crisis to crisis, ever promising but rarely delivering true reform. And with the supply taps endlessly open, there is little incentive for reform.

In fact, why end the current civil war? Time was when starving people and endless destruction made it impossible to continue a war. But now war simply brings in more foreign aid. So where is the incentive to stop it?

—J. KEITH BATEMAN
Juba, Sudan

Knowledge of the Law Is No Excuse

The Dallas Morning News says HUD overcharges have cost the taxpayers \$1 billion in the last five years.

My goodness, a billion dollars. That must be a lot of money. But you couldn't prove it by me.

It's so far beyond my comprehension that . . . well, like a giant star that's a billion miles away, to me it's next to nothing.

But let me tell you what I can understand: \$165.

A friend of mine, who is kind of weird, was telling me about it. (I say he's weird, but in a nice way. He's a doctor who still makes house calls.)

What it is, he has a lawyer acquaintance who all the time is trying to make him understand he

should be making more money.

"He was telling me what a terrible businessman I am," the doctor said, chuckling. "But I guess he thought if I was smart enough to know what a doctor knows, maybe I was smart enough to learn what a lawyer knows.

"Real estate—that's the ticket, he said. I needed to diversify, invest, to widen my holdings.

"Well, what do I know about real estate? Real estate has nothing to do with medicine.

"For that matter, I asked him, what does a lawyer know about real estate? Real estate has nothing to do with law.

"He didn't answer me directly. Instead he started telling me about a piece of property he owned, a house that he rents out. It so happened I knew which house it was, though I hadn't known he owned it.

"I said, 'You mean that old falling down house with the rusty tin roof?'

"He said, 'Don't make fun of it. That old house puts rent money in my pocket every month.'

"I laughed and said, 'How much money can a place like that rent for?'

"Now it was his turn to laugh. 'Would you believe \$330 a month,' he said.

"I said, 'Good night! What idiot would pay \$330 for a dump?'

"He said, 'No idiot would. But HUD pays half of it.'

"I said, 'Are you telling me that you're not only making money off poor people, but the taxpayers as well? And you're telling me that's what I ought to do?'

"He sort of took offense at that. He said, 'Well, it's all perfectly legal.'

"I guess he had me there. I'm no lawyer. But I do know this much, that there can be a big difference between legality and morality, and I told him so."

Personally, I haven't seen the property and have no way of knowing if my doctor friend is correct, that it's a bad deal for everybody involved, poor people and taxpayers alike.

I do know this much: that half of \$330 is \$165.

Just for the fun of fiddling with figures, let's say there are 10 such bad deals in this county, amounting to \$1,650 a month in HUD money or \$19,800 a year.

Multiply that figure times the 256 counties in Texas. All of a sudden you've topped \$5 million.

Take it one more step, \$5 million times 50 states, and by golly we're at the quarter of a billion dollar mark.

In just four years—not five—you have found a billion dollars in bad deals.

But like the fellows say, here in Lufkin and there in Washington, it was all perfectly legal.

Far be it from me to suggest otherwise. About the only legal precept I know is that ignorance of the law is no excuse.

Too bad it doesn't work the other way as well: that knowledge of the law is no excuse.

—JOE MURRAY,

writing in the July 3, 1989, issue of *The Lufkin Daily News*, Lufkin, Texas, a member of Cox Newspapers, Inc

FEE Salutes Henry Hazlitt

November 28, 1989, marks the 95th birthday of Henry Hazlitt, noted author and economist. Mr. Hazlitt has served FEE as a Trustee since its beginning in 1946 and was recently voted the designation "Founding Trustee" by his fellow members of the Board.

For a glimpse at Mr. Hazlitt's illustrious career, see Bettina Bien Greaves' article, "Henry Hazlitt: A Man for Many Seasons," starting on page 420.

This fall FEE published *Henry Hazlitt: An Appreciation*, a collection of essays by and about Mr. Hazlitt. The booklet also contains Mrs. Greaves' annotated bibliography of Mr. Hazlitt's books.

Henry Hazlitt: An Appreciation is available from FEE free of charge with the purchase of *Economics in One Lesson* (paperback \$7.95).

Henry Hazlitt: A Man for Many Seasons

by Bettina Bien Greaves

Editors' Note: November 28 marks the 95th birthday of the noted author and economist Henry Hazlitt, who has served with great distinction as a Trustee of The Foundation for Economic Education since FEE was founded in 1946, and whose personal papers and library are now housed at FEE. To mark Mr. Hazlitt's birthday, we are pleased to offer this essay by Bettina Bien Greaves, a member of the Senior Staff of FEE, who has known Henry Hazlitt for many years.

Henry Hazlitt, author, journalist, editor, reviewer, economist, has written or edited 18 books and countless articles, columns, editorials, and book reviews. He has gained renown in at least three areas: as a popularizer of sound economic thinking, as a critic of John Maynard Keynes, and as a contributor to moral philosophy. His *Economics in One Lesson* (1946), a long-time best seller, is one of the finest introductions there is to sound economics. His critique of Keynes, *The Failure of the "New Economics"* (1959), and his explanation of moral philosophy, *The Foundations of Morality* (1964), are valuable contributions to knowledge and understanding, to economic theory and the principles of social cooperation. Henry Hazlitt is a man for many seasons. His writings will live for generations.

Early Childhood and Youth

Henry Stuart Hazlitt was born in Philadelphia on November 28, 1894, the son of Stuart Clark Hazlitt and Bertha (Zauner) Hazlitt. His father died when Henry was a baby. His first years in school were spent at Girard College, a school in Philadelphia for poor, fatherless boys.

When Henry was 9, his mother remarried and their fortunes revived. The family moved to

Brooklyn, New York, and it was there, at Public School 11 and Boys' High School, that Henry received most of his formal education.

Henry has apparently always had a gift for writing. His high school English teacher recognized his talent and appointed him "chief critic" of his fellow students' test papers. This was "not an entirely gratifying distinction,"* Henry wrote later, for it did not endear him to his classmates.

When Henry finished high school, he entered New York City's free-tuition City College of New York (CCNY), but was forced to drop out after a few months. His stepfather had died and he had to support his widowed mother.

An inexperienced high school graduate wasn't worth much on the job market. The only work for which Henry was then qualified was as an office boy at \$5 a week. He was fired from his first job after only two days. But that didn't faze him. He simply went out and got another job. At that time there were no legal obstacles to hiring and firing—no minimum wage with which an employer had to comply, no Social Security or unemployment taxes to pay, no income taxes to withhold, no restrictions on hours or working conditions. Any would-be employer could hire anyone who wanted to work. If the arrangement didn't work out, the employer could let the employee go without penalty. Or the employee could leave, confident that he could easily find other employment.

Henry had a succession of jobs at \$5 per week.

*Phrases within quotation marks attributed to Hazlitt are taken either from his autobiographical notes or from transcripts of interviews with him.

When he learned that secretaries could earn \$15 per week, he determined to learn shorthand and typing. For several weeks he attended a secretarial school. With his newly acquired skills, he could command \$10 to \$12 per week. But again none of his jobs lasted very long—he hadn't yet found his niche. Finally he decided he wanted to be a newspaper reporter. He applied for a job and was hired by *The Wall Street Journal*.

The Journal at that time was much smaller than it is now, and it reported primarily Wall Street news. Hazlitt's bosses at *The Journal* dictated editorials to him on the typewriter and reporters called in their stories to him over the phone. Gradually he learned through on-the-job training.

Although he still knew very little about economics or the market, he was assigned to be the reporter in charge of following a half dozen small companies. When he attended one annual meeting, he learned how very little he knew. The management voted unexpectedly to "pass" its dividend, that is to pass over or to omit it. Hazlitt assumed "passing" a dividend meant "approving" the dividend. Fortunately for him, however, when he turned in his report he used their term; he said the dividend had been "passed." His on-the-job training proceeded apace; he promptly learned the investment definition of that word, and no one was the wiser.

The Journal at that time had a "By-the-Way" column, composed of brief quips about current events. Members of the staff were encouraged to submit entries anonymously. To collect payment if an entry was used (75 cents per published entry), the author turned in the carbon copy of his entry. With Henry's gift for expression, he soon became a persistent contributor and in time almost doubled his income with what he received for his short, clever "By-the-Way" paragraphs.

Hazlitt's Do-It-Yourself Education

Henry Hazlitt was energetic, ambitious, and industrious. On-the-job training wasn't enough for him. He was determined to get the education he had missed when he had to drop out of college. So he started his own reading program. He read about Shakespeare and the Marlowe controversy. He learned about evolution and the role of the

state by reading Herbert Spencer. He began to read about economics and the stock market. In time, the depth and breadth of his reading gave him a broad liberal arts education. A book titled *The Work of Wall Street* made him realize the importance of economics and philosophical reasoning. From then on he read with a purpose—concentrating on economics. He read a couple of college texts. Although he lacked sophistication in economics, his natural good sense warned him to be on guard against socialist ideas.

One book he ran across while browsing in a library, *The Common Sense of Political Economy* (1910) by Philip H. Wicksteed, a British Unitarian minister, had a profound influence on him. Wicksteed had become acquainted with the Austrian school of economics, the first school of economics to recognize that "value" is subjective and that market prices stem from the subjective values of individuals. This insight helped to shape Hazlitt's intellectual development and led him to a firm understanding of market operations and the marginal utility theory of economics.

In addition to reading, young Henry also devoted some time every day to writing. He set out to write a book on a very ambitious subject, *Thinking as a Science*, and before many months had passed, it was finished. He submitted the book to five publishers, received five rejections, and got discouraged. Then a high school friend urged him to send it out once more. He did—and this time it was accepted by the well-known firm of E. P. Dutton & Co. In 1916, at the age of 22, Henry Hazlitt became a published author.

In 1916, Hazlitt left *The Wall Street Journal* and moved to the *New York Evening Post*, where he put his Wall Street experience to use writing "Wall Street Paragraphs." He was working at the *Post* in 1917 when the United States entered World War I.

World War I

Henry wanted to volunteer, as some of his friends were doing, but he couldn't afford to do so. The Army paid only \$30 per month, not enough for him to support his mother. Then the Air Force announced that it was offering enlistees \$100 per month. Henry volunteered, only to discover that, in spite of their published offer, the Air Force paid enlistees no more than the Army

did. But once in the Air Force, he couldn't get out. Henry's mother had a rough time financially while he was away.

The Air Force sent Henry to Texas, to Princeton for ground school studies, and then back to Texas for flying instruction; he didn't get overseas. Hazlitt was still in Texas when the war ended.

A few days after the Armistice was signed, the *New York Evening Post* wired Hazlitt that his successor in writing "Wall Street Paragraphs" was leaving. He could have his old job back if he could be there in five days. Hazlitt took off almost immediately for New York by train, went directly to the office, suitcase in hand, and worked in uniform his first day back on the job.

Hazlitt soon returned to his old regimen of reading and writing for his own education and edification. Before long he had written a second book, *The Way to Will Power*, published in 1922. At that time, *Who's Who* had a policy of automatically listing any author who had had two books published by reputable firms. So at 28, Henry was a two-time author and his name appeared in *Who's Who*.

Benjamin M. Anderson

After Hazlitt returned from the Air Force, he continued his pursuit of economic understanding. Among other books on monetary theory, he read Benjamin M. Anderson's *The Value of Money* (1917). Hazlitt considered that book "profound and original" and he learned a great deal from it. Anderson, then teaching at Harvard, later became economist with the Bank of Commerce and then with the Chase National Bank. When Hazlitt was financial editor for the *New York Evening Mail* (1921-1923), he occasionally interviewed Anderson in connection with articles he was writing, and the two men soon became friends. Hazlitt wrote the foreword to Anderson's important work, *Economics and the Public Welfare: Financial and Economic History of the United States, 1914-1946* (1949).

In *The Value of Money*, Anderson had reviewed a large number of writers, American and foreign, most of them rather critically, on the subject of money. But when he came to the Austrian economist, Ludwig von Mises, he wrote that he found in his work "very noteworthy clarity and power. His *Theorie des Geldes und der*

Umlaufsmittel [later translated into English as *The Theory of Money and Credit*] is an exceptionally excellent book." This was the first time Hazlitt had heard of Mises, but he remembered his name and Anderson's comment. Years later when Mises' works became available in English, Hazlitt made it a point to read them.

A Career of Reading and Writing

Throughout his life, Henry Hazlitt has spent most of his time at the typewriter and with books. From age 20, he wrote something almost every day—news items, editorials, reviews, articles, columns. By his 70th birthday, he figured he must have written "in total some 10,000 editorials, articles, and columns; some 10,000,000 words! And in print! The verbal equivalent of about 150 average-length books." Hazlitt has also written or edited 17 books. (See the list at the end of this article.) His early works were literary and philosophical, his later books largely economic.

After leaving *The Wall Street Journal*, Hazlitt worked in various capacities—as economic commentator, financial editor, book reviewer, editorial writer, literary editor, columnist, and editor—for five different newspapers including *The New York Times* (1934-1946), a monthly financial letter, and three magazines, including *Newsweek* (1946-1966) for which he wrote the "Business Tides" column. In 1950, while still writing for *Newsweek*, Hazlitt and John Chamberlain became editors of the newly founded biweekly magazine, *The Freeman*, predecessor of this journal. (See the note at the end of this article for a list of the publications with which Hazlitt has been associated.) After he left *Newsweek* in 1966, he became an internationally syndicated columnist.

Hazlitt's reading and studying over the years to satisfy his own intellectual curiosity spanned a broad spectrum of subjects. His vast reading, especially when he was a literary editor and book reviewer, is evident in *The Anatomy of Criticism* (1933), in which he discussed the critic's role, the influence of the critic on the public, and the influence of the times on the critic. Hazlitt's prodigious reading and prolific writing throughout these years were preparing him for the important contributions he was to make to the understand-

ing of economic theory and social cooperation.

As a result of Hazlitt's various assignments writing about financial and stock market news, his interests had been gradually directed toward business and economics. He read many books on economics, and he became knowledgeable as an economist. But he did not write a book on the subject until 1946.

The New York Times

As a patriotic gesture, *The New York Times* had made a promise not to fire anyone during the Depression. This proved a very costly promise to keep. It meant for one thing that *The Times* did no hiring for a couple of years. By 1934 they were in dire need of someone who knew economics. Thus, in the midst of the Depression, Hazlitt was hired by *The Times* as an editorial writer.

The Times was then being run by Arthur Sulzberger, son-in-law of the fairly "conservative" publisher and controlling owner, Adolph S. Ochs. Management seldom interfered with Hazlitt's editorials, although Ochs' daughter, Mrs. Sulzberger, would occasionally call Hazlitt and suggest some "leftist" idea. Hazlitt would explain, "The trouble with that, Mrs. Sulzberger, is . . ." She would reply, "Well, you know best." Thus, *The Times* pretty much published what Hazlitt wrote—at least until 1944. More about this later.

Mises and Hayek

Hazlitt is proud of his role in helping to introduce two economic giants to readers in this country—Ludwig von Mises, leading spokesman for the Austrian school of economics for many years, and Friedrich A. Hayek, also an Austrian economist, Mises' protégé, and Nobel Prize Laureate in 1974.

As mentioned above, Hazlitt first heard of Mises through Benjamin Anderson's *The Value of Money*. Years later when Hazlitt came across Mises' *Socialism*, he reviewed it in *The New York Times*. His review appeared in the January 9, 1938, Book Review Section: "[T]his book must rank as the most devastating analysis of socialism yet penned. Doubtless even some anti-Socialist readers will feel that he occasionally overstates his case. On the other hand, even confirmed So-

cialists will not be able to withhold admiration from the masterly fashion in which he conducts his argument. He has written an economic classic in our time."

Mises was then living and teaching in Switzerland. As a courtesy, Hazlitt mailed a copy of his review to the author and the two men exchanged a couple of brief letters. Two years later Mises came to the United States to escape the strife of World War II. Hazlitt was one of Mises' few contacts in this country and Mises telephoned him. To Hazlitt, Mises was a "classic," an author from a previous era. Mises' call, Hazlitt recalled later, was almost as much of a surprise as if he had heard from such a legendary economic figure as Adam Smith or John Stuart Mill.

In 1944, Hazlitt reviewed F. A. Hayek's *The Road to Serfdom* in *The New York Times*. As a young man in his native Austria, Hayek had come to know Nazism firsthand. In England where he was living and teaching just before the start of World War II, he observed the same interventionist trends that he had seen on the Continent. In 1944, in a devastating critique of Nazism, *The Road to Serfdom*, he warned the British that they were heading down the same path.

The book stunned academia and the political world. Hazlitt's review, featured on page one of *The Times*' Book Review Section (September 24, 1944), compared Hayek's *The Road to Serfdom* to John Stuart Mill's *On Liberty*. Hazlitt described it as "one of the most important books of our generation." The University of Chicago Press had printed only 3,000 copies, and when the book made the best-seller list the publisher's stock was soon exhausted, and they had to begin reprinting right away.

Bretton Woods

When John Maynard Keynes' scheme for the International Monetary Fund and the International Bank for Reconstruction and Development (World Bank) was under discussion in Bretton Woods, New Hampshire, *The Times* offered to send Hazlitt to the conference. But Hazlitt saw no reason to go. He was opposed to the discussions. He said he could learn more by reading about them than he could by going there and talking with participants. Besides, if he stayed in

New York he could also write editorials on other subjects. So he didn't go.

While editorial opinion across the nation was largely favorable to the Bretton Woods discussions, Hazlitt was criticizing them. His editorials were the only "sour note." When it was announced that 43 governments had signed the "marvelous" Bretton Woods Agreement, Sulzberger called Hazlitt to his office. "Now, Henry, when 43 governments sign an agreement, I don't see how *The Times* can any longer combat this."

"All right," Hazlitt said. "But in that case I can't write anything further about Bretton Woods. It is an inflationist scheme that will end badly and I can't support it." After that Hazlitt wrote no more editorials on the subject for *The Times*. However, Hazlitt was also writing a Monday column for the paper's financial page, and there he continued to criticize Bretton Woods. At that point, Sulzberger suggested he might include a line at the end of Hazlitt's Monday column: "The opinions of Mr. Hazlitt are not necessarily those of *The New York Times*."

"You can do that, Mr. Sulzberger. But," Hazlitt warned, "one consequence of such a disclaimer will be that, if you don't print a similar line on other columns, the assumption will be that they are necessarily in agreement with the views of the editor of *The Times*." Sulzberger understood Hazlitt's reasoning and dropped the idea.

Economics in One Lesson

For some time Hazlitt had been mulling over the possibility of writing a "little book" on the fallacies of short-run economic interests. He discussed the idea with Mises, by then a close friend. He also told Harper's editor for economics books about his idea. The editor offered to publish the book when it was written. *The New York Times*, for which Hazlitt was still working as an editorial writer, agreed to give him every other day off without pay to write the book. *Economics in One Lesson* was the result.

To Hazlitt, writing that book "came so easily," he said later, "that I couldn't take it very seriously. . . . "[W]riting these chapters was almost like writing daily editorials. . . . It took . . . about three months of alternate days off." On the in-between days he was thinking about the book. "That

meant one and a half months of actual writing."

Reader's Digest published two excerpts before the book's publication, and the book promptly became a best seller. Hazlitt had suggested that the print run be increased to satisfy the additional demand anticipated from the *Reader's Digest* publicity. Yet the publisher printed only 3,000 copies. The first week the book was out it was seventh on the *New York Times* best-seller list for non-fiction; the second week it was sixth; and then the third week it disappeared from the list altogether—there just were no more books to be sold. After some time, when it had been reprinted and was available once more, it began to sell again, although it didn't make the *Times* list again.

Writing *Economics in One Lesson* may have come easily to Hazlitt, but its impact has been enormous. It has been translated into eight languages. By 1977 it had sold 50,000 copies in hard cover, 700,000 in all editions, and it still sells at the rate of a few thousand per year, attracting new readers to economics with its delightful style and its simple explanations and illustrations of economic fallacies.

Economics in One Lesson is clearly Hazlitt's most popular book. It established him as an economic journalist *par excellence*, the modern counterpart of the Frenchman Frederic Bastiat (1801-1850), author of *The Law*. H. L. Mencken was quoted on the book jacket of the first edition as saying that Hazlitt was "the only competent critic of the arts . . . who was at the same time a competent economist, of practical as well as theoretical training, . . . one of the few economists in human history who could really write." The book has introduced countless individuals to sound economic theory.

Harper & Brothers published the first 1946 hardcover edition of *Economics in One Lesson*. Harper arranged for later paperback editions, and kept the book in print until 1974. Then, without telling Hazlitt, it let the book go out of print and canceled the contract with the paperback publisher.

When Hazlitt learned this, he approached Harper and asked about reprinting in paperback. They hesitated but said, "If you bring it up to date, we'll publish a new edition in hardback." Hazlitt revised the book. Still "they dilly-dallied," Hazlitt said, and didn't publish it in either hard-

back or paperback. According to Hazlitt, "They said they didn't think it would sell in paper. Hazlitt believed their real objection must have been ideological, since the book had been selling several thousand paperback copies a year. In time Hazlitt obtained the rights to the book, and in 1979 Arlington House put out a paperback edition.

Hazlitt left *The Times* for *Newsweek* about the time *Economics in One Lesson* came out. In Hazlitt's view his situation was improved; his "Business Tides" columns in *Newsweek* would be signed; he would no longer be writing anonymously.

Critique of Keynes

Hazlitt had been impressed with John Maynard Keynes' *The Economic Consequences of the Peace* (1919) when it first came out. At that point, Hazlitt took everything Keynes said as "gospel." But in 1923, Hazlitt read Keynes' *A Tract on Monetary Reform*. By that time Hazlitt had done a fair amount of reading in monetary theory and could recognize economic errors when he read them. He was "appalled" by how "bad" a book it was and from that time on, Hazlitt "distrusted every statement Keynes made."

B. M. Anderson commented to Hazlitt later that when Keynes discussed the quantity theory of money in *A Tract on Monetary Reform*, "he even states that upside down." Which he did! The actual reason prices go up is that the government prints new money and distributes it to people who spend it. As the spenders compete for goods and services by bidding against other would-be spenders they make prices go up. Yet Keynes had said that when prices go up, the government must print more money to keep pace with the prices. The great German inflation was then raging (1923) and this was precisely what the German authorities were saying, that there was (as Hazlitt later paraphrased the Germans' position) "no real inflation because the present volume of currency . . . had actually a smaller purchasing power than the former volume of currency because the depreciation per unit was greater than the multiplication of units." Keynes agreed with the Germans "that it was necessary for them to keep printing marks to keep pace with the rising prices."

Whether Keynes' success was due to personal charisma, his prestigious positions with the British government, or to the "scientific" sanction his works gave politicians to do what they wanted to do anyway—that is to spend without taxing—is immaterial. The fact remains that from the 1930s on Keynes' influence was enormous. And through it all, Hazlitt continued to be amazed by Keynes' growing reputation.

In *Economics in One Lesson*, Hazlitt demolished various Keynesian programs in a rather low-key manner. Then in 1959, in *The Failure of the "New Economics,"* he critiqued Keynes' major work, *The General Theory of Employment, Interest, and Money* (1936) in detail, citing chapter and verse. *The Failure of the "New Economics"* (1959) is much more scholarly than *Economics in One Lesson*, its market narrower, but it is by no means less important.

To refute each Keynesian error, Hazlitt expounded sound economic theory in a way academia couldn't ignore. John Chamberlain, who reviewed the book in *The Freeman*, titled his review, "They'll Never Hear the End of It." The dean of the Department of Economics at a leading university questioned Hazlitt's credentials for critiquing the noted Keynes. Mises came to Hazlitt's defense. Hazlitt, Mises responded, was "one of the outstanding economists of our age," and his anti-Keynes book was "a devastating criticism of the Keynesian doctrines."

Moral Philosophy

Henry Hazlitt was a personal friend of Mises. But he was also a student of Mises in the sense that he carefully studied his work. He attended Mises' seminar at New York University quite regularly for several years. Although Hazlitt was himself an economist and author of note by then, he said about the Mises seminars that he always found that "no matter how many times I would go, no matter how often I heard in effect the same lectures, there would always be some sentence, some incidental phrase that threw more light on the subject."

One remark by Mises which impressed Hazlitt was that questions of morality and justice always refer to social cooperation. Hazlitt agreed. But he thought the statement needed elaboration. This was a subject close to Hazlitt's heart, for he had



Lawrence Fertig, Ludwig von Mises, Leonard Read, and Henry Hazlitt during a visit to FEE in the 1960's.

longed to write a book on ethics since he was a youngster.

As he pondered the subject he was struck by the insight of a statement by Jeremy Bentham (1748-1832): "Legislation is a circle with the same center as moral philosophy, but its circumference is smaller." This idea became the theme of Hazlitt's book on ethics, *The Foundations of Morality* (1964).

In this book, Hazlitt sought to unify law, ethics, morality, and manners, and to show their relation to social cooperation. Following Bentham, Hazlitt presented law, ethics (morality), and manners as three aspects of the same thing. "[B]oth manners and morals rest on the same underlying principle. That principle is *sympathy, kindness, consideration for others*. . . . Manners are minor morals." Law, he maintained, might be called "minimum ethics" with "the same center as moral philosophy." Ethics and morality cover more territory than law; they have a "far wider sphere [than law]. . . . Morality," he wrote, "cer-

tainly calls for active benevolence beyond that called for by the law."

In *The Foundations of Morality*, Hazlitt discussed the literature on ethics and morality throughout the ages. And he described the way ethical and moral principles had been put into practice. He pointed out that the moral codes of many religions are similar and consistent with peaceful social relations. Yet their differences, as well as the cruelty and suffering inflicted on men in the name of organized religion, raise doubts as to the reliability of religious faith as a guide to ethical conduct.

Thus, Hazlitt offers a utilitarian basis for morality. The moral philosopher, he writes, should seek a "foundation" for morality that does not rest on a particular religion. "[I]t is not the function of the moral philosopher, as such," Hazlitt concludes, "to proclaim the truth of this religious faith or to try to maintain it. His function is, rather, to insist on the rational basis of all morality to point out that it does not need any su-

Henry Hazlitt's Journalistic Career

1913-1916—*The Wall Street Journal*
 1916-1918—*New York Evening Post*
 1919-1920—Mechanics & Metals National Bank (monthly financial letter)
 1921-1923—*New York Evening Mail* (financial editor)
 1923-1924—*New York Herald* (editorial writer)
 1924-1925—*The Sun*
 1925-1929—*The Sun* (literary editor)
 1930-1933—*The Nation* (literary editor)
 1933-1934—*American Mercury* (editor)
 1934-1946—*The New York Times* (editorial staff)
 1946-1966—*Newsweek* (associate & "Business Tides" columnist)
 1950-1952—*The Freeman* (co-editor)
 1952-1953—*The Freeman* (editor-in-chief)
 1966-1969—Columnist for the international *Los Angeles Times Syndicate*

pernatural assumptions, and to show that the rules of morality are or ought to be those rules of conduct that tend most to increase human cooperation, happiness and well-being in this our present life."

Summing Up

In the course of his career, Hazlitt met many of the great and near great. As has been mentioned, he knew the economist, B. M. Anderson. He knew H. L. Mencken personally, and it was Mencken who recommended that Hazlitt succeed him as editor of *American Mercury* in 1933. Hazlitt was a frequent guest on the radio, debating face-to-face such socialist luminaries as former Vice President Henry A. Wallace, the late Secretary of State Dean Acheson, former U. S. Senators Paul H. Douglas and Hubert Humphrey. He is a Founding Trustee of The Foundation for Economic Education. He was, of course, a close friend of Mises and Hayek, but he also knew well all of the important personages in the libertarian/conservative movement—Leonard E. Read, Isabel Paterson, Rose Wilder Lane, John Chamberlain, William F. Buckley, Ayn Rand, Lawrence Fertig, and others.

Over the years, Hazlitt perfected a clear and lucid writing style. Writing so many editorials and short columns disciplined him to express himself succinctly and simply. Even his most important and profound books are composed of short, easy-to-understand chapters. Everything he writes may be read with pleasure and profit.

Throughout his career, Hazlitt has been an advocate of a minority point of view. He has been a constant critic of government intervention, inflation, and the welfare state, and he wrote books attacking them. His anti-Keynes, anti-Bretton Woods editorials, first published in *The New York Times*, also appeared later as a book (*From Bretton Woods to World Inflation*, 1984).

Hazlitt has spoken out repeatedly and untiringly in behalf of the freedom philosophy, limited government, free markets, and private property. At a banquet in 1964, honoring him on his 70th birthday, he spoke of the freedom movement and his part in it:

Those of us who place a high value on human liberty . . . find ourselves in a minority (and it sometimes seems a hopeless minority) in ideology. . . . We are the true adherents of liberty. . . . We are the ones who believe in limited government, in the maximization of liberty for the individual and the minimization of coercion to the lowest point compatible with law and order. It is because we are true liberals that we believe in free trade, free markets, free enterprise, private property in the means of production; in brief, that we are for capitalism and against socialism. . . .

I will confess . . . that I have sometimes repeated myself. In fact, there may be some people unkind enough to say I haven't been saying anything new for 50 years! And in a sense they would be right. . . . I've been preaching liberty as against coercion; I've been preaching capi-

talism as against socialism; and I've been preaching this doctrine in every form and with any excuse. And yet the world is enormously more socialized than when I began. . . .

Is this because the majority just won't listen to reason? I am enough of an optimist, and I have enough faith in human nature, to believe that people will listen to reason if they are convinced that it *is* reason. Somewhere, there must be some missing argument, something that we haven't seen clearly enough, or said clearly enough, or, perhaps, just not said often enough. A minority is in a very awkward position. The individuals in it can't afford to be just

as good as the individuals in the majority. If they hope to convert the majority they have to be much better; and the smaller the minority, the better they have to be. They have to think better. They have to know more. They have to write better. They have to have better controversial manners. Above all, they have to have far more courage. And they have to be infinitely patient. . . .

Yet, in spite of this, I am hopeful. . . . [We are] still free to write unpopular opinion. . . . So I bring you this message: be of good heart; be of good spirit. If the battle is not yet won, it is not yet lost either. □

Books by Henry Hazlitt

- 1916/1969 *Thinking as a Science*
- 1922 *The Way to Will Power*
- 1932 (ed.) *A Practical Program for America*
- 1933 *The Anatomy of Criticism*
- 1942/1974 *A New Constitution Now*
- 1946 *Economics in One Lesson*
(reprinted, 1948/1952; revised, 1962, 1979)
- 1947 *Will Dollars Save the World?*
- 1951 *The Great Idea*
2nd ed., *Time Will Run Back* (1966/1986)
- 1956 *The Free Man's Library*
- 1959/1983 *The Failure of the "New Economics"*
- 1960/1984 *The Critics of Keynesian Economics*
- 1960/1965 *What You Should Know about Inflation*
- 1964/1972 *The Foundations of Morality*
- 1970/1983 *Man vs. the Welfare State*
- 1973/1986 *The Conquest of Poverty*
- 1978/1983 *The Inflation Crisis and How to Resolve It*
- 1984 *From Bretton Woods to World Inflation: A Study of Causes and Consequences*
- 1984 *The Wisdom of the Stoics: Selections from Seneca, Epictetus and Marcus Aurelius* (Frances & Henry Hazlitt, eds.)

No Vote for the Candidate

by Tibor R. Machan

There was a special election in my Congressional district recently. Our Congressman had died, and several candidates were vying for his office.

I received a letter from one of them, greeting me as "Dr. Machan." I surmised from this that someone on the candidate's staff had found my name in the university phone book, and so knew that I taught there.

Most of the letter was pretty routine, promising hard work and claiming good roots in the community. One paragraph, however, caught my eye. In it, our candidate made the following promise:

There will be many occasions where the allocation of budgetary resources can be a major force in facilitating quality growth and development. [Your] University, for example, needs additional funding to achieve its potential for excellence. I envision a far greater role in federally-sponsored basic and applied research in a wide range of areas, many of which are untapped. My record of 14 years in [your] legislature is well-documented with support for higher education. I am particularly proud of sponsoring and providing leadership in the passage of the Eminent Scholars Bill. . . . I will be responsive to the personal needs of my constituents. . . .

Now this all sounds nice. We can send someone to Congress who will be responsive to my personal needs! In these days of runaway govern-

ment spending, what we need is for one more politician to go to Washington and bring back a lot of loot for his constituents.

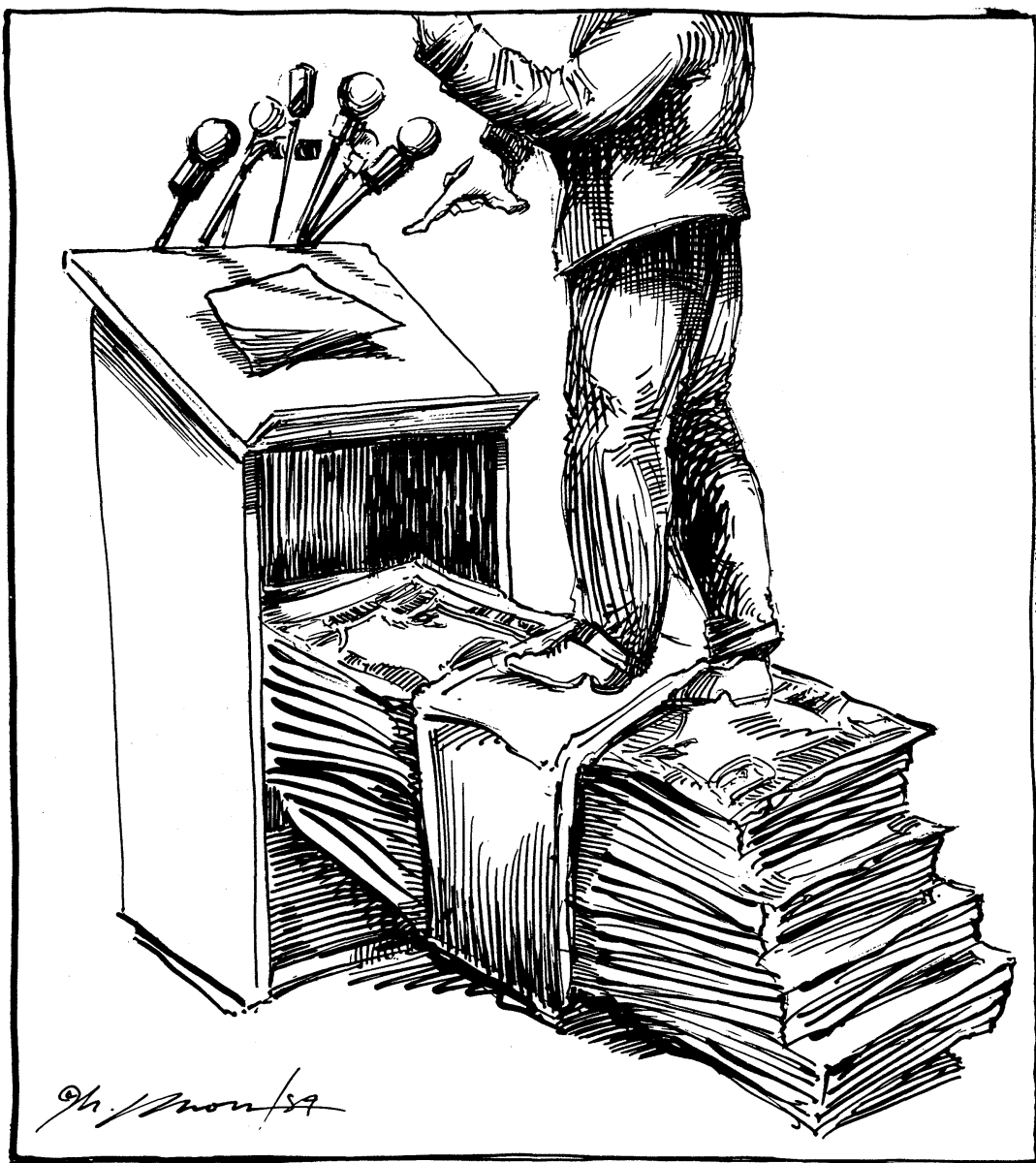
And people talk about the need to eliminate government waste! That is puny stuff. What is necessary is to eliminate the power of government to ladle out the kind of favors my aspiring Congressman offered. What we need are bills to limit government growth and spending, not people who make promises they can keep only by mortgaging the wealth of unborn generations or by spawning massive wealth redistribution as proof of public service.

What our country needs more than anything else is to cut back the power and influence of government, to revitalize the energies of the private sector, to rekindle the spirit of individual initiative. After all, isn't this the message of all those socialist countries that are running away from central planning? Are we not learning that blind faith in the power of government to "facilitate" virtually everything from education to health care has led to worldwide bankruptcy?

Wouldn't it be refreshing to have a candidate who is really concerned about this country's overall solvency and credibility? One might be able to vote for someone like that and feel proud. I am afraid, however, that despite all the hue and cry about deficits and sacrifice, little is going to change with our present team of leaders.

The politicians seem to have paid off the few people who might have saved us from them—those teaching about the political system we live in. These politicians will continue to make promises, and most of our university professors will continue to be as interested as the next guy in

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government handouts. So these professors aren't going to tell us that when we abandon the principles of limited government and free enterprise, eventually we will go belly up and reach true national disaster.

Once again, it was awfully difficult for me to vote. The other candidates were even worse—

one of them appealed to the fear of imports, and the other promised still more handouts. What a sad spectacle! Where is the America that made itself the leader of free people? Where are the politicians who serve not special-interest groups, but the genuine public interest—everyone's rights to life, liberty, and the pursuit of happiness? ☐

The Unspoken Dialogue of the Market

by Matthew B. Kibbe

On coming to Paris for a visit, I said to myself: Here are a million human beings who would all die in a few days if supplies of all sorts did not flow into this great metropolis. It staggers the imagination to try to comprehend the vast multiplicity of objects that must pass through its gates tomorrow, if its inhabitants are to be preserved from the horrors of famine, insurrection, and pillage. And yet all are sleeping peacefully at this moment, without being disturbed for a single instant by the idea of so frightful a prospect. On the other hand, eighty departments have worked today, without co-operative planning or mutual arrangements, to keep Paris supplied. How does each succeeding day manage to bring to this gigantic market just what is necessary—neither too much nor too little?

—FREDERIC BASTIAT¹

How is Paris fed? For Bastiat, the answer to this seemingly complex puzzle was simple: Freedom ensures that Paris is fed. More specifically, an individual's freedom to think, choose, act, and trade with other individuals provides the basis for individual prosperity and social cooperation under a system of law. By striving to satisfy his own needs and wants, the free individual helps others—often without ever having intended to do so.

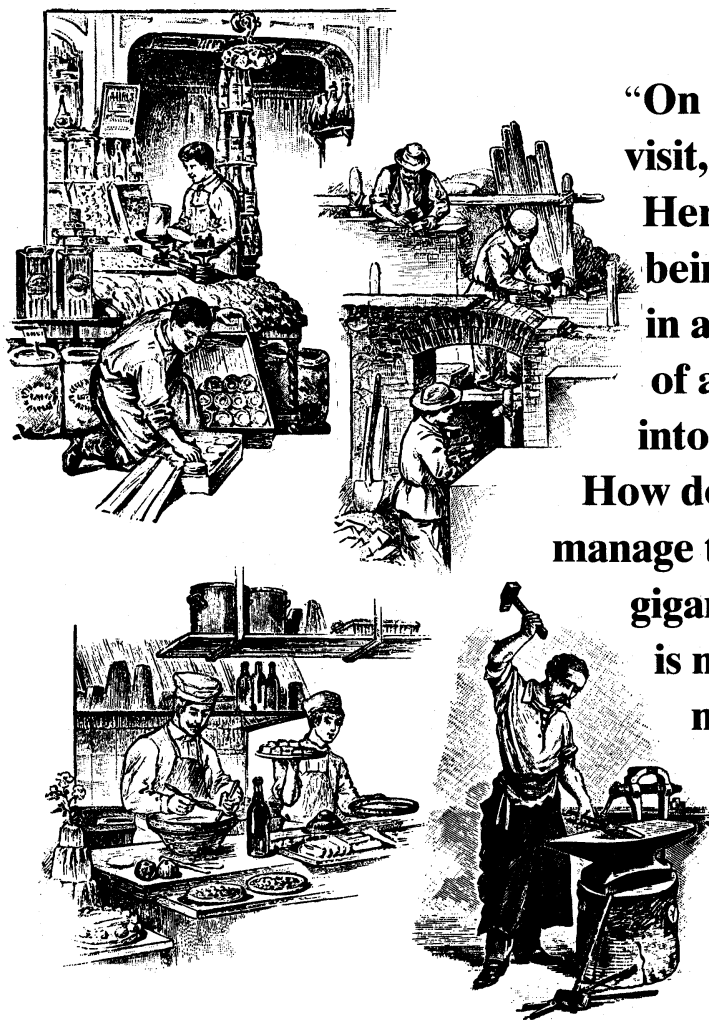
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This "simple" understanding of the market order was by no means originated by Bastiat. In 1776, Adam Smith employed the now famous analogy of the "invisible hand" to describe the social process by which the individual, when left alone, is "led . . . to promote an end which was no part of his intention. . . . By pursuing his own interest [the individual] frequently promotes that of the society more effectually than when he really intends to promote it."² The result of this process is peaceful co-existence among millions of individuals; or, better yet, "cooperation in anonymity."³

However, it was not until after Bastiat's death in 1850 that a general theory of Adam Smith's "invisible hand" explanation was developed by the Austrian economists. Carl Menger demonstrated how social institutions (particularly money) emerge in a society as a result of each individual's participation in the market. The actions of "erring, bumbling man" were in turn guided by these institutions.⁴

Ludwig von Mises considered this interplay between purposive individuals and social institutions to be *the* necessary condition for successful economic coordination in an uncertain world. Money and money prices served as the indispensable "guide amid the bewildering throng of economic possibilities."⁵

No single man can ever master all the possibilities of production, innumerable as they are, as to be in a position to make straightway evident judgments of value without the aid of some system of computation. The distribution among a number of individuals of administra-



“On coming to Paris for a visit, I said to myself: Here are a million human beings who would all die in a few days if supplies of all sorts did not flow into this great metropolis. . . . How does each succeeding day manage to bring to this gigantic market just what is necessary—neither too much nor too little?”

—FREDERIC BASTIAT

tive control over economic goods in a community of men who take part in the labor of producing them, and who are economically interested in them, entails a kind of intellectual division of labor, which would not be possible without some system of calculating production and without economy.⁶

Each individual, because of this “intellectual division of labor,” possesses a great deal of information which is known to him alone. The steel worker in Pennsylvania, the securities broker in New York, the farmer in Iowa, the business manager in California, and every other individual within society is privy to “the knowledge of the

particular circumstances of time and place.”⁷ Institutions such as money prices allow the individual to communicate this unique, personal knowledge to the unknown others in society. Through constant changes in price, the market enables each individual to engage in a free, *unspoken dialogue* with other individuals. It is this process which allows successful economic coordination to take place.

Hayek's Example

F. A. Hayek, a student of Mises, told the hypothetical story about a drop in the market supply of tin to elucidate this communicative process be-

tween the individual and his unknown fellows. Suppose that either a new use for tin has been discovered or that an important producer's ability to provide tin on the market has declined. Either way, tin is now more scarce. Some consumers of tin, because of their proximity to and knowledge of the impetus of the change, are immediately informed of the new situation. Through their subsequent actions, these few individuals influence the price of tin. Without anyone intending to help others, the information of the new scarcity of tin is spread through the price system. Signaled by the rising price of tin, the vast majority of tin consumers, not privy to the direct knowledge of time and place, are "told" that they must somehow economize their own use of tin. "The marvel is that in a case like [this] of a scarcity of one raw material, without an order being issued, without more than perhaps a handful of people knowing the cause, tens of thousands of people whose identity could not be ascertained by months of investigation, are made to use the material or its products more sparingly; that is, they move in the right direction."⁸

Now imagine the constant flux of a real economy, where changes in tastes, new technological discoveries, and an almost infinite number of other changes—both large and small—occur every minute. Each individual is continuously engaging in an unspoken dialogue with millions of other individuals, simply by choosing and acting. The smooth complexity of such a system is both overwhelming and beautiful.

Unfortunately, as Hayek points out, the opponents of freedom have altogether failed to appreciate or understand the nature of this "simple" insight. "Much of the opposition to a system of freedom under general laws arises from the inability to conceive of an effective co-ordination of human activities without deliberate organization by a commanding intelligence."⁹ Without an understanding of how the "invisible hand" of the market operates, complexity is mistakenly seen as chaos.

The *raison d'être* of Marxism is, and always has been, the replacement of production for exchange, which is directed by the "blind forces" of the market and money prices, with comprehensive, rationally coordinated planning by a central authority. Freedom and free exchange will be replaced with direct control over the means of production. Only then will the needs and wants of the people be satisfied. Or so the story goes.

But how would a central authority ever know what the constantly changing needs and wants of the people actually are? Such knowledge can only exist in a market and in market prices. Political orders, no matter how carefully calculated, are no substitute. Without the freedom to act and choose, there is no basis for producing anything. In a command economy, there can be no dialogue between individuals except within the strictly limited bounds of time and place. As Mises put it, advanced economic production would be "unworkable."

What all would-be planners—the mercantilists, the protectionists, and the socialists—fail to see is that the market process is not chaotic at all. Through the unspoken dialogue of prices, individuals in the market are able to communicate and coordinate their activities in a way that is both peaceful and prosperous. Freedom works. Or, from Frederic Bastiat's point of view, Paris is sleeping peacefully, and Paris is fed. □

1. Frederic Bastiat, *Economic Sophisms* (Princeton: D. Van Nostrand Company, 1964), p. 97.

2. Adam Smith, *An Inquiry into the Nature and Causes of the Wealth of Nations* (New York: Random House, 1937), p. 423.

3. Richard M. Ebeling, "Cooperation in Anonymity," *Critical Review*, Vol. 1, No. 4, Fall 1987.

4. Carl Menger, *Principles of Economics* (New York: New York University Press, 1976), pp. 257-85. See also Carl Menger, "On the Origin of Money," *Economic Journal*, Vol. 2, 1892.

5. Ludwig von Mises, *Socialism* (Indianapolis: Liberty Classics, 1981), p. 101.

6. Ludwig von Mises, "Economic Calculation in the Socialist Commonwealth" in F. A. Hayek, editor, *Collectivist Economic Planning* (Clifton, N.J.: Augustus M. Kelley, 1975), p. 102.

7. F. A. Hayek, "The Use of Knowledge in Society," *Individualism and Economic Order* (Chicago: University of Chicago Press, 1948), p. 80.

8. *Ibid.*, p. 87.

9. F. A. Hayek, *The Constitution of Liberty* (Chicago: University of Chicago Press, 1960), p. 159.

Free Speech: An Endangered Species in India

by Rayasam V. Prasad

“**T**he government must have realized the folly of making an attempt to steal through parliament a piece of legislation that sought to deny 800 million people of this land the right of expression,” said H. K. Dua, editor of *Hindustan Times*. He was referring to an anti-defamation bill that came close to becoming law in the summer of 1988. According to *India Today*, the ruling Congress (I) Party pushed the bill through parliament with the help of its “brute majority.”

This bill placed the entire burden of proof on the accused in defamation suits. If a politician or bureaucrat disliked what was written in a newspaper, he could use poorly defined terms (which were included in the bill) like “grossly indecent,” “scurrilous,” or “intended for blackmail” to cook up charges against the journalist. The bill also provided for summary trials and prescribed a minimum period of imprisonment for journalists who wrote “defamatory matter.”

In the past, few Indians questioned whether it was proper for government to control the flow of information in a democracy. This bill shocked many out of their complacency. After a month-long struggle—which included a three-mile protest march—the anti-defamation bill was withdrawn.

By their silent acquiescence, the majority of Indians have empowered their government to attain complete control over the broadcast media. The government created the Information and Broadcasting Ministry shortly after India gained

independence in 1947. This ministry inherited the nation’s only radio network, which it has operated ever since. No other radio stations are allowed. When television became the dominant mass medium, the same pattern was repeated. In addition, the Indian government produces news footage that must be shown in every theater before the main feature.

Politicians and bureaucrats turned radio and television into propaganda outlets for the government. All India Radio was nicknamed “All-Indira Radio” during the reign of Prime Minister Indira Gandhi. In a recent interview, Krishna Kumar, Minister of State in the Information and Broadcasting Ministry, said: “The government’s achievements have to be projected. This is the legitimate work of the Information and Broadcasting Ministry.”

Indian television bombards the viewer with images of prosperity. Almost every day, cabinet members are shown opening steel mills or switching on irrigation dams. But if the country is progressing at such a rapid pace, why are so many Indians living in utter poverty?

Officials use the same media to blame uncontrollable forces such as droughts, overpopulation, lack of natural resources, or even plots by foreign governments to explain the problems at home. Opposing arguments are not to be heard. Kumar also claims that Indian television has to emphasize values like secularism. At 9:30 each Sunday morning, this high-sounding ideal acquires a hollow tone. This is when hundreds of millions of Indians gather around their television sets to watch the Hindu epic, *Ramayan*. All the voices that protested this governmental promotion of one re-

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—NEWS INDIA

Demonstrators protesting the Indian government's control of media.

ligion over others have been drowned out.

Print media serve the Indian public as an alternative to government-controlled radio and television. This is not to say that the newspapers are entirely free. The ruling party holds substantial control over the written word through its ability to allocate newsprint, government advertising revenues, and even leases on newspaper buildings. A few journalists have tried to maintain their independence. But they are well aware that dissidents are usually brought into line by private and public harassments.

Indian politicians, however, aren't happy with their partial control over the newspapers. Embarrassed by repeated disclosures, such as the recent arms-purchase scandals, the Congress (I) Party tried to pass the anti-defamation bill and incorporate the print medium into their propaganda machine.

Some people argue that India, with its over-

whelming poverty and illiteracy, has no use for ideas like free speech. However, they delude themselves into believing that surrendering these rights will somehow produce economic prosperity and social equity.

In any country without a free press, corporations—which provide badly needed capital and technology—will be at the mercy of an all-powerful bureaucracy. In the event of a dispute, government officials can easily prevent investors from presenting their side of the story. When Indira Gandhi kicked IBM out of India, for example, there was hardly any protest.

Newspapers in India, which must compete for readers, do a much better job of reporting than radio or television. Literate Indians look to newspapers for accurate information. Privatization of the broadcast media would extend this ability to the 60 percent of Indians who can neither read nor write. □

Who Is Destroying the World's Forests?

by Gregory F. Rehmke

Time began its January 2, 1989, "Planet of the Year" issue with a two-page photo of a burning Brazilian forest, and declared: "Man is recklessly wiping out life on earth." A February 23, 1989, *Rolling Stone* article, "The Scorched Earth," shows cattle in the state of Rondonia in western Brazil nibbling at still-smoldering shrubs.

Government-sponsored television advertisements, says *Rolling Stone*, encourage impoverished Brazilians "to seek their fortune in the farming, ranching, mining, lumber and hydroelectric projects under way in Rondonia." The article explains that the 900-mile Highway BR-364, financed by the World Bank, cheaply transports settlers to Rondonia from urban areas.

Nearby, in the western state of Acre, residents depend on the Brazilian government for 85 percent of their income. But these subsidies are only the latest in a long series of uneconomic policies subsidizing rain-forest development.

The Brazilian military has insisted that building roads and settling the Amazon basin is necessary for national security. "The Amazon is ours," declared Brazilian President José Sarney, in an April 6th speech announcing a new internationally financed program he said would "permit the rational siting of economic activities" in the Amazon basin.

The speech was reported to be strongly nation-

alistic, and many Brazilian officials see pressure to limit Amazon development as part of a "campaign for the internationalization of the Amazon." General Leonidas Pires Goncalves, Brazil's Army Minister, recently complained of "that tiresome grinding on and on" about forest destruction. Meanwhile, Fernando Cesar Mesquita, head of the new Brazilian environmental agency, believes "There is a true danger of foreign occupation of the Amazon."

Citing "national security" to justify uneconomic programs is a popular ploy for special interest groups around the world and is certainly not unique to Brazil.

Subsidizing Rain-Forest Destruction in South America

The cattle-ranching and road-building projects that first drew Brazilians into the Amazon were heavily subsidized with funds from the World Bank, the Inter-American Development Bank, and the International Monetary Fund. By 1983, the Brazilian government had spent \$2.5 billion to subsidize deforestation for large-scale cattle ranching that, according to the World Resources Institute, "would not be economically viable in the absence of the subsidies."

After decades of subsidizing cattle ranching in the Amazon, the Brazilian government apparently decided it needed to subsidize farming communities to balance the concentrated wealth of cattle ranchers. The Polonoroesta plan, a project in northern Brazil funded by the International Monetary Fund, foreign lenders, and the govern-

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ment, was to develop 100,000 square miles of tropical forest for small farmers. Seventeen percent of the land has been deforested so far.

Yet the program, in addition to being environmentally destructive, has apparently led to an even greater concentration of land in the hands of ranchers. After a section of forest is burned, nutrients left in the ashes support only a couple years of crops. With the nutrients exhausted, the soil will support only grasses—making the land suitable for raising cattle.

Local cattle ranchers then purchase the land cheaply, and settlers move on to raze new acreage. The burning program continues to redistribute income from taxpayers (both domestic and foreign) in order to provide subsidized labor and land for cattle interests.

In "How Brazil Subsidises the Destruction of the Amazon," *The Economist* (March 18, 1989) cites a new World Bank study outlining a variety of misguided policies: "Brazil's laws and tax system have made deforestation and ranching in the Amazon artificially profitable." High inflation encourages people to invest in land, since money savings are wiped out. Agriculture is exempted from taxation, so legitimate farmers are bought out by those looking for tax havens, and farmers then move deeper into the forests to clear new land.

Land taxes on unimproved land are reduced 90 percent when cleared for crops or pasture, thus punishing private preservationists. Tax credits subsidize money-losing development schemes, generally benefiting rich cattle ranchers at the expense of poorer Brazilian taxpayers. Finally, government regulations give "squatters' rights" to those who wander onto private land and begin using it "more effectively," i.e., clearing the forests and planting crops. However, this last policy seems to work both ways: *The New York Times* recently reported that the squatters' rights policy has allowed rubber-tappers in some areas to delay landowners' plans to clear forests.

The Brazilian government, however, isn't alone in subsidizing forest destruction. A program operated in the U.S. by the Forest Service and the Bureau of Land Management (BLM) transforms forests in the Southwest into grazing land for leasing—at below-market rates—to cattle ranchers.

Chaining: "Engines of the Public Good"

Known as "chaining," this U.S. Forest Service practice destroys piñon and juniper forests on Federal lands in the American Southwest. Giant tractors, pulling either end of a 600-foot, 60,000-pound anchor chain, rumble across the land ripping out shrubs and trees—"cleansing" the land for grasses and, later, cattle grazing. Economist Terry Anderson notes: "Between 1960 and 1972, the BLM chained nearly 300,000 acres in Nevada and Utah, and the Forest Service, more than 80,000 acres. More than 3,000,000 acres, including land in Arizona and New Mexico, have fallen to this destructive and expensive practice."¹

Brazilian burning reduces the diversity of species as tropical forests are cleared and replanted with single crops. The BLM's chaining program does much the same thing. Forest Service reports, notes Ronald M. Lanner, show that chained areas contain "about 50 species of fish, 66 reptiles and amphibians, 75 mammals, and 140 birds in and around the piñon-juniper woodlands." The "twenty-two common shrub species, fourteen grasses, and seventeen forbs [herbs other than grasses]" are replaced by the Forest Service with a single species of Asian crested wheatgrass.²

Calling chaining a "plant control program," the Forest Service claims it is "rehabilitating" grasslands. The Forest Service, unable to lease scattered piñon-juniper woodlands for logging, has labeled them as "uncommercial forests." Much like burning in the Amazon, chaining is a process of converting uncommercial forests into commercial rangelands. Then, again as in the Amazon, these converted rangelands subsidize local cattle operations.

Lanner explores the Forest Service logic that leads to chaining: "active, on-the-ground management passed from frustrated timber-oriented foresters to range managers whose professional objective is the production of red meat. Trees are more of a hindrance than a resource to range managers, and chaining is an attractive method of removing them." The Forest Service and the BLM so vigorously and imaginatively defend the benefits of their "plant control program" that Lanner refers to the chain-pulling D-8 class trac-



Cleared land in Brazil's rain-forest region.

tors as "veritable Engines of the Public Good."³

From the jungles of Brazil to the southwestern U.S., special interest groups fuel forest destruction. Both projects would be unprofitable without governments' shifting development costs to taxpayers.

Subsidizing Rain Forest Destruction in North America

The same is true in the Tongass National Forest in Alaska, one of the world's last temperate zone rain forests. The Forest Service subsidizes logging operations in the Tongass rain forest, which lose 98 cents for every taxpayer dollar spent. Logging jobs bolster the local economy, but cost U.S. taxpayers an average of \$36,000 for each job created. The benefits are concentrated, creating Forest Service and logging company jobs (and profits) in the area, while the costs are spread out among U.S. taxpayers.

In the Tongass National Forest, and in other U.S. forests, government-built roads subsidize

logging, just as Brazilian government roads subsidize logging and burning in the Amazon. The U.S. Forest Service has built 342,000 miles of roads in the national forests.

According to a study by the National Center for Policy Analysis: "These roads, primarily designed to facilitate logging, extend into the ecologically fragile backcountry of the Rocky Mountains and Alaska, where they are causing massive soil erosion, damaging trout and salmon fisheries and causing other environmental harm. Because the costs of these logging activities far exceed any commercial benefit from the timber acquired, this environmental destruction would never have occurred in the absence of government subsidies."⁴

Road building does create jobs, though, and increases Forest Service budgets. The programs are driven by the logic of special interests—the benefits are concentrated, while the costs are spread out.

Tongass logging, Southwest chaining, and Amazon burning are all uneconomical projects

that probably never would have been started without subsidies. Either the land would have been left alone, or other less destructive practices would have been developed.

Indians in the Peruvian Amazon, for example, have apparently learned how to cultivate the rain forest in profitable and environmentally sound ways. *The Economist* (February 11, 1989) cites a Peruvian study showing "the value of the products of a natural forest exploited sustainably for its fruit, rubber and timber, exceeded threefold the value of beef that the land would produce as pasture."

Saving the Wilderness by Freeing the Cities

Many environmentalists, possibly influenced by Malthusian arguments, believe that overpopulation and economic growth alone force settlers into the Amazon rain forests, and into other tropical rain forests around the world. But if Brazil had an open economy, with sound money, free markets, and free trade, the opposite would likely happen: people would be drawn from the countryside into the cities, to take new jobs and share better living standards.

Cities can absorb an astonishing number of people, and when unshackled can transform low-cost labor into rapidly increasing prosperity. Singapore and Hong Kong are two recent examples of thriving cities creating wealth for their once-impooverished workers.

The mass migration of rural workers to urban areas has continued since the Industrial Revolution. People take advantage of the better jobs in and around thriving cities, leaving behind the agrarian life in isolated villages. Most Latin American economies, however, are neither free of inflation nor thriving.

Hampered by protectionism, taxes, regulations, and money-losing state-owned companies, Latin American cities have not been able to create the new jobs and prosperity needed to employ and enrich swelling urban populations. Brazilian politicians, instead of deregulating their

economies, have dreamt up schemes to relieve urban pressure by shuttling the poor out to exploit the "hidden riches" of the Amazon.

Protection Through Ownership

Though eliminating government subsidies would make the current destruction of the Amazon rain forest (and Alaska's Tongass rain forest) unprofitable, private commercial development of the rain forests might someday be profitable.

If people want to stop future commercial rain-forest development (rather than just stopping subsidies for current unprofitable development), they should be willing to translate that desire into action. The Nature Conservancy did just that in Costa Rica recently with a \$5.6 million debt swap that will finance nine local conservation projects, protecting some of Costa Rica's rain forest from development. Another debt/nature swap in Bolivia encourages ecologically sound development (rather than just setting aside virgin forests, which does little to enhance the local economy).

If Americans want more of Latin America's 1.6 billion forest acres set aside, they should consider buying the land, or purchasing long-term leases. In the same way, if Brazilians want to protect one of the world's last temperate zone rain forests from destructive logging, or protect piñon-juniper forests in the Southwest, they too should have the right to purchase or lease the land.

Unfortunately, as it now stands, the Brazilian government is no more likely to let Americans purchase and protect land in the Amazon's tropical rain forest, than is the U.S. government to let Brazilians purchase and protect land in Alaska's temperate rain forest. □

1. Terry Anderson, "The Market Alternative for Land and Wildlife," in Doug Bandow, editor, *Protecting the Environment: A Free Market Strategy* (Washington, D.C.: The Heritage Foundation, 1986), p. 41.

2. Ronald M. Lanner, "Chained to the Bottom," in John Baden and Richard L. Stroup, editors, *Bureaucracy vs. Environment: The Environmental Costs of Bureaucratic Governance* (Ann Arbor: University of Michigan Press, 1981), p. 163.

3. *Ibid.*, pp. 159, 154.

4. John Baden, "Destroying the Environment: Government Mismanagement of our Natural Resources," National Center for Policy Analysis, Policy Report #124, October 1986.

“Lime”: E. B. White and Self-Reliance

by Cecil Kuhne

E. B. White (1899-1985) was one of the finest essayists of this century. Perhaps best known as the author of the children's book *Charlotte's Web*, White was also a superb nonfiction writer. His pieces (many of which were clearly tongue-in-cheek) appeared regularly in *The New Yorker*, where he worked as an editor, and in *Harper's*, where he submitted monthly columns as a free-lancer.

Eventually White left New York City to live on a farm in coastal Maine, where he did some of his most brilliant work. A collection of his essays, *One Man's Meat*, contains a short piece entitled “Lime,” written in November 1940. The subject of this article was the allotment of ground limestone that White received as a farmer, free of charge from the government, under one of the many New Deal programs.

White took the three tons of lime, which he sprinkled on the soil of his upper field to improve its alkalinity. But in the process, he admits to some misgivings for having done so.

As he cogently points out in this essay, the lime he received from the government was in effect a gift to him from all the taxpayers of the country (whether they liked it or not). He uses the provocative analogy that as he was spreading the lime on his fields, the federal government was spreading the cost over its citizens.

The well-worn rationale for such a handout, of course, is that the fertility of the soil is a national concern—one that affects everyone—and therefore the Federal program will benefit all of us. But White sees problems with the logical extension of this type of thinking: “. . . I believe it also

is true that a government committed to the policy of improving the nation by improving the condition of *some* of the individuals will eventually run into trouble in attempting to distinguish between a national good and a chocolate sundae.”

He continues: “I think that one hazard of the ‘benefit’ form of government is the likelihood that there will be an indefinite extension of benefits, each new one establishing an easy precedent for the next.”

After all, says White, think of the women who want a permanent wave for their hair. It could be argued that the satisfaction of that need is also a national good. Then the government would provide free permanent waves in the belief that the public wants them and that they provide valuable employment for hairdressers.

Government provision of goods and services eventually leads to a nation of people who depend on the government for their every want and need. Even White felt the pressure to demand more. “I seemed to have lost a little of my grip on life. I felt that something inside me, some intangible substance, was leaching away. I also detected a slight sense of being under obligation to somebody, and this, instead of arousing my gratitude, took the form of mild resentment—the characteristic attitude of a person who has had a favor done him whether he liked it or not.”

White was losing touch with his self reliance—just as anyone does when he comes to depend on government handouts. Self-reliance, a characteristic strongly valued before the New Deal, has declined in importance as government entitlement programs have grown. We shouldn't be surprised. □

The Population Bomb . . . Defused

by R. Cort Kirkwood

Repetition is the mother of learning, and there are some popular beliefs that have no basis in fact, but which many Americans simply accept at face value because the news media has repeated them so many times in so many different ways. One such belief is that spaceship Earth has too many inhabitants, that the developing world's population growth inhibits economic development, and that everyone might run out of food, water and natural resources if something isn't done to stop Africans and Latin Americans from having babies.

Just a few months ago, the United Nations released an alarmist report saying the world's population will reach 10 billion by 2025 and 14 billion by 3000 if women everywhere don't start using more and better birth control techniques. The headlines were predictable. Ask average people on the street whether population growth is a problem, and they will answer, yes—faster than they can tell you what team Mickey Mantle played for, or who wrote *Huckleberry Finn*.

"The population bogey has been the rare sweet issue everyone could agree upon," says University of Maryland economist Julian Simon, yet a more mythical bogeyman could hardly be found. Though the population controllers such as International Planned Parenthood, The Population Institute, and the Population Crisis Committee have had the media's ear since World War II, thinking economists and demographers have destroyed the theory that population growth inhibits economic growth. How? As the American

Enterprise Institute's Nicholas Eberstadt puts it: "That corpus of knowledge simply does not exist. So what you have is pseudoscience. Modern witchcraft."

The ingredients in the population bombers' brew are as strange as those used in witchcraft: eye of newt, crushed bat wings, and whatever else it is they toss in the pot, except the population bombers mix a concoction of Malthusianism, socialism, and economic globaloney that emerges from their kettle as an oracle of doom.

Says Sharon Camp of the Population Crisis Committee: "There are too many people trying to eke out a living at current technology. . . . We don't know what will happen to the natural resource base at a population level of 8, 9, 10, 14 billion."

Without an increase in U.S. assistance for United Nations population programs, Nafis Sadik of the United Nations Population Fund warned, "we will continue to experience high population growth, high infant and child mortality, weakened economies, ineffective agriculture, divided societies and a poorer quality of life for women, children and men."

Barber Conable, president of the World Bank, said in a September 1988 address to the bank's Board of Governors: "The societies in which population is growing so fast must accept that many—perhaps most—of these new lives will be miserable, malnourished and brief. With today's population growth rates, badly needed improvements in living standards cannot be achieved, public resources for necessary services are over-stretched, and the environment is severely damaged."

Wrote Loretta McLaughlin in *The Boston Globe*, "It is the pressure of the world's burgeoning population—more than any other single force—that fuels inflation and economic recession. All nations must compete harder for dwindling supplies of the earth's resources; worldwide, more workers must compete for proportionately fewer jobs."

In the same article she quoted Conable's predecessor, Robert McNamara, who best crystallized the population bombers' mantra: "The population problem must be faced up to for what it is—the greatest single obstacle to the economic and social advancement of peoples in the developing world. It is the population explosion, more than anything else, which by holding back the advancement of the poor, is blowing apart the rich and poor and widening the already dangerous gap between them."

Is Population Growth the Culprit?

It would be truly sad if all these things were true, but they aren't. All the available data suggest that population growth has nothing to do with economic growth, infant mortality, or any of the other ugly conditions in which much of the world's population lives, especially the Third World.

For example, population planners say too many people will "deplete our limited quantities of food, water and fuel" and other nonrenewable resources. Yet the prices of most commodities (except fuel, thanks to government energy policies and the OPEC cartel), are gradually falling in real terms. If prices are a measure of scarcity, then the world's increasing population is hardly a threat. Population growth statistics really tell observers only one thing: there are more people today than there were yesterday.

Most of the dire predictions are about Africa and Latin America, where huge populations and mass starvation seem to go hand in hand. According to The Population Institute, "There is no simple explanation for why Africa's economic development has been stunted and why Africans today remain so grievously poor. Lack of capital and highly skilled personnel is a factor. . . . ongoing civil strife. . . . staggering external debts. . . . colonial exploitation. . . . degradation of . . . its natural resource base. . . . Somewhere in the mix

of these factors is the wellspring of Africa's woes." But the real "wellspring of the continent's woes" is never discussed.

Warning that Ethiopia's population of 49 million will double in 23 years, the Institute reports, "The Ethiopian government acknowledges that the country's three percent population growth rate is imperiling its people and their development hopes. . . . There is clearly no way Ethiopia could support that many people. Ethiopia has only two choices: undertake far more vigorous efforts to extend family planning or face even larger-scale suffering in the near future."

But overpopulation is hardly Ethiopia's problem. The Institute and its ideological kin simply ignore Ethiopia's brutal collectivization of agriculture, a throwback to the days of Stalin and the Ukrainian famine even the Soviets have advised the Mengistu regime to stop. The government has deliberately turned mild droughts into nationwide famines and killed thousands of people in forced relocation programs to deprive anti-government guerrillas of crucial rural support.

It is widely known that the Communist authorities use relief food as a lure, stationing supplies near pickup areas for the relocation program. The ultimate goal is to move 33 million people. Not surprisingly, *The Washington Post* reported in 1987, the per capita availability of grain had dropped 22 percent in 10 years, and even though state-owned farms were using 40 percent of all government expenditures, they contributed only four or five percent of total food production. Private farmers—the few that there were—were generating 40 percent of the country's nearly nonexistent gross national product.

Yet The Population Institute says Ethiopia needs more condoms and birth control pills: "Had Ethiopia launched a family planning program in the mid-1960s and had that program been half as successful as many that were begun at that time, the number of births prevented would have been equal to the number of Ethiopians dependent upon food relief during the last famine." That's what you call pseudoscience.

The Institute is also worried about Ghana, "the second fastest growing [population] in western Africa" at 3.3 percent, but credits the Ghanaian government with a hands-on approach to family planning.

Yet as Nicholas Eberstadt notes in the Winter

1986 *Wilson Quarterly*, when Ghana was decolonized and Kwame Nkrumah took the reins of power, he systematically destroyed the economy with socialist interventions. He “forced the farmers to sell their cocoa, the nation’s chief export, at a fixed price to the government, which then sold it abroad at a profit. The proceeds were poured into Nkrumah’s industrial development schemes. By the late 1970s . . . Ghana’s small cocoa farmers were getting less than 40 percent of the world price for their crop—an effective tax of over 60 percent. Not surprisingly, Ghana’s cocoa output and cocoa exports plummeted.”

Next Nkrumah “took aim at industry. Shortly after independence, he nationalized the nation’s foreign-owned gold and diamond mines, cocoa-processing plants, and other enterprises. Ghana’s new infant industries were also state-owned. The result was inefficiency on a monumental scale. According to one study, between 65 percent and 71 percent of Ghana’s publicly owned factory capacity lay idle 10 years after independence. . . . By 1978, tax revenues paid less than 40 percent of the government’s budget. Inflation spiraled, climbing by over 30 percent a year during the 1970s. . . . Black Africa’s most promising former colony had become an economic disaster.”

But The Population Institute concludes, “where population growth is the fastest—Africa—per capita food production is in the sharpest decline.”

Some Surprising Comparisons

The Institute’s 1988 report on Africa ignores South Africa, which isn’t surprising. Its population, one of the continent’s highest, has doubled since 1960, yet its per capita gross national product in 1986 was \$1,850. Ghana’s and Ethiopia’s populations have doubled as well, but their per capita GNP’s are \$390 and \$120 respectively. People aren’t Africa’s problem, government policies are. Even South Africa’s racist apartheid system hasn’t done the damage Ethiopia’s Communist dictatorship has. In fact, if the government of South Africa ever dismantled the apartheid system, allowing blacks even more economic freedom than they have now, the contrast would be even more dramatic . . . and more embarrassing for the population bombers.

Africa’s story is only a snapshot of a worldwide

phenomenon. Comparing other countries in the second and first worlds yields similar results. As shown by the table on page 444, the differences between Taiwan, Singapore, and China, between North Korea and South Korea, and between East Germany and West Germany are equally startling, especially when population density is brought into the equation. Where China has enough room to put 285 people per square mile, its economy is a failure next to Taiwan’s and Singapore’s, whose people are packed in like sardines, but whose economies have become known as two of Asia’s four “dragons.” (The other two being Hong Kong and South Korea.)

These small islands also belie the myth that urban congestion in “Third World mega-cities” such as Mexico City and New Delhi is a threat to public health, education, and housing needs. Need we ask why South Korea, which is more than twice as crowded as North Korea, is doing twice as well economically? Population planners try to explain the differences by saying the successful economies of Asia and Africa benefited from strong, government-backed family planning programs. But the population growth rates of the African countries, East and West Germany, the Koreans, and the Pacific rim countries were pretty much the same from 1960 to 1986. That leaves only one explanation for the differences, one the table doesn’t show, one the population bombers don’t like to discuss: China, Ethiopia, and the other economic failures are controlled by Communist or socialist central planners, whereas Taiwan, Singapore, and the other economic engines of progress are largely free market economies.

As Julian Simon has written, “Population growth under an enterprise system poses less of a problem in the short run, and brings many more benefits in the long run, than under conditions of government planning of the economy.” Adds Eberstadt, “the overall impact of population change on a society seems to depend on how the society deals with change of all kinds. Indeed, coping with fluctuations in population is in many ways less demanding than dealing with the almost daily uncertainties of the harvest, or the ups and downs of the business cycle, or the vagaries of political life. Societies and governments that meet such challenges successfully as the little dragons did, are also likely to adapt well to population change. Those that do not are likely to find

that a growing population 'naturally' causes severe, costly and prolonged dislocations." (*Wilson Quarterly*, Winter 1986) In short, free societies adjust well to population increases, Communist societies do not.

The population bombers would be little more than harmless "do-gooders" if their ideas—that people cause inflation, that people consume too much food, that people are a drag on economic development—were not taken so seriously. But they are taken seriously, and the consequences have been disastrous, anti-natalist, even inhuman.

Eberstadt cites a March 1986 *Washington Post* report from Kenya: "hundreds of [rural school] children ran screaming, some scrambling through windows, with the approach of an unfamiliar car: it was thought to contain population workers who would inject them with nonreversible contraceptives. The previous year starving Kenyans in drought-afflicted areas were reported to have refused relief shipments of U.S. corn on the rumor that the corn had been laced with sterilizants." (*Foreign Aid and American Purpose*, p. 96)

Family Planning in China

But the worst application of population control theory is that of the Communist Chinese government, which has been cited by the U.S. House of Representatives for "crimes against humanity" in carrying out its one-family, one-child policy. In collecting 92 accounts from eyewitnesses, human rights activist Dr. Blake Kerr reported the ghastly results in *The Washington Post* (February 26, 1989): "In the autumn of 1987," two Tibetan monks told Kerr, "a Chinese birth-control team set up their tent next to our monastery in Amdo. The villagers were informed that all women had to report to the tent for abortions and sterilizations or there would be grave consequences. . . . We saw many girls crying, heard their screams as they waited for their turn to go into the tent, and saw the growing pile of fetuses build outside the tent."

Elsewhere in China, in pursuit of its U.N.-backed family planning program, the results are the same: forced sterilization, abortion and outright infanticide. In many cases, doctors perform "abortions" as a child is moving through the birth

	Population per square mile	GNP per capita
East Germany	399.0	\$10,400
West Germany	634.5	12,080
North Korea	448.0	1,180
South Korea	1,095.5	2,370
China	285.0	300
Taiwan	1,385.6	3,748
Ghana	142.9	390
South Africa	68.4	1,850
Singapore	11,608.4	7,410
Ethiopia	92.2	120
Mozambique	45.8	210

Sources: The Heritage Foundation, The World Bank Annual Development Report 1988; Figures from 1986.

canal at term, crushing its skull with a forceps or jamming a hypodermic needle filled with formaldehyde into the fontanelle, killing the child just moments before it enters the world. Others who make it past the doctor are often confronted by the nurse, and women have heard their child's first cries on beginning life only to see them snuffed out by that nurse, who is usually armed with what has become known as "the poison shot."

The justification for this mass murder? According to Chen Muhua, head of China's Family Planning Board, "Socialism should make it possible to regulate the reproduction of human beings so that population growth keeps in step with the growth of material production."

Lest you think such exhortations are *sui generis*, look at the words of Friends of the Earth as published in *Progress As If Survival Mattered*: "Americans should take the lead in adopting policies that will bring reduced population. Ultimately, those policies *may* have to embrace coercion by governments to curb breeding. . . . mere unofficial advocacy and purely voluntary compliance are far from enough . . . voluntarism guarantees big families for the ignorant, the stupid, and the conscienceless, while it gradually reduces the proportion of people who, in conscience, limit the size of their families. . . . If the less stringent curbs on procreation fail, someday perhaps childbearing will be deemed a punishable crime against society unless the parents hold a government license. Or perhaps all potential parents will be

required to use contraceptive chemicals, the governments issuing antidotes to citizens chosen for child bearing."

The population bombers cannot imagine that an Ethiopian mother might love her children just as much the sterilization advocate living at the Watergate, that children provide a source of non-material income they don't understand. For them, there are only "unwanted" pregnancies; as George Gilder put it, "mouths, not minds." No wonder they can make pseudoscientific statements like, "500 million women want and need family planning but lack information, access or means to obtain it." In this view, people aren't producers, they're consumers.

If such is the case then the effort to preserve

man's finite resources must go beyond mere contraception and the legal elimination of "unwanted" children by abortion. In allocating our supposedly meager resources, judicious authorities would allow only the most learned, polished, and beautiful people to reproduce, for it is they who will use resources most expediently and they who need them most. After all, as devoted friends of the earth say, a system of "voluntarism" would empower the "stupid and ignorant" (the teeming masses of Latin America and Africa?) to waste our dwindling resources.

Effective population control logically demands that we control not only the number of people on earth, but the kind of people who live on it. And that is a recipe for tyranny. ☐

IDEAS ON LIBERTY



The Ultimate Weapon

The development of the population control movement should not come as a surprise. For it is, in fact, the logical outcome as well as the final gasp of the liberal Welfare State of today. Supposedly, the basic purpose of the Welfare State is to succor those who cannot take care of themselves, the poor, the elderly, the handicapped. But Garrett Hardin tells us that because of the inevitable "tragedy of the commons" in which the "freedom to breed" inexorably conflicts with equal rights to the common welfare, this Welfare State goal will bring ruin. So, to save its own skin, the Welfare State begins practicing not welfare but "wombfare," destroying rather than nurturing its young.

However, the "tragedy of the commons" is not a justification for population control. It is rather a call for the elimination of the Welfare State. This is because the Welfare State is in the long run a way not of helping people but controlling them. And population control is the last desperate act and ultimate weapon of a Welfare State whose lust for power and instinct for survival knows no political or moral limits.

What population control boils down to is a blatant and brutal attempt to solve problems not by alleviating the conditions that cause them, but by eliminating the people who have the problems. But the idea of eliminating problems by getting rid of people is not new. The concept has been with us always.

—JAMES A. WEBER, *Grow or Die!*

Private Property from Soweto to Shanghai

by David Boaz

A trip around the world provides evidence of just how wrong Harvard economist John Kenneth Galbraith was in his influential book *The Affluent Society*. (Granted, one need not go nearly so far to find such evidence.)

Galbraith observed that everywhere one looked, privately provided goods and services—homes, automobiles, factories, “hand-somely packaged products”—were clean, shiny, and of high quality. Yet publicly provided services—schools, parks, streets—were old, overcrowded, and poorly maintained. Galbraith called it “an atmosphere of private opulence and public squalor.”

From those accurate if unremarkable observations, Galbraith drew the remarkably misguided conclusion that the problem was too little spending on the public sector. It seems astonishing today that a brilliant man could have gone so far astray; after all, the economic theory of private property was well known 30 years ago—but maybe not at Harvard. His book, published in 1958, had a great deal of influence on the explosion in government spending over the next decade. We are still paying a heavy price—in high taxes and poor public services—for Galbraith’s error.

We are now spending much more on the public sector than we were 30 years ago—real government spending has increased from \$528 billion in 1958 to \$1,640 billion in 1988—yet government services are still shoddy, overcrowded, and poorly maintained.

The reason—which Galbraith missed completely—is that shoddiness is inherent in government ownership because of a lack of incentives. Homeowners generally take good care of their property—they paint the house regularly, fix the roof, plant grass and trees, and call a plumber promptly when they discover a leak. Why? Because they are the sole claimants to the property’s value. If they try to sell their property, they will reap the benefits of the house’s good condition or pay a price for its disrepair. Tenants tend to take less care of their homes, though landlords generally check on the condition of the property regularly. Tenants in government housing show the least concern for the condition of their homes—and because there’s no owner who would pay a price for the declining value of the property, no one else has much incentive to improve it. And public housing is always in disrepair, to say the least.

Most privately owned stores are clean and well lit with friendly, helpful clerks—at least compared with, say, the post office. The Postal Service doesn’t seek out rude and indifferent employees; it’s just that neither its clerks nor their supervisors have anything to gain by treating customers well. On a recent trip around the world, I found shop clerks in Shanghai just as indifferent to customers as U.S. postal workers.

It is economic analysis and, more important, such observations that have created a worldwide trend toward privatization. The Thatcher government has sold public housing units to their tenants, sold Great Britain’s largest trucking company to its employees, and sold the telephone company to private shareholders. Japan recently

sold off its telephone company. New Zealand privatized its national oil company. Nigeria plans to privatize 160 state-owned companies, and Togo intends to sell all of its public-sector enterprises.

Even behind the Iron Curtain, privatization is making inroads. China has in effect privatized agricultural land, and Mikhail Gorbachev has proposed to do the same in the Soviet Union. Cuba has begun allowing tenants to purchase government housing.

Private vs. Public Ownership

On my trip, which took me from South Africa to China (with a few stops in between), I saw some dramatic examples of the differences between private and public ownership, between private opulence and public squalor.

In many ways, apartheid (particularly in South Africa's black townships) was the purest form of communism the world had ever seen. The government built the townships, where urban blacks are forced to live. It built thousands of small, identical brick houses and assigned people to them with no regard to tribal origin, family relationships, income, or personal preferences. Unlike the residents of a normal town, they could not choose to live near their friends or relatives or people of similar educational or occupational background, nor, of course, did they have property rights. Not only could a tenant not sell his house, the government could and did take it away from him at will. Naturally, the unfortunate residents of Soweto did not see much point in taking good care of the houses.

Recently, however, the government quietly began to allow Sowetans to purchase their homes. The results have been just what one should expect: people are cleaning, painting, and fixing up their houses. The first thing they do is make the house look different from the government issue. They buy a wooden door to replace the standard metal one. They cover the brick with stucco—a design choice that I found strange until I was told that the brick symbolizes government housing. They buy decorative windows, put a fence around the yard, and even add a room or an upper floor.

Buyers must generally continue living in the houses they already occupy, which leads to the strange phenomenon of a well-kept, newly en-

larged house sitting between two ill-kept government hovels. In a freer market, an affluent homeowner would probably move to a better neighborhood—or someone would buy the houses next door and fix them up—but in Soweto he takes advantage of the few options he has and improves his own lot.

There is a section of expensive new homes in Soweto. (Yes, there are rich people in Soweto; South African blacks have at least some opportunity to become rich, but their money won't free them from the requirement to live in the townships.) A visitor can stand in the middle of this impressive new development and look across the road at the government-provided barracks where single men live under truly appalling conditions. It's a striking example of private versus public property.

At the other end of the scale from the impressive new houses are the shanties, built by blacks who migrated to the Johannesburg area because there was work there and who were denied access to government housing. At first the government bulldozed the shanties, saying that the occupants were illegal squatters. More moderate voices finally persuaded the government that because it was not providing those blacks with housing (or allowing them to live outside the townships), it should at least leave the shanties alone. So now the shanties are tolerated, but they have no legal right to exist. The residents of the shanties don't bother to improve them—the government retains the right to expel the occupants or bulldoze the buildings at any time—but inside are appliances and televisions for which electricity is supplied by enterprising neighbors. In other words, Galbraith could find private opulence and public squalor within one small shack; people spend their money on the things they can own.

Obviously, a civilized South African government would repeal the Group Areas Act and let people live wherever they want to live. But the incentives of privatization and property rights can work even in the interstices of freedom overlooked by a repressive government.

China: "One Big Soweto"

In many ways, China is one big Soweto. Housing is owned and allocated by the government. Not surprisingly, the housing stock is old, over-

crowded, dirty, and in disrepair. One gets the impression that little has been built and nothing has been washed since the Communist takeover in 1949.

Once again, the market works at the edges. Because of the de facto privatization of agricultural land, rural Chinese are more prosperous than city dwellers. I was told that two million people come into Shanghai every day to shop, and the tourist on Nanjing Road or in No. 1 Department Store wouldn't doubt it. For obvious reasons, people spend little money on the upkeep of their homes, but many are well dressed, and a Shanghai college student spoke disparagingly of the unfashionable clothes that "we won't buy" in a state department store. Old habits die hard, though; he explained to me that privately run stores are not permitted on Nanjing Road "because this is the main shopping center."

Appropriately enough, while I was in China for a conference on economic reform, the government announced plans to begin selling houses to the tenants. The professed reason was to dampen demand for appliances, which consumers were spending too much on; I hope that was just a cover story to obscure the fact that the largest Communist government in the world was

legalizing private property. Presumably the Chinese government has noticed the success of privatization and property rights in the West; on its doorstep in Hong Kong, Taiwan, and South Korea; and finally in its own rural areas.

If China does in fact privatize a significant amount of its housing, I fully expect that when I return I will see not only housing that has been built since 1949, but older housing that has been repaired and even washed.

From the United States to Soweto to Shanghai, economic forces are the same. Owners have an incentive to take care of their property, but government property is owned by everyone and therefore by no one. It is no mystery that China's housing is run-down or that America's infrastructure is falling apart while shiny new office buildings are going up in every U.S. city.

Experience shows that the relationship between private opulence and public squalor is the reverse of what John Kenneth Galbraith concluded. The public sector will always tend to be squalid, which is why leaders around the world—from Margaret Thatcher to Deng Xiaoping—are moving essential services into the private sector. With a little more of this, the whole world could become the affluent society. □

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The Market for Low Cholesterol

by Michael Walker

Just about every time conversation turns to food these days, the subject of cholesterol isn't far behind. Saturated fats, so it is said, are the source of fatty build-up in our veins and arteries, causing restricted blood flow and in many cases premature death from heart attack or other afflictions. During such discussions, even my most laissez-faire friends often intone that the government should do something about this problem. According to these well-intentioned folks, producers of prepared or manufactured foods, which often use large amounts of shortening or oil containing saturated fats, ought to face regulation of what and how much they can use. The problem, they note, is that competition among these producers leads them to purchase the cheapest ingredients they can find. In so doing, they are able to undercut the prices of their competitors and attract gullible consumers who can't even pronounce most of the ingredients on the package. Here is a case, we are told, where untrammelled free enterprise leads to an outcome which is in nobody's interest. So, for the sake of their health, even diehard opponents of big government say that this is a special case, and therefore we need a regulation to solve the problem.

Until recently, I would have been inclined to agree with that assessment. However, I have been reading about developments which suggest that

there is a market in caring about cholesterol. In fact, the market is working right now to reduce the amount of saturated fats in the foods we eat.

It turns out that a principal source of oils in shortening and similar products is tropical vegetables such as palm and coconut. Of course, as anyone who has watched the television ads for margarine can tell you, there are alternative sources of oil, such as soy and corn, that do not have the same problems as palm and coconut. The suppliers of these alternatives are not unaware of the fact that anyone convinced of the merits of eating polyunsaturated fats is a potential customer.

These producers, therefore, in pursuit of their own interests, have been engaging in increasingly active campaigns to tout the benefits of their polyunsaturated oils and the hidden dangers of tropical oils. For example, a recent *Wall Street Journal* story noted that ads in food-industry magazines have depicted a coconut as a bomb with a fuse ready to explode. The caption reads: "Warning, coconut oil may be hazardous to your health." They have been joined by a new organization, the National Heart Savers Association, that encourages people to eat a healthier diet.

The campaign is working. Kellogg, Frito-Lay, Pepperidge Farm, and Hardee's all have switched rather than fight the polyunsaturated tide. Palm oil imports into the U.S. last year were 44 percent below their 1986 level. At this rate, saturated fats will have been driven from the market, by the market, in the consumer interest. □

Making Dough in the Heartland

by Ann Weiss Rogers

Pizza shops generally don't crop up beside corn fields, but in Stoutsville, Ohio, where the main drag is a post office, a pizza shop is thriving. What's more unusual than its location, however, is that the business is located in a trailer.

My brother-in-law, Randy, is proprietor and sole employee of Randy's Pizza-Subs-Sandwiches. When he purchased a building in that rural area several years ago, he envisioned renovating the two apartments and converting the third, which was unfinished and used for storage, into a pizza shop. But the problems Randy encountered proved to be both a lesson in how not to go about starting a business and how difficult the government makes it for individuals who start one with limited capital.

Randy had been a hog farmer for 15 years before he decided there had to be a better way to make a living. He thought a steady paycheck would be the answer to everything he ever wanted, but several years of working for others changed his mind. Consequently, when he saw that building for sale in Stoutsville, Randy didn't see a run-down, old structure that needed a tremendous amount of work, he saw an opportunity for self-employment.

Since the two apartments were basically set up, Randy's first priority was getting them ready and

rented. He had used the equity he had in his farm to purchase the building, and he had given up his steady paycheck in order to work full time on it. As a hog farmer, though, he was used to living on next to nothing, and his children also knew that whatever money there was would go into the business. And, initially, everything was progressing according to his plan; after several months of cleaning, dry-wall work, painting, and some electrical work, he had both apartments finished and rented.

He then began working on the pizza shop. I followed his progress mostly through phone calls. I heard about the work he was doing at the time—putting in the counter wall, for instance—and all the jobs ahead: the plumbing that had to be done for the work-area sink and the rest room, the rewiring for the ovens, the floor he had to lay down, and all the painting and finishing work. I rejoiced with him when he called and said he was ready to move in his equipment. Then I got his next phone call. There wasn't going to be a pizza shop, he told me. He had talked to the local Health Department the previous day, and had learned that everything he had done was wrong. Before he could build a pizza shop, the Ohio Environmental Protection Agency had to approve his water supply and sewage system; the Bureau of Environmental Health had to approve his plumbing; the Ohio Department of Industrial Relations had to ap-

Before Randy could build a pizza shop, the Ohio Environmental Protection Agency had to approve his water supply and sewage system; the Bureau of Environmental Health had to approve his plumbing; the Ohio Department of Industrial Relations had to approve his building plans; he also needed zoning approval from local authorities.

prove his building plans; he also needed zoning approval from local authorities.

For example, to get approval from the Ohio Department of Industrial Relations, Randy had to file an Application for Certificate of Plan Approval, which had spaces for him to fill in the Ohio Registered Architect, the Ohio Professional Engineer, and the Ohio Sprinkler System Designer he had used. For this certificate alone, processing fees were \$500 plus an additional charge, based on the square feet of the establishment, for each of five categories (Structural, Electrical, Sprinkler, Industrialized Unit, Life Safety Code Review).

And all this came prior to dealing with the Health Department, which had its own set of requirements. In addition to duplicates and triplicates of the previous approvals, the Health Department wanted plans drawn to scale of the location of water supply; sewage disposal; total area used for food service operation; entrances and exits; location, number, and types of all plumbing fixtures; lighting, both natural and artificial; general layout of fixtures and other equipment; building materials to be used; outside openings; and manufacturer's name and model numbers on all equipment. Randy was told to expect the whole application process to cost a few thousand dollars.

A Change in Plans

It wasn't the cost or the arduous nature of the application process that caused Randy to change his plans. And it never reached the point where Randy's construction, plumbing, or electrical work became an issue. Rather, the whole issue came down to whether his water supply and sewage system could pass the Ohio Environmental Protection Agency's (EPA) inspection.

Stoutsville doesn't have a town sewage system. If it did, then its water disposal and sewage system probably would already have had EPA ap-

proval. The EPA clearance would involve merely testing Randy's tap. Prospective businesses in bigger towns and cities, and facilities that already have businesses in them, basically get an automatic EPA nod. But the poorer rural areas, which have no businesses in them, stay poor.

"Isn't there any way to get EPA approval?" I asked Randy. He said it would be too expensive, and he was afraid even to try. They might question his having apartments, and then he'd risk losing his entire investment.

His only recourse, he told me, was to convert the pizza shop into a third apartment. I was disheartened. Randy wasn't a novice in the pizza business. A few years back he had bought a pizza shop near his farm in Williamsport, and had sold it a year later after doubling its business. But that pizza shop was established before all those regulations had gone into effect. Under a grandfather clause, it could continue to operate even though Williamsport wasn't much bigger than Stoutsville and wouldn't meet EPA requirements either. So what hope was there for the rural entrepreneurs yet to come? Were they all destined to leave for the city?

Randy concluded that the individual entrepreneur hasn't got a chance because government regulations favor established businesses. The big pizza chains have the money to hire architects and sprinkler designers and to pay thousands of dollars for government processing fees—not to mention the real estate costs of starting a business in the city. But in the rural areas where buildings and land are more affordable to the individual, government regulations make starting a business unaffordable.

The next time I heard from Randy, however, he was jubilant. He had figured it out, he said. He was going to have a pizza shop in Stoutsville after all, but it wouldn't be subject to any EPA or building or plumbing approval. He was going to convert a trailer and park it behind his building. A trailer is a mobile food service operation,



Randy's solution: "a mobile food service operation," parked behind his building.

which is subject to different rules. And this time he had talked to the appropriate authorities. He would need just a Health Department inspection. And he could get his trailer licensed by the Health Department in Pickaway County, which was where he lived, even though he was going to operate his business in the adjacent Fairfield County. This is because the license for a mobile food service operation has to be honored in every county in the state no matter what county it is li-

censed in. The license would cost \$25 a year.

He had discovered a loophole, but like most loopholes, it carried a price tag. Buying and converting the trailer cost \$3,000 more than he had figured to spend. And it took several more months than he had planned. But he had his first pizza ordered before he had even officially opened for business. "It's about time something like this opened up here," the customers tell him. Little do they know just how much it took. □

A REVIEWER'S
NOTEBOOK

The Wealth Creators

by John Chamberlain

There is a widely disseminated complaint that our college faculties are still living in the Sixties. Maybe the secret opinions of the tenured Left remain what they were. But when Ben Hart, a founding editor of the conservative *Dartmouth Review*, says the campuses are moving to the Right, we must believe him.

Hart gets his knowledge from talking to students who are going for Ph.D.'s. They are not liberal. William J. Dennis, Jr., writing on the American entrepreneur for Hillsdale College's *Imprimis*, corroborates Hart. "Students," he says, "flock to college entrepreneurship courses. Academics produce scholarly articles on subject matters previously confined to 'C' level journals. . . . And the rekindled job generation machine known as American small business leaves Europeans astonished and envious."

A Trinity College professor, Gerald Gunderson, has just published a notable book called *The Wealth Creators: An Entrepreneurial History of the United States* (New York: E.P. Dutton, 278 pages, \$18.95). Gunderson has a unique faculty for questioning in the middle of summarizing. American entrepreneurs, he says, "are not immobilized by the prospect of competing with Japanese imports, because their prime function is opening *new* areas of competition. When Americans withdrew from serious competition in ocean shipping at the beginning of the nineteenth century, better opportunities were also bidding away its resources. The current American advantage in international trade is the entrepreneurial function of creating new enterprises or equity. Not only are Americans unchallenged in creating the new systems of participatory management, but

they are the world's leader in creating new businesses as well. No other society prompts so many of its members to take the plunge to fashion their own ventures." In writing his history Gunderson avoids the quest for villains. He even has good words to say for Jay Gould. "The elevation of Gould into a symbol of all that was evil in the robber baron era," he says, "was not an accident. It helped many cope with their deep-seated concern that society was getting out of control by providing a personification of a new environment in which ordinary individuals were losing control of their lives. A strong indication of the attraction of this approach was that it applied to almost every famous entrepreneur of the era, including the one who took up the role of Jay Gould in railroads, Edward Harriman."

Like Gould, Harriman became a symbol of developments that worried much of the population. "They thought he had too much power. But the ability of such people as Carnegie, Rockefeller, Harriman and Gould to control markets was much less than the creative contribution that they made to their respective industries."

Gunderson's calm approach plays down the often fractious role of individual writers in ridding the entrepreneurial scene of myth. It took Louis Hacker some 20 years to turn Andrew Carnegie into something better than a monster. John T. Flynn had to labor long and hard to prove that Rockefeller's rationalization of the oil business helped to benefit the consumer. The Rockefeller rebate scheme fell through before it could get going. Rockefeller might have been able to raise kerosene prices above the competitive level of ten cents a gallon in the Nineties, but, as Gunder-

son says, it "would have required an unimaginable effort to put them back up to the level of one dollar a gallon, where they were when he began operations in the 1860s."

It bothers me that the names of Louis Hacker and John T. Flynn are neither in the Gunderson index nor in the annotated bibliography. It is bothersome, too, to search in vain for the names of Ida Tarbell and Lincoln Steffens and other muckrakers of the early 1900s. Tarbell was certainly prejudiced in fighting her family's battle with the Rockefellers, but she is part of our journalistic history. It is strange, too, that Gunderson can frequently mention the robber barons without listing the title of Matthew Josephson's best seller.

But Gunderson, after all, did not set out to write journalistic history. He wanted merely to tell a story. He has done it in a relaxed way that is reminiscent of the style of Hendrik Willem van Loon's *The Story of Mankind*.

An incidental virtue of Gunderson's story is its economic insights. For example, the factors of production in economics are usually listed as land, labor, and capital. But many of Gunderson's enterprisers had nothing much to work with other than their brains. So labor has to be expanded as a category to include the ability to foresee and to manage.

Sometimes the ability to foresee misfires. Gunderson tells some of the market failures that have resulted. Procter and Gamble couldn't get a profitable share of the market for its potato chips, Pringles. Du Pont couldn't market Corfam, its substitute for leather. But there is serendipity, too. The story of the accidental discovery of penicillin cannot be told too often. □

LEXICON OF ECONOMIC THOUGHT

by Walter E. Block and Michael A. Walker

The Fraser Institute, 626 Bute Street, Vancouver, B.C., Canada V6E 3M1 • 1989 • 390 pages • \$29.95 (U.S.) cloth, \$19.95 (U.S.) paper

Reviewed by Robert W. McGee

As the title states, this book is a lexicon of economic thought. Each of the several hundred economic definitions is one to three pages in length. But unlike other lexicons

and dictionaries, this one presents a point of view—the free market view—rather than just a series of dry definitions. The definitions and examples take a Canadian slant (the book is published in Canada) but have value to a worldwide audience.

Many of the references contain humor. For example, the entry for "scalpers" starts off: "Next to husbands, scalpers are the most misunderstood group in our society." The "politics" entry cites H. L. Mencken's famous quote that elections are a kind of futures market in stolen property. The "social justice" definition sounds like it could have been written by F. A. Hayek. Social justice does not exist. Only individuals can be just or unjust, and only individuals can be treated justly or unjustly. The concept of social justice is used by government as an excuse to justify all kinds of intervention ranging from affirmative action to the progressive income tax.

"Economic justice" is explained as follows:

While entitlements are always expressed positively, such as, "she has a right to support from the state," the truth of the relationship is quite different. In fact, the only way somebody can be delivered the right to support is if some other person is denied access to the resources they have earned. In the most prosaic terms, for every person who receives a dollar they didn't earn, somebody else earns a dollar they don't receive.

Affirmative action means that employers must look not only at an applicant's intelligence, character, and experience, but also at whether the person is a woman, a native Canadian, or handicapped. The American view of affirmative action would include other groups as well. The authors state that this policy is unjust and give economic and ethical reasons for their view.

In the "airline deregulation" entry, the authors mention George Stigler's position that government regulation really doesn't protect consumers, but serves to create a kind of producers' cartel. Airline regulation limits competition, thereby putting up barriers to market entry. This stifles competition, so there is less pressure to reduce prices or improve quality, and the consumer suffers. Since Canadian and U.S. airlines have been deregulated, prices have fallen and more people travel by air. The increase in air traffic has caused

some congestion because the same number of airports now must handle more traffic.

The authors also debunk the fallacy that deregulation has caused travel-related deaths to increase. One study they cite found that lower air fares caused some travelers to take airplanes rather than cars, which reduced auto fatalities. Since air travel is safer than auto travel on a passenger mile basis, overall safety has increased since deregulation.

The entry on "broadcast regulation" debunks some of the more popular myths about this widely misunderstood subject. The authors relate the story of the hearings that the Canadian Radio-Television and Telecommunications Commission has been holding on whether religious organizations should be allowed to have broadcasting licenses. They point out that having to ask permission to broadcast is the same, in substance, as having to ask government permission to publish newspapers, magazines, and journals. Broadcasting is a form of free speech, and just like other forms of free speech, there should be no need to ask government permission.

However, the argument goes, broadcasting is different from other forms of free speech. The electromagnetic spectrum isn't the kind of thing that can be privately owned. It is a public good, and as such, must be controlled by government. But this is not so. All that is needed is to insure that proper boundaries are set on the spectrum so that one station doesn't encroach on another's wave length. It is a property rights solution.

Another common argument is that there aren't enough frequencies to go around, so government must allocate them. But this argument just points out that economic scarcity exists, which is nothing new. Scarcity is nearly a universal phenomenon. Government isn't needed to allocate other scarce goods and services, so why is it needed to allocate airwaves?

Each topic in this book is short and can be read in a minute or so, which makes it attractive to someone who doesn't have large blocks of time to devote to reading. The book is also a handy reference for those who want to take a quick look at the free market position on a particular subject. □

Professor McGee teaches accounting at Seton Hall University.

IF EVERYBODY BOUGHT ONE SHOE: AMERICAN CAPITALISM IN COMMUNIST CHINA

by Graeme Browning

Hill & Wang, Keystone Industrial Park, Scranton, PA
18512 • 1989 • 189 pages • \$18.95 cloth

Reviewed by E. Calvin Beisner

China has been every merchant's dream for centuries: a quarter of the world's population as potential customers. The possibilities for profit are staggering. But for centuries merchants have dealt with unique obstacles in trading with China. And after 1949, when the Communists took over, the dream turned to a nightmare. The doors slammed shut, seemingly forever.

Until 1979. Then, with a flourish, China threw open its doors. It invited foreign businesses to enter joint ventures with (mostly state-run) Chinese companies and to sell (mostly through state-run companies) to the Chinese people. The dreams turned rosy again.

But will reality match the dreams? If the experiences of most American firms operating in China in the past 10 years foreshadow things to come, not likely.

Financial journalist Graeme Browning tells these firms' stories in fascinating style. The majority of her book is built on interviews with American executives who tried—or still are trying—to do business in joint ventures in China. Most of the stories are of high hopes crippled or crushed by harsh reality. All of them are of American businessmen meeting obstacles they never could have imagined in their worst nightmares.

The horror stories are impressively consistent: workers so undernourished they can't stay awake on the job, so undisciplined they won't work when they can, so used to being taken care of that they figure they needn't work, so unskilled and lacking in tools that they can't work productively even when they want to; bureaucracies so tangled that they're almost impenetrable, bureaucrats so corrupt that nothing gets done without bribes; a legal system so infantile that contracts are unenforceable and almost never fulfilled; an infrastructure so fractured and unde-

veloped that getting from place to place by rail, air, phone, or road takes many times longer than in almost any other part of the world—if it can be done at all. One wonders, after reading the book, why anyone bothers to try to do business with China.

The answer is obvious: Even if everybody in China bought only one shoe, that would be a billion shoes sold. The potential market is so huge that companies that can afford to look far into the future almost can't afford to ignore it. They want to get in on the ground floor of relations with China, if they possibly can.

But that potential market must not be mistaken for a real market. For example, the yuan, the Chinese unit of currency, isn't exchangeable into dollars on the world market. And even if Chinese per capita annual take-home pay were around \$450 (a generous estimate; the real figure is nearly impossible to estimate with any degree of accuracy), the resulting \$450 billion annual market would be only about 15 percent of the size of the American market, with its mere 240 million people. And at that, the vast majority of Chinese income must be spent on things necessary to survival—items that now make up only a small part of the total American economy.

To make matters worse, even companies that get in on the ground floor can have no rational sense of security, because they never know when even *that* will cave in under them. The Chinese government that massacred students in Tiananmen Square could, at any moment, nationalize all investments, close the doors to trade, raise taxes to confiscatory levels, and invalidate all contracts.

The Chinese market, despite its great potential, is presently incongruously small and frightfully shaky. There is plenty of reason to doubt that it will develop into a major market in less

than 50 years. Its track record certainly gives no reason for confidence. At best, productivity in China's state-owned industry grew by 0.7 percent per year during the last two decades, when the rest of Asia was booming; at worst, it shrank by 0.2 percent per year. (The difference in estimates, both made by the same World Bank economist, demonstrates another frustration of doing business in China: There's no sound accounting and pricing system, so estimating economic performance is nearly impossible.) Nonetheless, if, against all odds, the Chinese market does overcome its seemingly insurmountable barriers to growth, it will become so huge that many businessmen will find it hard to resist the temptation to take the risks involved in entering the China trade.

If Everybody Bought One Shoe, while not consciously polemical, has the interesting side effect of revealing the reasons for the failure of socialist central planning to engender a healthy economy. A socialist economy lacks the incentives to get people to do more than the bare minimum for survival, the information-processing mechanism to distribute resources according to needs, and the flexibility to support innovation.

The book is informative, well researched (but poorly documented and with no index), and up-to-date. It deals with a country that, for most Americans, has been a mystery, yet could become one of our major trading partners and competitors in the next century. Anyone could gain understanding of China by reading it. Certainly anyone considering doing business in China and who isn't already an expert on the subject could profit from reading it. □

E. Calvin Beisner is the author of Prosperity and Poverty: The Compassionate Use of Resources in a World of Scarcity.

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Compiled by Bettina Bien Greaves

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DECEMBER

1989

VOL. 39

NO. 12

Published by

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

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The Freeman is the monthly publication of The Foundation for Economic Education, Inc., Irvington-on-Hudson, NY 10533 (914) 591-7230. FEE, founded in 1946 by Leonard E.

Read, is a nonpolitical educational champion of private property, the free market, and limited government. FEE is classified as a 26 USC 501 (c) (3) tax-exempt organization. Other officers of FEE's Board of Trustees are: Thomas C. Stevens, chairman; Ridgway K. Foley, Jr., vice-chairman; Paul L. Poirot, secretary; Don L. Foote, Treasurer.

The costs of Foundation projects and services are met through donations. Donations are invited in any amount. Subscriptions to *The Freeman* are available to any interested person in the United States for the asking. Additional single copies \$1.00; 10 or more, 50 cents each. For foreign delivery, a donation of \$15.00 a year is required to cover direct mailing costs.

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Bound volumes of *The Freeman* are available from The Foundation for calendar years 1969 to date. Earlier volumes as well as current issues are available on microfilm from University Microfilms, 300 North Zeeb Road, Ann Arbor, MI 48106.

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.

FAX: (914) 591-8910

Letter from China

Editors' Note:

The following letter was received from a student at The People's University of China in Beijing. In light of current conditions in China, we are withholding the student's name.

August 3, 1989

Dear Sir:

As a postgraduate student specializing in history of economic thought, I have been devoting my mind to the causes and development of various schools of thought for several years; especially concentrating my attention on development of thought of the Austrian school, from the great founder, Carl Menger (1840-1921), to the prominent thinker, Friedrich A. Hayek (1899-). The extensive and profound thought of the Austrian school is a great contribution to the world of human thought in general.

It is for me the greatest pleasure that I recently have learned that your foundation is enthusiastic in promoting the study and propagation of liberalism economics [free market economics], especially the economic thought of the Austrian school. So I am writing to you to ask your advice. I should be greatly obliged if you could send me some recent books or materials on the study of liberalism economics or the thought of the Austrian school and give me further information about your foundation.

Thank you very much. I look forward to hearing from you soon.

Sincerely yours,

We responded by letter and sent a packet of materials.

Our Friends in Argentina

For more than 30 years, FEE has worked closely with leading classical liberals in Argentina. FEE staff members and Trustees have spoken before Argentine audiences, and Argentine students travel to Irvington to attend FEE seminars. Thus, we are especially pleased to present Richard Cooper's article, "Argentina at the

Crossroads" (p. 488), which describes the work of many of our Argentine colleagues.

Felix Morley Prize Winners

Six young *Freeman* authors have been honored in the 1989 Felix Morley Memorial Writing Competition sponsored by the Institute for Humane Studies. Congratulations to David Bernstein, Christopher L. Culp, Matthew Hoffman, David Hood, John Hood, and Greg Kaza.

The Freedom Philosophy

Every person has an inherent right to life and liberty, and to the self-enrichment of his life commensurate with his aspirations, dedication, and abilities.

Every person has the right to create, acquire, hold, use, and dispose of his property, limited only by the prohibition against infringing the rights of others.

People have the right to form governments whose only responsibility and authority is to protect the rights of individuals against violence, threats, and fraud.

Governments have no right to violate the inherent rights of individuals through majority vote, legislative power, or other means.

Individuals have the right to produce and trade goods and services throughout the world, unencumbered by government intervention, subject only to the prohibition against violating the rights of others.

—G. F. MAUGHMER
Escondido, California



My Family Life as a Socialist

by Thomas J. Bray

The Christmas season always reminds me that I am something of a socialist.

No, I am not a fan of Karl, Vladimir, Mao, and Mikhail. Socialism, and particularly its virulent communist form, is crackpot stuff. When it comes to family, however, most of us exhibit distinctly socialist tendencies.

Think about it when you're divvying up the presents under the tree on Christmas morning. The kids, who usually have contributed least to family income, usually wind up getting the most packages. Mom and Dad usually come out about equal with each other, even if one has contributed more to family income than the other. Relatives and in-laws all get their fair share.

In other words: From each according to his ability, to each according to his need—just as Karl Marx advocated. Marx proposed a system in which national income would be distributed according to need rather than status. He believed that by eliminating the gap between “rich” and “poor,” communism would remove the sources of class conflict that supposedly lead to oppression and war.

So if communism or socialism is OK at the family level, why not at the community level, the state level or the national level?

The problem is motivation. In a system where all share equally, irrespective of their input, nobody has an incentive to do much work. That's why the Soviet Union, 70 years after the revolution, is such a basket case. The only way Moscow

has been able to get any of its subjects to do any work at all is through liberal doses of fear. If you don't work, you get five to ten in the Gulag.

But that's not a very effective way of getting people to do good work. The family contains a far more powerful motivational tool: love. Not that abstraction known as love of mankind, in whose name crimes against humanity are frequently committed. I speak of real love, which is possible only among individuals and attaches most powerfully to families. Love between parents, love of parents for children, love of children for their parents.

Families are a complex, self-reinforcing web of relationships: conjugal relations, parent-child bonding, moral example, shared experiences, and so on. It's within the family that love has the best chance of thriving. It doesn't always turn out that way, unfortunately, but family is still the best incubator of love known to man.

Oh sure, when our kids were little we sometimes invoked the fearsome ritual known as a spanking. Force has a role in family, too, at least when the kids don't seem to be getting the message about busting up the furniture, marking on the walls and sassing the teacher.

But a spanking was intended not so much to hurt physically as drive home a message: You disappointed us. The symbolic, temporary withdrawal of love was what gave the message its power—and made discipline, when properly applied, a loving act in its own right.

This love and discipline is one reason that mothers and fathers can provide large amounts of “welfare” to their children without making the children dependent. When the government pro-

Mr. Bray is the Editorial Page Editor of the Detroit News. This article originally appeared in the December 18, 1988, issue of the Detroit News and is reprinted here with permission.



vides welfare, the outcome is frequently the opposite—as our large and growing “underclass” attests.

Within the family, parents possess the authority, built on love, to *compel* their children to become independent—which parents know is the only way their children can find true happiness and fulfillment. And children, to retain the love and respect of their parents, are usually just as eager to fly the nest and prove themselves.

The family is also a much more efficient mechanism than the state in figuring out what each little “welfare recipient” requires to make him or her independent. As any parent knows, raising children is, shall we say, a challenging task. Even when we work at it more or less full time, we still often botch the job.

What chance, then, does a bureaucrat behind some far-off government desk have to structure people’s lives in ways that will help them become

independent? He knows little if anything about the welfare cases he is handling, and receives little if any feedback from the individuals involved.

Christmas is the time that Christians celebrate the Christ child, the ultimate family story. Christianity has often been misunderstood as a fable of communal sharing, a sort of mandate for socialism. But Christmas is most directly a story of the transforming and redeeming power of love, which is why it is natural for families—the basic units of love—to gather together at this time of the year.

Love can’t be measured by the social scientists, which is one reason the family has received such short shrift in 20th-century social policy, with disastrous consequences. But love is there—under the family Christmas tree. And that’s why I don’t worry about those socialist tendencies that well up in me from time to time. Family is the proper place for them. □

Hurricane Hugo: Price Controls Hinder Recovery

by Russell Shannon

Editors' Note: The Foundation for Economic Education sent this Freeman op-ed to the nation's press shortly after Hurricane Hugo struck Charleston, South Carolina, in September.

In Charleston, South Carolina, many people struggling to recover from the havoc wrought by Hurricane Hugo discovered to their dismay something apparently even more evil: price gougers.

In the face of shortages of food, fuel, and desperately needed tools such as chain saws, many store owners of questionable scruples jacked up the prices of these needed provisions, some reported as much as 300 or 400 percent.

Responding quickly to the crisis, political authorities proclaimed that persons found guilty of such heinous crimes would be dealt with swiftly and harshly. The tedious delay so common to political actions was notably absent in this crucial situation.

To paraphrase a line from a play by Congreve, however, while these politicians "married in haste, they may repent at leisure." For once again, as happens so many times, the advantages of the free market process they stifled have been sadly ignored.

First of all, repressing price increases will obviously not eliminate the main problem at hand, which is that there is simply not enough of these needed items to go around. So many people will

just have to do without until more supplies can be brought in.

Yet while letting prices go up does have the unfortunate effect of putting poorer people at a special disadvantage, these higher prices might cause some people to use their ingenuity and seek out suitable substitutes: some can resort to bicycles, others might have neighbors willing to lend a chain saw, others still could be more careful about using the food supplies they already have. Then others in greater need could buy the goods.

Admittedly, these measures may offer only meager help in such an extraordinary crisis, but they are not apt to be totally negligible.

Of far greater impact is the effect of prices on supply. Given that prices did soar upward, one suspects that not all the greedy vendors are in Charleston and nearby areas. Knowing that they might reap large rewards, people with entrepreneurial spirits in Augusta, Greenville, and Raleigh might well stock up their pickups and truck on down the interstate highways, thereby helping not only themselves but also the sad citizens of Charleston. And thus the shortages would shrink.

In short, it's all pure Adam Smith, who wrote back in 1776: "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." The simple wonder of the price system is that it enlists the efforts of self-interested people in the services of humanity.

Nor is this the end of the favorable supply re-

Professor Shannon teaches in the Economics Department, Clemson University.



WIDE WORLD PHOTOS

Destruction in Charleston in the wake of Hugo.

sponses that have been thwarted by the price controls. Knowing that the storm was on its way, many store owners may have brought in extra provisions, at extra expense, anticipating that they could make enough extra money to compensate them for their troubles.

Yet what will happen on future occasions, when Hurricane Jonathan or Hurricane Samantha comes roaring across the waters? Remembering the thankless response to their efforts to prepare for Hurricane Hugo, these store owners may simply greet the news with a yawn.

There is a saying to the effect that it isn't nice to mess with Mother Nature. The results of messing with market forces are apt to be equally dire. Surely the people devastated by the storm deserve our concern and our charity. But imposing price controls, rather than helping those people out, seems more likely to be adding to their misery.

We have not yet learned how to harness the vi-

cious forces of nature. But if we will only allow the power of the free market to work, it can rapidly harness the forces of self-interest to alleviate the suffering that nature has caused. Because they failed to understand these fundamental facts of elementary economics, the political leaders who are imposing price controls as a humanitarian gesture may actually be serving as Enemies of the People!

Is all this idle speculation? Definitely not! We've had experience with price controls ranging back in history to the ancient Code of Hammurabi right up to those established during the Nixon Administration of the 1970s. No doubt many people still recall the long lines and frustrations at our service stations which were the result of price controls on gasoline.

Economic theory and historical experience converge, then, to suggest that patience rather than political responses would be the best policy to deal with pricing problems in Charleston. □

Women and the Market: Are They Made for Each Other?

by Jean L. Baker

We live in an exciting time for women. More than ever before, they are achieving their goals, from fulfillment in the home to the apex in business, the sciences, and the professions, and many successfully combine family and careers.

It is beginning to be understood why qualified women who are so inclined need to have careers instead of being confined exclusively to their traditional roles. Women whose creative impulses impel them to follow professional or business careers should have a chance to seek a place in the sun outside the home, and society needs them there.

Three general problem areas must be addressed if women who want that chance are to have it. These concern discrimination, the need for satisfactory maternity and child care arrangements, and our dwindling economic freedoms.

Discrimination

Discrimination is not necessarily always bad. To discriminate is to select from among many criteria, to make wise choices based on fine distinctions. It is an art that women themselves can profitably cultivate. Making choices is what freedom is all about.

However, arbitrary discrimination based on

prejudice hurts, psychologically and as a barrier to progress. It yields two victims: the one who is discriminated against and the one who discriminates. In the long run, it is bad business, whether that is immediately obvious or not.

The denial of legal rights, along with the force of tradition, once made virtual slaves of women. They couldn't own property, couldn't enter the professions, couldn't vote, and sometimes weren't even accountable for their offenses against others, which were, instead, referred to their "owners." Categorical discrimination was institutionalized by the power of law, and reflected the prejudice, if not arrogance, of the lawmakers. Through the ages, this prejudice resulted in human tragedies, injuring the self-image and mental health of those affected, and depriving the human race of almost half the available, but untapped, human creativity.

It is still believed by many diehards that women are not equipped physically, mentally, or temperamentally to be anything other than helpmates to men, whether as wives or in occupations that, worthwhile as they may be, are not always consistent with either their abilities or their ambitions.

This is not meant to disparage those women and men who voluntarily choose to be housewives and househusbands, are happy in that role, and are well suited to it. It is unfortunate that some of the rhetoric coming out of the women's movement has made many homebody types feel

Ms. Baker writes regularly for national and local trade, travel, and business publications based in the Chicago area.

they are undervalued. It can't be emphasized too strongly that homemaking and child nurturing rank high in societal importance. But, they are not appropriate jobs for everyone.

There's no denying that some women are unable to do some jobs that are thought of as "men's jobs." Some men can't either. Humans, regardless of sex, are as varied in their capacities and their ambitions as the design patterns of snow crystals. There have always been women who dig ditches and men who knit; women who are heads of state and men who rock the cradle. Each of us has to find his or her niche, discovering and taking into account our individual abilities and limitations.

Women who defy convention and follow careers traditionally reserved for men often must either give up marriage and children altogether, or they must contend with a host of problems related to what are considered their sole responsibilities as wives and mothers. Unless they receive the help of devoted husbands, friends, or relatives, and the cooperation of their employers, they carry the burden of two full-time jobs.

Many of today's wonder women are valiantly coping with this situation, but it takes a heavy toll. Women who work at outside jobs when they'd rather be at home, but feel their help is needed for the family to survive, are usually especially hard hit by these problems.

Economic Issues and Women

One of the avenues of advancement for victims of discrimination has been the opportunity for them to form their own businesses and institutions when they were barred from the existing ones. Negro- and Jewish-owned and operated colleges, hospitals, and businesses come to mind, such as Tuskegee Institute in Alabama, Provident Hospital in Chicago, Brandeis University in Massachusetts, and Johnson Enterprises in Chicago, to name a few. Ironically, or perhaps it would be more accurate to say "predictably," many of these have failed even though they've received government help, while others have been enormously successful far beyond the dreams of their founders, without ever asking for or receiving state aid. In recent years, women too have begun to take this route. The Women's Bank in Denver, Colorado, is an example of a women-founded

and operated institution, in contrast to the women's colleges of the last century which were primarily founded and operated by men.

Opportunities still exist for entrepreneurs, and women are no longer barred from the marketplace. However, the marketplace is less accessible and less free than it once was because of government's expanded role in the economy, and women, as well as men, are the victims. The hindrances are well known to freedom champions: oppressively high taxes, excessive regulation, and restrictive licensing, among others. Economic freedom is surely womankind's greatest need.

Old and New Approaches

Through necessity, women have been brilliantly resourceful in the face of barriers, and their solutions have been as individual as themselves.

"Individual" is a key word, for it is as individuals that women have gained their greatest successes. History is replete with stories of women who have distinguished themselves in what were for their times unconventional endeavors. The facts of history prove what women can do, individually and in groups.

Banding and working together, and aided by men for whom the denial of woman's genius and her humanity were anathema, women have advanced themselves by removing the most flagrant violations of their human rights. In the process, they have changed minds because while some women expend huge amounts of time and energy proclaiming their equality, others spend their time proving it. They ignore discrimination or they circumvent it, following the example of generations of ethnic group members and others who have succeeded, and continue to succeed, in spite of discrimination.

Acknowledging the premise that the innate abilities of men and women are equal, what about those women who are effectively shut out of, or denied advancement in, occupations in which they could make important contributions? Those with brains and talent do not necessarily also have the stamina, courage, and aggressiveness to forge ahead in the face of discrimination. These are the people who usually turn to political solutions. But, let's consider a few of the reasons why legislation against discrimination creates more problems than it solves.

The very sound of the phrase "Affirmative Action" falls on the ear as a not-so-veiled threat. It's the sound of a stern school teacher lecturing a recalcitrant student. (It happens that the phrase was coined by ex-teacher Lyndon Johnson.) Affirmative Action is also the angry stamp of impatient feet, and a brandished fist that smacks too much of revenge.

Affirmative Action stigmatizes women because it gives the sanction of law to the myths about women which have been so damaging to them. It denies that women are capable of competing on an equal basis and, therefore, they must have a "handicap," an artificial advantage to make up for what they lack. Even those women who are indisputably highly qualified must, nevertheless, wear not one scarlet letter, like Hester, but two AAs upon their breasts proclaiming the inferiority that Affirmative Action (AA) implies.

Robbing Peter to Pay Paula

Affirmative Action focuses on results rather than on the equal right to compete. It demands that unqualified people be hired if, as in the area of our concern, they happen to be women, while highly qualified candidates for jobs are rejected. In other words, it amounts to reverse discrimination. Men have every reason to feel bitter about laws that favor women, and women should understand that bitterness very well.

Barry R. Gross, who discusses reverse discrimination from a philosophical point of view, succinctly states the essence of the case against reverse discrimination as it applies to blacks. It is, he says, "an attempt to correct one sort of injustice by producing another."¹ He rightly points out that those who are to benefit from such a policy are not the original victims, and those who will suffer from it are not the original perpetrators of the crime. In seeming contradiction, however, Gross views reverse discrimination as an abuse of an otherwise well-intentioned policy. Well-intentioned it undoubtedly is, but surely any policy that mandates a double standard is an abuse in itself.

Finally, and most important, Affirmative Action opposes our national commitment to freedom. Women's place in the United States has seldom been consistent with the principles on which our country was founded, but that's no excuse to

continue the hypocrisy. To rectify past wrongs by turning to the quick fix of discriminatory legislation is to flirt with totalitarianism. Ultimately, that means an exploitation that is all-encompassing and unalterable for everyone. As Milton and Rose Friedman have so aptly put it: "A society that puts equality—in the sense of equality of outcome—ahead of freedom will end up with neither equality nor freedom. The use of force to achieve equality will destroy freedom, and the force, introduced for good purposes, will end up in the hands of people who use it to promote their own interests."²

Who Needs It?

Women don't need Affirmative Action, or set-asides, or any of the laws that demand special privileges for them. They're not in their present straits because they've been denied special privileges, but because others have had special privileges over them. Victory gained at the expense of others is no victory at all. Recent gains for women have come about more from the propagation of ideas and a reasoned call for justice than from discriminatory legislation. And yet, at the first signs of progress in human affairs, a clamor arises for laws to speed the process.

In the case of women, statistics are trotted out that show there are only so many women Nobel Prize winners compared to men, or only so many women symphony conductors, lawyers, bricklayers, truck drivers, or whatever, compared to the number of men in these positions, and this becomes a justification for "action." They miss the point. The wonder of it is that there are any women at all who fit into these categories in a world that has placed every conceivable obstacle before them. It is a wonder and a cause for optimism. Passing laws which favor women has not caused, and cannot cause fully-formed female geniuses to erupt spontaneously into being like Hydra's heads.

How ironic, and even tragic, that women have released themselves from bondage to their fathers, brothers, husbands, and sons only to find themselves in bondage to the state. And in the latter, they find common ground with men, for the enemy that stands in the way of both sexes is Congress, and Congress' counterparts on the local scene.

Too many members of Congress are spiritual descendents of those who once gave husbands the power to control women's lives and possessions. Today, we have thousands of state and Federal programs and regulatory agencies, and hundreds of thousands of government workers whose primary responsibility is to tell other Americans, men and women alike, what Congress and/or state and local governments have said they may or may not do. As a result, we have become polarized into self-seeking factions that, like jealous children, clamor for the attention and favor of an all-powerful parent, pushing their brothers and sisters out of the way as they grab at the apron strings of the state.

How much better to unite in a fight for freedom instead of fighting each other. Wise women, like wise men, perceive that to the extent that we have become a collectivist society with inefficient and wasteful central planning, we are less free. A look at just a few of the ways in which collectivism adversely affects us, as human beings and as men and women, should convince us that we must not wait until we hit rock bottom before we dig out the root cause of our discontent.

The State vs. the Free Market

One woman's need for child care is another woman's opportunity. That's a simple truth, until government enters the picture. What could be more efficient and mutually advantageous than for the woman who elects to stay home with her offspring also to take care of the working woman's child for a fee? It's a proven system that is entered into voluntarily by both parties. Everyone is satisfied, or the deal's off. Although there are no statistics available, it is believed that very large numbers of small-scale versions of this system exist. Others who need day care depend on relatives, and some couples work split schedules so that one or the other is always home to care for the children.

Licensed day care centers are another story. Restrictions vary across the country, but their grand design seems to be to put day care entrepreneurs out of business. Typically, permits are costly and complicated; one's house and yard must be a certain size according to the number of children; health and safety rules are unreasonable, exceeding what exists in most homes; spec-

ific routines must be followed; and much more. Regulations multiply, more people are needed to enforce them, day care operators give up, and in many cases children are then left home alone in spite of the regulators' declared concern for child welfare. The larger day care centers also find it difficult to hang on under these conditions, and their fees rise accordingly. When this happens, it is then proclaimed that there is a shortage of day care, and we end up with government filling the void. We all know what that means.

In the meantime, the unlicensed homes go underground, perhaps accepting fewer children, which deprives those who need them. There is no need to go into all the ramifications of this familiar series of events common to many of our endeavors, except to answer the frequently expressed fear that unlicensed homes are unsafe. There is no more reason to fear unlicensed homes than licensed ones. Experience has shown that sacrosanct governmental agencies cannot be relied upon to verify the safety of a day care home. Only a caring, responsible parent can do that to his or her own satisfaction, unless we are to become like children ourselves, unable to investigate and make judgments.

Resourceful women who want to start businesses in their homes—computer technicians, seamstresses, caterers, hairdressers, and others—face the same problems as day care operators. If the government finds out about that one-chair beauty shop in your basement, you're doomed.

Robert L. Woodson, president of the National Center for Neighborhood Enterprise, concerned about the situation as it affects black Americans, says, "Home occupation ordinances are playing an increasingly significant role in keeping blacks poor."³ Woodson also addresses the subject of high licensing costs which in some areas keep blacks out of certain occupations. He cites the \$70,000 price of a taxicab medallion in New York City, one example out of many that affect anyone who can't afford the price of admission to the trade or vocation of his or her choice.

Humble beginnings have had a way of burgeoning into empires, as Mrs. Fields of Mrs. Fields' Cookies can tell you. But, larger capitalists, men and women who've built their enterprises from the ground up, assuming all the risks and responsibilities, hard work, and long hours that

are involved, discover sooner or later that they're not operating profit-making enterprises for themselves, their employees, and stockholders so much as they have become an arm of the government, and are operating social agencies to promote the general welfare. They must serve as the government's accountants and tax collectors, not only contributing monetarily to their employees' social security, but also taking care of the paperwork at their own expense. They must contend with OSHA, EPA, DOE, FTC, ICC, and on and on endlessly in a veritable minefield.

Jerry Pournelle, writing in *Infoworld* about the effects of protectionism and regulation on the computer industry, says that FCC regulators "... have created a byzantine obstacle course of paperwork and delays that start-up companies must negotiate before they can do business. The result is that if Steve Wozniak and Steve Jobs wanted to start Apple Computer today, they wouldn't be able to do it." Referring to the costs of the required testing and certification, he says, "They wouldn't have the capital to pay the tribute demanded by the FCC."⁴ This should give uneasy pause to ambitious women everywhere.

Women and the Free Market

Economic freedom is the crux of the matter. Assure economic freedom for women, and with brains, hard work, determination, and imagination women will catch up. But, not overnight. Their victories will be the building blocks of reform, leading to a renovation in many hearts and minds that will gradually overcome the prejudices of centuries.

Women will become tough enough to face discrimination with the dignity and courage of free people who know their own worth. They will face the fact that some people will never give up their prejudices, but they will know that the power of discrimination to injure is lessened in a climate of freedom. And, they will understand that we can't all be leaders and successful entrepreneurs no matter how smart we are. These are facts of life for men as well.

Working in a market that is free, career women will more easily find safe, dependable, affordable child care; the equal pay for equal work situation will resolve itself; and imbalances according to race, sex, and national origin will adjust auto-

matically. Women will become captains of industry and leaders in the sciences, taking their places side by side with men, and we will no longer travel in this world like a jetliner with half its engines blown out.

Equality Begins at Home

As long as men and women freely unite in marriage or any other association, women will increasingly insist upon equality in their private lives. They will respect themselves, and they will demand respect from others. The extent of peace and harmony that is achieved in any union is determined by the qualities of character each person, regardless of gender, brings to it, and those who achieve mutually satisfying relationships serve as an example for others to emulate.

In freedom, ideas change and conditions change. Freedom releases human creative energy. It fosters diversity and cooperation. It gives individuals the best possible chance of realizing their ambitions, and it results in greater levels of prosperity for the general population. It does all this for people, not just for men or just for women, or just for those of a particular race or ethnic background.

Making choices and assuming responsibility for our lives, while often difficult, are the privileges of a free people. The outcomes of our choices, good or bad, enable us to grow and mature. We become stronger and wiser because of them.

Women have everything to gain from focusing their efforts on reforms that emphasize freedom, rather than on legislation that restricts others. Shall they waste their energies and their resources calling upon Congress to rectify every real or imagined wrong to themselves when their precious liberty is at stake? Why not go for the grand prize instead?

At the same time, we must not presume that achieving a truly free society will bring about utopia. Utopia is unattainable because it cannot exist in this imperfect world. Tradeoffs come with freedom: some succeed and others fail; social progress is slow; disappointments are inevitable; personal sacrifices are called for at times; corruption is possible; and some exploitation can and will exist. However, these scourges of the human condition can more successfully be combatted in

a free society. It is not so easy, however, to break the chains of oppressive governments, in which these conditions exist in abundance.

It is better to reaffirm and give new meaning to the traditional values of self-reliance and individualism now, asserting our willingness to accept responsibility for our destinies and resist government's invasion into our private and public lives,

than to wait until we no longer have the right even to voice our concerns. ☐

1. Barry R. Gross, *Discrimination In Reverse: Is Turnabout Fair Play?* (New York: New York University Press, 1978), p. 93.

2. Milton and Rose Friedman, *Free to Choose* (New York: Harcourt Brace Jovanovich, 1980), p. 148.

3. Robert L. Woodson, "Building a New Base for Black Prosperity," *The Atlanta Constitution*, July 31, 1988.

4. Jerry Pournelle, "Be Prepared for Government to Block Predicted Megatrends," *Infoworld*, April 24, 1989, p. 50.

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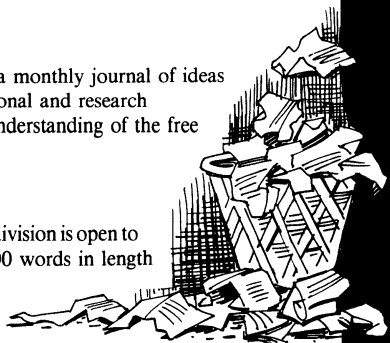
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Will More Dollars Save the World?

by William H. Peterson

“**S**tingy” is the word critics hurl at President Bush’s initial foreign aid offer of \$100 million to Poland and \$25 million to Hungary. Some critics go further and invoke the idea of a new Marshall Plan—this time including the support of Japan and the West generally—for Eastern Europe and, perhaps, another for the Third World as well. The idea brings to mind a variation on an old question: Will hard-currency transfers save the world?

The old question: “Will Dollars Save the World?” That was the title of a 1947 Foundation for Economic Education study, later condensed in *Reader’s Digest*, by *Newsweek* economic columnist Henry Hazlitt. Hazlitt questioned the premises of foreign aid in responding to a speech on June 5, 1947, at Harvard University by Secretary of State George Marshall. Marshall had called for vast, coordinated dollar transfers to stagnating war-torn Europe (which was already receiving substantial U.S. war relief). Declared Secretary Marshall:

“The truth of the matter is that Europe’s requirements, for the next three or four years, of foreign food and other essential products—principally from America—are so much greater than her present ability to pay that she must have substantial additional help, or face economic, social and political deterioration of a very grave character.”

Hazlitt wondered about Marshall’s “ability to pay” perspective on Europe. He took note of the Keynesian pattern of postwar European protec-

tionism, inflation, rationing, exchange rate controls, huge public spending, deficit financing, heavy taxation, and wage and price controls. He wondered if dollar aid would hence but temporize the thick jungle of interventionism and not get at the root causes of postwar European stagnation.

Hazlitt contended, long before the advent of the supply-siders, that purchasing power grows out of production, that production is frustrated by government controls, that it thrives on free markets and stable currencies, that the great producing nations are perforce the great consuming nations, that, in essence, *supply creates demand*.

This basic economic truth, the perception of 19th-century French economist Jean-Baptiste Say, had been challenged, at first rather successfully, by John Maynard Keynes. In his *The General Theory of Employment, Interest and Money* (1936), Keynes promoted his own idea of demand management, mainly through government spending, to achieve “full employment.” The 1940s (and, indeed, the 1950s and 1960s) were the heyday of Keynesianism, it should be noted, and Marshall’s speech and the ensuing era of foreign aid had this going for it.

In any event, after the enactment of the Marshall Plan, the Hazlitt contention was soon put to the test. In 1948, on a June Sunday, without the knowledge or approval of the Allied military occupation authorities (who were of course away from their offices), West German Economics Minister Ludwig Erhard unilaterally and bravely issued a decree wiping out rationing and wage-price controls and introducing a new hard currency, the Deutsche-mark. The decree was effective

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immediately. Said Erhard to the stunned German people: "Now your only ration coupon is the mark."

The American, British, and French authorities, who had appointed Erhard to his post, were aghast. Some charged that he had exceeded his defined powers, that he should be removed. But the deed was done. Said U.S. Commanding General Lucius Clay: "Herr Erhard, my advisers tell me you're making a terrible mistake." "Don't listen to them, General," Erhard replied, "my advisers tell me the same thing."

The advisers were wrong. The German people rolled up their sleeves as never before, and the decontrol action brought about what has since been called "the German Economic Miracle." The moribund, ravaged West German economy snapped back to life, a phoenix soon becoming, ironically, the most prosperous in Europe.

Erhard, who had earned a doctorate in economics from the University of Frankfurt in 1924, who had witnessed the catastrophe of the German super-inflation of the early 1920s, and who followed Adenauer as West Germany's chancellor in 1963, conceded that Marshall Plan dollars helped the German recovery but held that the greater factor by far was the introduction of sound money and the deregulation of the economy.

As he wrote in his *Prosperity Through Competition* (1958), a book describing West Germany's rather radical system of *Soziale Marktwirtschaft* (Responsible Free Market Economy): "What has taken place in Germany . . . is anything but a miracle. It is the result of the honest efforts of a whole people who, in keeping with the principles of liberty, were given the opportunity of using personal initiative and human energy."

With the further successful examples of Japan and the "four tigers" of Singapore, Hong Kong, Taiwan, and South Korea, are not other economic miracles in Eastern Europe and the Third World awaiting non-dependency on foreign aid and a return to freedom and free enterprise?

In this light, does foreign aid really aid? Can it be that U.S. bilateral economic and military support (see accompanying table), along with U.S.

multilateral support of international agencies like the World Bank and the International Monetary Fund, act as a net drag on a goodly number of recipient countries—some of which lack even a basic system of private property rights let alone a capital market?

Such support often does a disservice both to the donor and to recipient countries as the interventionist status quo is preserved and precious time and financial resources are wasted. National examples of that waste on all five continents are legion, as Peter Bauer has long demonstrated.

Even politicians occasionally spot the waste. As Secretary of State James Baker observed at a press conference in Warsaw last June: "In the 1970s, we and our allies and Polish people made a mistake. We shoveled a lot of money into this country with no requirement for economic reform."

So notwithstanding more than four decades since its first enunciation, the Hazlitt question is still relevant: *Will dollars save the world?*

An answer may lie in a further quotation from the Erhard book: "If the German example has any value beyond the frontiers of this country, it can only be that of proving to the world at large the blessings of both personal and economic freedom." □

Countries Getting 10 Biggest Shares of U.S. Bilateral

Economic and Military Aid

(estimates in millions of dollars in fiscal 1989)

1. Israel	\$3,000
2. Egypt.....	\$2,400
3. Pakistan	\$627
4. Turkey.....	\$624
5. El Salvador	\$389
6. Greece	\$351
7. Philippines.....	\$270
8. Honduras	\$209
9. Portugal.....	\$163
10. Guatemala	\$146

Source: Congressional Research Service,
House Foreign Affairs Committee

Religion in China

by Geoffrey Kain

While playing with our son Julian at a small park in our “home” city of Xiamen one January day, my wife Lisa and I met an American couple in their late 30s and their child who had come to the balmy south from their home in Beijing. Larry was a professional photographer and a painter, and his wife Marilyn had been a teacher of English as a Second Language on a California campus. They had a 9-year-old son, Max, and no plans to return to California or to move anywhere else, for that matter.

Max was being educated at home, his mother acting as teacher. Max looked unhappy. His father was painting, hoping to sell some of his work in Hong Kong soon, and his mother was teaching English at a Beijing college, receiving grant money from her California school. They claimed to have sold their California home and nearly all of their belongings. Larry had quit his lucrative job and here they were—an American family in China. China had its own problems, they admitted, but at least in China you didn’t have to worry about having your child abducted from a shopping mall. This remark caused Lisa and me to look again at the apparently lonely 9-year-old in the California Angels baseball cap.

As we shared with them our motivations for living a third year in China and offered some reflections on various places we had traveled, we came to discuss some distinctions between life in the south and life in the north. One of the aspects of our lush Fujian Province that had struck the California couple as being strikingly different from life in dry, dusty Beijing and some other northern cities was the obvious prominence of

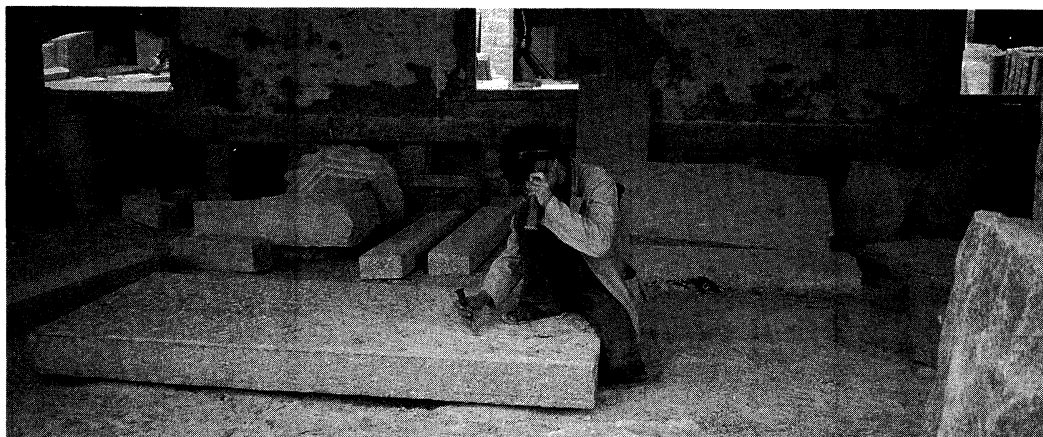
Buddhism in the south. They had visited several temples in the Fujian cities of Xiamen, Quanzhou, and Fuzhou, and they were startled to see the number of people who came to the temples and worshipped openly. They were not sure whether to ascribe this to a traditionally stronger Buddhism in the south, a less stringent political control in the south, or some combination of the two. Whatever the causes, the temples of the north are typically almost devoid of worshippers, and there are far fewer Chinese who visit the northern temples as tourists or apparent tourists. They simply stay away.

Without question, the temples of the north generally suffered more devastating damage during the most violent years of the Cultural Revolution (1966-76) than did the temples in the south, and many of the northern temples remain gutted, even if their façades have been renovated in the past several years. Nevertheless, it would be a serious mistake to assume that a great many of the southern temples somehow escaped the ravages of the late 1960s. They did not.

Temple renovation in China is widespread and just one manifestation of the building and reparation boom that has turned much of the nation into a vast construction site. I recall the extensive repairs underway on the Lichee Garden Temple in Fuzhou, next to Fuzhou University, when we arrived there to teach in 1984. The temple was in many ways typical. A large monastery, it housed more than 100 monks and had a large library of valuable texts. It had stood on this ground for more than 1,000 years.

During the Cultural Revolution, this temple was battered by Red Guards, swept out, and then converted into a transistor radio factory. On its grounds was constructed a scrap iron salvage

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LICHEE GARDEN TEMPLE / GEOFFREY KAN

yard, distinguished by its nondescript gray brick chimney rising above the red temple walls and churning thick black smoke over the swarms of bicyclists moving slowly along Industrial Road. The monks from this temple, and from several other smaller temples in and around the city, fled to the enormous monastery atop Drum Mountain several miles outside of the city. They remained there for 10 years before returning (at least some of them) to their old home, now a decrepit shell.

Lichee Garden Temple

Since 1979 the government and many Overseas Chinese have appropriated an enormous amount of money, materials, and skilled labor for the refurbishing of temples like this one. Skilled stonecutters (some as young as 14 or 15) and carpenters repair ruined statuary, elaborate doors and beams, and whatever else is in need of work.

Repairs were in full swing when we entered the Lichee Garden Temple. New statues were being molded in clay over large wood and straw frames, some of them as tall as 20 feet. New roof beams and decorative corner posts were being cut and planed and carved, and the smell of freshly sawed pine permeated the grounds. Walls were being whitewashed and ceiling beams painted brilliant red, green, yellow, and blue in intricately detailed patterns. The temple had received a large bronze incense burner from a wealthy Overseas Chinese from Burma, while another wealthier Overseas Chinese Buddhist from Thailand had presented a large white jade reclining Buddha. White jade is most precious. This price-

less Buddha had become the pride of the temple, and a new pavilion was being constructed just to house it.

Shortly after the white jade reclining Buddha had arrived, Lisa and Julian and I strolled over to the temple to have a look at it. The pavilion was still under construction and we had to yell to the laborers on the roof so that they wouldn't shower us with debris, evidence of which lay all about the base of the building. The pavilion itself was made entirely of concrete, though the roof was made to look as if it were covered with slate tiles, and the columns painted red so they might pass for traditional red-painted wooden pillars. Here and there, concrete was formed to look like bamboo. The jade Buddha was held in an upstairs room and was still in its shipping crate. The cover and front panel were pried off so that the curious might have an early peek. The jade was startlingly beautiful, but the Buddha wore a very loud yellow synthetic cape and had bright red lips and fingernails.

The temple was not only under repair, but was expanding, and the monks who once had to flee to safety now had enough influence to insist that the scrap iron facility be torn down because it stood on ground under control of the temple. The monks also managed to have another building demolished so that they could build a gate on the other side of their circular pond, facing south as it should to absorb the best possible energies.

As work progressed, the temple attracted an increasing number of visitors. Eventually, the monks began charging admission (10 fen, or about the equivalent of three American pennies) and opened a small shop near the center of the

temple next to the drum tower, selling everything from handmade black cloth monk shoes, porcelain figurines, incense, and prayer beads to orange soda, sea shells, and flour-coated peanuts. Pasted on the wall not far from the entry to the souvenir shop was a poster of a Red Army officer, saluting a distant flag.

Despite all the renovation and increased tourism, the temple was a peaceful place. Monks, some very old and some as young as 12, moved slowly about the grounds or quietly tended to chores such as sweeping a set of stone stairs or tending the altars. A couple of expansive gardens contained a profusion of flowers and other plants, healthy and well cared for.

There was always a commingling at the temples of the quiet, slow-moving monks themselves, a large number of Chinese tourists who seemed unfamiliar with and amused by the sacred world (judging from their accents and their facial features, many of these visitors were from the north), and the smaller number of Chinese who came to worship. The worshippers will unabashedly drop to their knees in a crowd, hold up a cluster of smoking joss sticks, and kowtow before a statue of a holy figure. Some enter the temples with commitment; many enter with perhaps a shade of embarrassment and guilt, after paying a small fee.

The Communist Party continues to discourage religious worship in all forms, of course, and to propagate atheism. That the government is responsible for repairing many churches and temples is consistent with its professed practice of allowing religious freedom, but the burst of repair work is also without question part of the government's overall effort to promote tourism and to give itself a face-lift by offering this most obvious show of its new openness and increased tolerance. China thirsts after foreign capital, which it badly needs to fuel its modernization (to which everything is subordinated) and, until the recent atrocities in Beijing, the central government has exhibited some surprising (though generally superficial) leniency in order to stimulate increased tourism and foreign investment.

Memories and Fears

Religious belief itself is not in accord with the principles of communism, and most fear that such

a political failing may well be cause for suffering one day—not only for themselves, but for their families, as well. The purges following the “Hundred Flowers Movement” of the late 1950s (calling for free and open criticism of the Party, then fiercely retaliating against the critics) and the outrageous violence of the Cultural Revolution remain very fresh and bitter memories in the collective Chinese consciousness.

During our two and a half years in the south of China, we met a number of “underground” (that is, not officially registered) Christians, many of whom automatically assumed that because we were Westerners we were Christians, and then made it a point to inform us in confidence, with signs of both elation and hesitation, that they were Christian also. The admissions made to me were always private and unsolicited.

Christianity is the “Foreigners’ Religion.” Buddhism is generally regarded as the superstition of the peasants and the uneducated workers, and is a vestige of “feudal society.” The Party holds that much work remains to be done to fully educate these people and liberate them from the bondage of the fanciful and absurd. Human progress—that is, material progress—is retarded, says the Party, by those who stubbornly cling to outmoded ideas and illusions.

There are Christian churches in China, but not many. The first I came across was in an especially old street in Fuzhou (the 2,400-year-old capital city of Fujian Province). It is a small brick structure with a characteristic steeple, stereotypical gothic windows, and a Latin inscription over the main entrance. I was startled when I saw it because it looked so strangely out of place . . . like a mosque in a Midwest town. Right in the middle of the usual squalor of food stalls, endless lean-tos, a street swarming with people on foot and bicycle, there it stood, nearly engulfed in the profusion of the city so that you could conceivably overlook it in the midst of all this busy detail. I wanted to go in and have a look, but it stood behind a locked black iron gate. No hours posted. No one I talked to was willing or able to get any information about when it might be open for services or otherwise. Every time I passed it, it was locked.

We heard of another Christian church in the city, just which denomination no one was certain. We made arrangements to go to the Christmas

service, Christmas Eve 1984. One acquaintance of ours said, "Oh, you would like to go to church. I know of a church and I have met its director. I will ask him when the service is and inform him that you are coming." We were not especially comfortable with the formality, but we had no idea where the place was—and that year in Fuzhou, a city of about two million souls, we were the sum of the foreign population (the city having "reopened to the outside world" in 1982), so in situations like this we were dependent upon the efforts of our Chinese hosts.

This man booked a university car for us, had told us the service would be at 7:30 P.M., and planned to accompany us. By mid-afternoon on Christmas Eve, however, he decided that he would not come with us; he felt that he was stepping in where only our assigned guide/interpreter should tread and told us that he had better retreat before he stirred up any animosity. Something had apparently been said to him. "I'll leave instructions with the driver and see whether or not your interpreter is available to accompany you."

When the time came, our interpreter, Yan Li, appeared to guide us to the church. We told him that as long as the driver knew where to go, it wasn't necessary for him to come along. He claimed that the driver probably didn't know exactly where the church was, but that *he* knew every square inch of the city, his hometown. So we walked together to the car garage, met our driver, and rolled off to church.

Somewhere in the heart of the teeming city, we turned into a narrow lane or alleyway and pulled up in front of a doorway that looked like it might lead anywhere but into a church. Yan Li hopped out, ran to the door, opened it and entered. After a couple of minutes he returned, claiming that the service was over. Sorry. "But it's only 7:15. When did it start?" "Five o'clock." "Are you sure this is the right church?" "Of course this is the right church. The other man was just confused about the time." "Is there another church?" "Not that I know of." We sighed, rolled our eyes, and headed toward home.

Several days later we met the fellow who had made the arrangements, and he asked whether we had enjoyed the Christmas service. We explained what had happened and he was astonished, certain that we had gone to the wrong place. We left it at that.

The Churches of China

Not all Christian churches in China are so elusive, however. After our initially frustrating close encounters in Fuzhou, we found our way into a number of churches in various cities. In Guangzhou (Canton) in 1986 we visited the large almost cathedral-size Catholic church famed throughout the country. This church has a striking light-colored stone facade, a lofty spire, a large rose window, and a number of stained glass windows—or what used to be stained glass windows but are now clear glass windows since the stained glass was all smashed or shot out during the Cultural Revolution. Only small fragments of colored glass remain in a couple of the windows. The pews had apparently all been destroyed and had been replaced by rickety benches. We could see where the lights had once hung from the ceiling, but they were gone too. The altar area was cleaned out and the altar itself was nothing more than a large table with a white linen cloth draped over it. There were a few people here and there, praying.

We came upon a very attractive dark brick church in Shanghai in 1987 and decided to have a look inside since the iron gate was unlocked. A few passersby stopped and stared as we entered the church. We were met by the Chinese pastor who gave us a brief and muted tour, pointing out what had been repaired, what was currently undergoing repair, and what was still in need of repair. His church, too, had been almost completely destroyed by Red Guards during the Cultural Revolution. The pointed arches which capped the ends of pews had been knocked off and burned. The altar, the colored windows, and the statuary had all been smashed. The entire interior of the church had been ruined. Now there was a beautiful new wood floor; the pews had not been replaced, but the ends had been sanded and varnished to conceal the damage; the colored glass had been replaced with clear. The altar was still under construction, and there was a series of new lights hanging on long chains from the ceiling. The pastor briefly mentioned the fear and sadness he experienced when the church was sacked and expressed his firm hope that it would not happen again.

Another apparent sign of religious resurgence in China is the surprising appearance of a host of

new missionaries. A number of religious organizations, primarily fundamentalist and almost exclusively American, are sending groups or "teams" to China to work as teachers (since missionaries as missionaries are forbidden). There is a surprising number of these teams throughout the country.

At first I wondered how an authority that propagates atheism could turn around and invite groups of a dozen or more evangelical Christians to enter the universities and high schools to teach. I realized before long that the government is fully aware that the groups are Christian, but contracting with groups like these simplifies the hiring process. The department heads at the schools don't have to weary themselves with as many screening processes or have to carry on as many correspondences with independent instructors coming to China to teach. By contracting with a group, the Chinese get a package of hard-working, well-behaved native English-speaking models willing to work for relatively low wages.

Although the missionaries/teachers are forbidden to proselytize, they do incorporate some biblical material into their courses. But, since English competence is deemed necessary for national modernization and because the authorities clearly feel that the impact of this relative handful of religious teachers is negated by the political instruction and social coercion that every student is subjected to, no one bothers to interfere with their teaching methods.

The new missionaries do manage to convert some of the students. Most of the converts remain discreet about their religious conversion, but there are always some who make no attempt to conceal their new faith. One example should suffice. I recall in particular one very likable young man who had befriended several of the Christian foreign students at Xiamen University, had embraced the Christian faith, and had become an advocate of many Western ideas, Western styles (he had his hair curled and liked to wear bell bottoms, T-shirts with messages printed in English, and dark glasses) and, less vociferously, Christianity. We were concerned about him.

In my class one day he had given a presentation on Western manners and English customs, then extended his discussion to conclude with some forceful remarks about how wise the Chinese would be to adopt more Western ideas and

practices—like true freedom of religion, democratic elections, and more student freedom in determining what courses to take, and what instructor to have for a particular course. This appeal was offered with innocent exuberance, but it came at a bad time—during the student protests in Beijing and Shanghai in early 1987 calling for many of the same things. Students at Xiamen University, as at other universities, had been warned not to organize any protests, and openly expressing views sympathetic with those espoused by the protesters could result in expulsion from the university and a political labeling which would prove troublesome for a lifetime.

By the time of his classroom oration, he was beginning to attend the church services provided by a group of foreign students. On a couple of occasions when I met him he was carrying a Bible. He was a diligent student, well liked by his classmates. Although he did not speak openly to groups of Chinese about his conversion, it was well known that he was a Christian. Intervention finally came in June, during the strongest wave of "anti-bourgeois" activity in the south, during the "Campaign Against Bourgeois Liberalism" of 1987.

As he passed down a staircase one morning, a Party official at the university called him into his office. The official explained to him briefly and simply that while he was free to worship as a Christian if he chose, the Chinese Christian church and the foreign Christian church were to remain separate. No Chinese student would be allowed to attend church services on campus with foreign friends and, further, Chinese students were no longer being allowed to visit the foreign Christian students in their dormitory rooms without first registering their names in a guest book left with a receptionist at the entrance.

The message was clear, and its implications—though powerful then—have become much more poignant to me now, following the brutal assault on dissidents in Beijing. Those who know China are aware that there is a rigid distinction between what the foreigners may think and do and what the Chinese citizens will be allowed to say and do. Nominal freedom has proven to be desirable and even profitable, to a point. But no people, I think, are so often and so vividly reminded of the disparity between the nominal and the actual as are the Chinese. □

China's Great Leap Backward

by Diane D. Pikcunas

China is a fascinating country, and many remnants of the age-old Chinese civilization still remain despite 40 years of Communist control. I visited this land in December 1988, six months before the Tiananmen Square massacre.

As I walked along the streets of Beijing and Shanghai, I noticed the many shops—ranging from noodle stands to bicycle parts shops to camera stores—lining the streets with entrepreneurs busily selling their wares. Deng Xiaoping's "Four Modernizations," aimed at improving agriculture, industry, the military, and science and technology, had clearly helped propel the Chinese people toward a market economy.

The taste of economic freedom, however, whetted the Chinese appetite for political freedom—the right to speak out against individuals and programs hampering China's development. In 1988 the central bureaucracy began limiting the market incentives, with resulting backlogs, shortages of raw materials, unemployment, and inflation. The link between economic and political freedom was becoming clear.

New Economic Policy

The shift in China's economic policy is a major turning point in the country's recent history.

When Mao Zedong's troops conquered China in 1949, he set about to build a Marxist-Leninist society. One of his first priorities was to eliminate

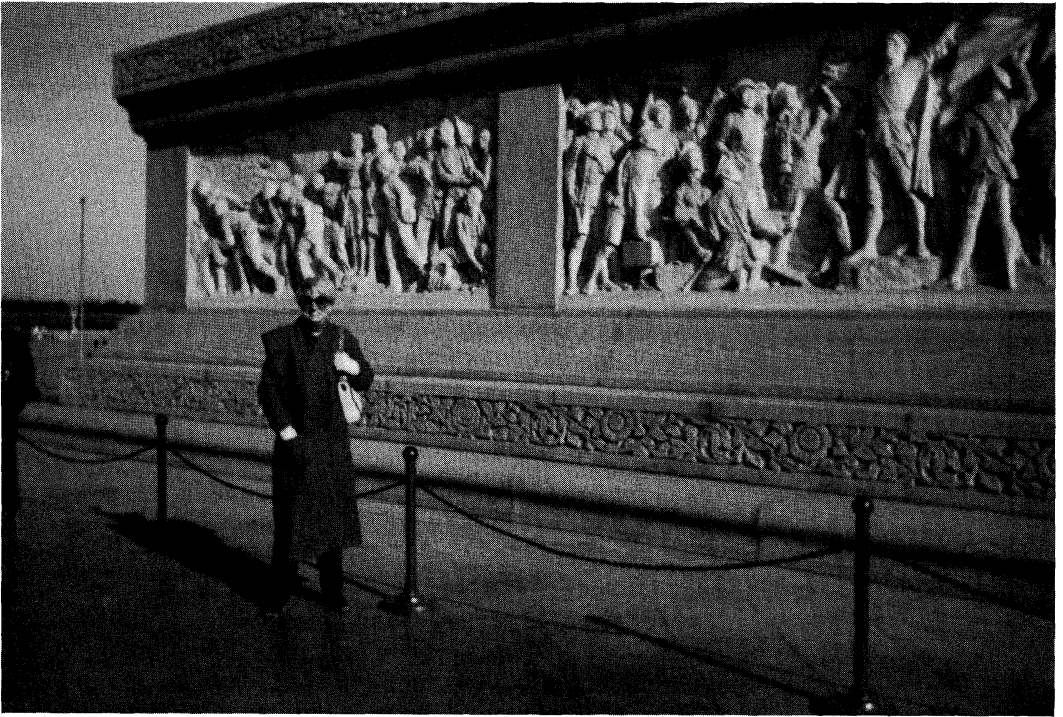
all opposition. Chinese by the thousands were arrested, subjected to public trials, jailed, and some were executed. Businessmen and large landowners were particular targets for persecution. The government took over businesses and land, and abolished the right of private ownership.

Mao aimed to transform China into an industrial nation overnight, despite the human costs. In the "Great Leap Forward," begun in 1958, he pushed for rapid development, and encouraged Chinese citizens to make steel in backyard furnaces. After a few years, it became clear that this policy was a failure, and China's industrial production fell. Mao's agricultural communes also failed to increase output. The centralized economy helped Mao gain absolute control over the populace, but brought disaster to the Chinese people and crippled the nation's economy.

Mao's death in 1976 led to a struggle for succession that brought Deng Xiaoping to power. Though a Marxist-Leninist, Deng witnessed the failures of Mao's centralized economy and saw the need for economic revitalization. Even Lenin had recognized the failure of War Communism (1918-1921) and initiated some market incentives in his New Economic Policy of 1921-1928. Deng tried a similar approach, introducing some market incentives as part of his Four Modernizations, which were designed to make China a great economic power by the early 21st century.

Mao's Great Leap Forward proved a disaster for China, and Deng now envisioned a Great Leap Outward. While Mao had shut out foreign influences, Deng opened China's doors to cooperation with capitalist nations, welcoming joint ventures and foreign investment. Tourism was

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Dr. Diane Piccunas visited Tiananmen Square in December of 1988, six months before the brutal suppression of Chinese students by the Chinese Communist military forces.

encouraged. Economic incentives were added to attract foreign capital. Industrial decision-making was decentralized, giving a reduced role to Beijing bureaucrats and more autonomy to provincial and local officials. Farmers were allowed to cultivate “side-line” plots and to sell their crops for their own profit. So successful was this latter experiment that, despite the small amount of land involved, the side-line plots were soon accounting for 25 percent of agricultural production.¹

Free Market Brings Prosperity

Deng’s reforms brought prosperity for both rural and urban Chinese. One of his most successful reforms made businesses responsible for their own profits and losses. The result is a familiar one in all free market economies—production of more goods and services.

Throughout history, the Chinese have been great entrepreneurs, and Deng’s market reforms allowed Chinese merchants and shopkeepers once again to demonstrate their skills. Prior to Deng, state-run shops offered limited variety, poor quality, and government employees who

took a hostile attitude toward customers—“buy it or leave it.” The private businesses encouraged under the Four Modernizations, in contrast, have to compete for consumers. Their owners operate as their own bosses freed from the “work unit” which dominates almost every aspect of Chinese life. Under Deng’s rule, the number of independent Chinese businesses has risen from 1 million in 1980 to almost 15 million in 1989.²

The free market brought prosperity to rural areas as well. Guangdong Province in southern China registered an economic growth between 1984-1987 of 23.5 percent while the rest of China recorded an impressive national average of 16.8 percent. Guangdong freed 80 percent of its commodities from central government control. New markets were created in labor, real estate, and a large number of commodities. Hundreds of new factories were built in the Pearl River Delta, the heart of the province’s economic boom. An important link has been made to a neighbor and model of free enterprise—Hong Kong. Hong Kong investors account for 90 percent of the foreign investment in Guangdong Province and receive 60 percent of its exports.³

Even in rural and isolated areas such as

Zhuozi, located in Inner Mongolia, the free market has operated successfully, as the economic role of the central government has been reduced. Commodity prices were freed from government control. The economic commission that controlled investment was abolished. All urban housing was privatized, and most state enterprises were dismantled. The farmers experienced a new prosperity, as they no longer were required to sell their grain and oilseed to the state at a fixed price. Zhuozi has become a model of the success of free enterprise. While much of the attention on economic reform in China has focused on coastal and suburban areas, the impressive nature of the success in Zhuozi is that the free market has proved an amazing success in an area considered poor in a poor region.⁴

This remarkable success encouraged Chinese economists to take a closer look at what was happening. They were able to report their findings in a political atmosphere freer than in the days of Mao. For example, three young economists—Hua Sheng, Zhang Xuejun, and Luo Xiaoping—have urged a major restructuring of the Chinese economy with an emphasis on individual property rights rather than on collective ownership. They have criticized policies such as the government's "price reform" which leave in place many of the elements of a centralized economy. They also have advocated a dismantling of the state-controlled assets, and charge that the reforms have been so limited that the preconditions for truly independent profit-maximizing enterprises have not been created. They have pointed to the success of the rural enterprises which have operated outside the government's economic plan and have consistently outperformed the state-owned enterprises. The enlargement of the private sector, they have stressed, will enable China's economic growth to continue.⁵

Economic Retrenchment

The economic crisis in China came before the political crisis. Partial repeal of the economic reforms under the name of an "austerity program" appeared in September 1988 and were officially confirmed at the meeting of the National People's Congress in March and April of 1989.

The leadership struggle has taken its toll on economic reforms. Zhao Ziyang served as Pre-

mier and later as the Communist Party Secretary and was architect of much of Deng's economic reform. He pointed to Guangdong Province as a model area and urged more economic and political liberalization. Li Peng, who succeeded him as Premier, was trained in the Soviet Union and is viewed as a technocrat; he has been less enthusiastic about these reforms and favors more centralization. In the political crisis in June, Zhao lost power and was purged; Li emerged in a stronger position.

In light of these events, Li Peng's report to the National People's Congress in the spring of 1989 takes on a greater importance.

The "austerity program" Li announced gave a greater role to central planning and imposed new taxes on the more productive sectors of the Chinese economy. Chief among the new program's victims are the rural enterprises which have demonstrated the success of decentralization. The new budget placed a tight squeeze on these enterprises. While the rural enterprises have been growing at an annual rate of 30 percent, the new program limited annual growth to 15 percent.

The new tax program was designed also to target the farmers who proved the success of the free market—farmers who raised fruit and vegetables and sold them for profit would now have to pay new taxes ranging from 5 to 15 percent.

And in a reverse of incentives, the proposed national budget would increase the salaries of government workers and employees in the less-productive, state-owned enterprises. A surcharge would be levied on those enterprises that were not state-owned—those owned privately or by collectives.⁶

The increased centralization is sure to hurt the economic performance of the model province for economic development—Guangdong Province, China's biggest exporter. The cutback on consumer goods nationwide especially hits this province whose prosperity has been largely built on the production of these goods. The move toward centralization of raw materials also will deal a blow to Guangdong's economy, which will have greater difficulty purchasing the coal needed to keep its factories running.⁷

The political crackdown in June has made foreign investors wary of the Chinese government's promises and its commitment to further reforms. The Special Economic Zones, which China creat-

ed to attract foreign investment, are especially vulnerable as foreign businesses withdraw and other nations consider a cutoff of trade or sanctions against China. In an economic zone such as Shenzhen, which during the past decade has seen an enormous growth in the value of the goods and services it has processed, the government's alteration of foreign exchange rules in late 1988 has created particularly vexing problems, cutting exports and reducing 1989 investment by as much as 30 percent. The uncertain investment climate will create additional difficulties. The Special Economic Zones, where the Chinese have developed model arrangements for the operation of free enterprise companies, may soon experience a serious decline.⁸

Conclusion

The Chinese free market experiment has suffered an enormous setback since late 1988. And the experience serves to remind us of the dangers of political power exercised over an economy, for great economic benefits may fall victim to political considerations. A number of experts have warned us of such developments. Arch Puddington notes that even when they experiment with free market mechanisms, Communist nations are usually drawn to restrict entrepreneurial activity, since capitalism represents a humiliating refutation of the promise of abundance made by Communist officials.⁹

The Chinese economy is proving that political power can defeat even the most spectacular advances of an economy based on free market principles. In 1988, Milton Friedman warned then Party Secretary Zhao that China would not continue to succeed economically if it attempted to organize its economy from the top down. He stressed to Zhao that government is organized from the top down, while the free market is organized from the bottom up.¹⁰

And perhaps one of the more perceptive observations came from political scientists James T. Myers and Donald J. Puchala, who assessed economic development in China and concluded:

Some analysts base their positive projections regarding Chinese modernization on the presumption that Deng Xiaoping and his colleagues are moving China away from socialist

central planning and toward something that looks like a market economy. The conclusion of these analysts is that if it looks like capitalism it will surely work well for the Chinese, and all that is really required to transform a socialist, centrally planned less developed country is the introduction of a system of reliably price-cued transactions among entities that look like autonomous producing and consuming units. . . . It is inconsistent with almost everything we know about the requirements for and the course of economic development. . . . Whether or not China can modernize economically is an interesting and debatable question. But the answer is certainly not as simple as Deng Xiaoping and his colleagues turning a "capitalist" face to the outside world.¹¹

The Chinese people have proved that they can make the free market work if they are unhampered by government controls. In the months since I left China, I have thought about the lesson that China offers for other nations, as well as for individuals who feel they can turn economic and political freedom on and off like water from a spigot. The lessons of the free market work well for all people, but centralized control can retard even the most promising prosperity and bring a nation back to economic bankruptcy. □

1. Immanuel C. Y. Hsu, *China Without Mao: The Search for a New Order* (Oxford and New York: Oxford University Press, 1983), pp. 91-118; Donald J. Senese, *Sweet and Sour Capitalism: An Analysis of "Socialism with Chinese Characteristics,"* (Washington, D.C.: The Council for Social and Economic Studies, 1985).

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3. Louise do Rosario, "Asia's Fifth Dragon," *Far Eastern Economic Review*, December 8, 1988, p. 62; Daniel Southerland, "In South China, Profits Keep Their Lure," *The Washington Post*, June 29, 1989.

4. Robert Delfs, "County Capitalism," *Far Eastern Economic Review*, April 27, 1989, pp. 27-28.

5. Robert Delfs, "Property to the People," *Far Eastern Economic Review*, December 20, 1988, pp. 12-13.

6. Daniel Southerland, "China Seeks To Rein in Economy," *The Washington Post*, March 22, 1989.

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8. John Burgess, "China's Economic Zone Innovators Reassess After Beijing Turmoil," *The Washington Post*, June 29, 1989.

9. Arch Puddington, *Failed Utopias: Methods of Coercion in Communist Regimes* (San Francisco: ICS Press, 1988), p. 15.

10. "Friedman Says Mainland Needs Freedom," *Ching Ming Monthly* (Hong Kong), February 1989, p. 42; reprinted in *Inside China Mainland*, April 1989, p. 24.

11. James T. Myers and Donald J. Puchala, "Some Demographic Constraints on Chinese Economic Modernization." Paper presented at the Seventeenth Sino-American Conference on Mainland China, June 5-11, 1988, Institute of International Relations, National Chengchi University, Taipei, Republic of China on Taiwan, p. 2.

Ecorse's Grand Experiment

by Greg Kaza

At first glance, Ecorse, Michigan, appears an unlikely place for a grand experiment.

Aging steel mills dominate the landscape in the 2.2-square-mile community of 11,000, located in a region known as Downriver Detroit. Downriver is typical of many of the "Rust Bowl" areas that dominate America's once-great industrial heartland. Row after row of small, wood-frame houses stand in the shadows of the mills, home to three generations of steelworkers. Along West Jefferson Avenue, the bars and fast-food establishments are fighting a battle against creeping blight. Crack cocaine dealers have invaded from Detroit, decimating several surrounding neighborhoods.

But look beneath the surface and you will find evidence of a grand experiment unique in recent American history. Three years ago, Ecorse teetered on the brink of economic bankruptcy, the result of a \$6 million budget deficit caused by wasteful local spending.

Today, the deficit has virtually disappeared, along with most of the Ecorse city government, which has been privatized to the point of near-extinction. "We have created a model city that nobody else in the country has," explains Louis Schimmel, the man responsible for Ecorse's grand experiment. "Some communities have privatized certain functions. I've privatized just about everything. Everything that I could legally."

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Ecorse was unique before Schimmel's appearance on the scene. It was the first Michigan community to be placed in receivership. Chief Wayne County Circuit Court Judge Richard Dunn appointed Schimmel receiver for the troubled community on December 3, 1986, after city officials failed to comply with repeated court orders to balance the budget.

Symbolic of the budget crisis was Ecorse's animal control officer, paid \$45,000 annually. "That's an awful lot for collecting dead dogs," Schimmel said. "I told Judge Dunn I didn't want the [receiver's] job if I had to do what the typical politician has to do, which is make promises and then chase the taxpayer's money to keep them. That's how Ecorse got in the mess that it is in today in the first place."

Schimmel's first act as receiver was to discharge 40 paid political employees from the Ecorse payroll. "Cost was not important in Ecorse even though they were near-bankrupt. Having their political buddies, cronies, relatives, and friends on the city payroll had become more important than the taxpayers," he said. Schimmel's second step was privatizing the 34-member Department of Public Works. Motor vehicle maintenance, snow removal, street and sidewalk repairs, tree trimming, water meter reading, weed cutting, and a myriad of other activities are now performed by the private sector. For an encore, Schimmel sold the DPW building and the department's equipment. "They're gone. It's going to be difficult if not impossible to resurrect them from the dead," he said.

Garbage collection was already handled pri-



THE DETROIT NEWS

Downtown Ecorse.

vately, but Schimmel renegotiated the contract at a savings of \$120,000. "It is important that contracts are monitored on a regular basis," he said. The city boat-launching facility was privatized. The city lost money under government control but is now turning a profit. Surplus buildings and abandoned city lots were sold to reduce the budget deficit, which has been cut to \$1 million.

Michigan law prevented Schimmel from altering Ecorse's police department, but he privatized the pension fund, restoring fiscal sanity to a system once underfunded by \$15 million. Under the fire union contract Schimmel renegotiated, the current full-time force will become a part-time and volunteer department through attrition. "We have a long list of applicants for the new positions. They don't seem to mind that it's not full-time. They just want to work," Schimmel said.

Few Ecorse departments have escaped Schimmel's budget-cutting. The city's work force, once 140, has been reduced by more than 60 percent through privatization. There have been exceptions. The duties of the \$45,000 animal control officer were contracted to the neighboring city of

River Rouge. "We pay half their costs and both of us save money," Schimmel said.

Privatization is frequently characterized as a "Sun Belt" or "Republican" idea. The Ecorse example proves otherwise. Downriver is synonymous with the so-called "Rust Belt," and Michigan Treasurer Robert Bowman, a Democrat, is among those supporting Schimmel. Bowman and Governor James Blanchard may turn to Schimmel to resolve a \$4.4 million budget deficit in River Rouge. "There isn't a community Downriver where I wouldn't use privatization," Schimmel said. "That includes River Rouge."

Not everyone is impressed with Ecorse's grand experiment. Labor unions representing former city employees have criticized the receivership, portraying Schimmel as an economic czar with an abrasive personality. Officials responsible for the \$6 million deficit contend the privatization of city services has gone too far.

For his critics, Schimmel has a ready response. "They knew bankruptcy was coming with that kind of spending, but they didn't do a damn thing about it. We did." □

The Artificial Inflation of Natural Rights

by Antony Flew

Like other currencies, the currency of rights has in recent years been subject to inflation. And just as money tends to lose value the more of it that governments print, so the more that is said to be a matter of natural or universal human right, the less force any such particular claim will have. In the good old days of the American Declaration of Independence the Founding Fathers of the United States mentioned only three such universal, unalienable, supposedly self-evident, and necessarily equal rights—to “life, liberty and the pursuit of happiness.”

But since World War II such declarations—more frequent and much less eloquently written, as well as (on the part of so many of the new signers) totally insincere—have embraced ever-lengthening lists. In the most notorious, adopted in 1948 by the UN General Assembly, the table of specification covers, not one modest clause in a single world-shaking sentence but six printed pages. In what would have appeared to the American Founding Fathers a crescendo of absurdity we are told: (Article 22) “Everyone . . . has a right to social security”; (Article 24) “Everyone has the right to . . . periodic holidays with pay”; (Article 25) “Everyone has the right to a standard of living adequate for the health and well-being of himself and his family. . . .”; and then—for the moment—finally (Article 26): “Everyone has the right to education. Education

shall be free, at least in the elementary and fundamental stages. Elementary education shall be compulsory,” and so on through an oddly intrusive clause specifying that all education must “further the activities of the United Nations,” to the incongruous and inconsistent, even if welcome, conclusion that “Parents have a prior right to choose the kind of education that shall be given to their children.”

There is no good reason why such a list should ever end, no rationale either provided or available for including in it one claim and not others, and hence no justification for—to reclaim a recently misappropriated phrase—*Taking Rights Seriously*. For those of us who do take rights seriously, the first need is to distinguish option rights from welfare rights. *Option rights are claims not to be harmed and to be left alone; welfare rights are claims to be supplied with various goods.*

The rights to “life, liberty and the pursuit of happiness” are all three of the first kind. A clear statement of liberty is provided by the 1945 constitution of Kemalist Turkey: “Every Turk is born free and lives free. He has liberty to do anything which does not harm other persons. The natural right of the individual to liberty is limited only by the liberties enjoyed by his fellow citizens.” The practice, of course, presents every kind of problem. But the principle is luminous. About happiness the only thing to be said is that it is, of course, a claim to be left free to pursue happiness, not to be supplied with the *means* to achieve it.

The right to life also should be similarly understood. It is the right of individuals not to be killed against their wills. It is not a right to be supplied

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either with a subsistence income or even with an opportunity to earn an adequate wage. Neither Nature herself nor the rest of mankind owes any of us either a living or even an opportunity to make one; and everyone still needs to remember this before bringing children into the world.¹ Again, just as any right of free association is at the same time and necessarily a right not to join, so any right to life must at the same time and necessarily be a right to end life if and when that is the right-bearer's own wish.

The Right to Be Left Alone

All option rights really reduce to one, the right to be left alone and unharmed. If any claim to any natural right can be made out, then this one certainly can. Consider "The Formula of the End in Itself" under which Kant's Categorical Imperative becomes: "Act in such a way that you always treat humanity, whether in your own person or in the person of any other, never simply as a means, but always at the same time as an end."²

These formulations as they stand will, of course, not do. One sufficient reason why they will not do was urged by Kant's admiring critic Schopenhauer. It is, strictly, incoherent to speak of "ends in themselves." There can no more be "ends in themselves" unrelated to the persons whose ends they are, than there can be sisters in themselves, unrelated to any siblings of whom they are the sisters.³

Again, Kant's talk of "rational natures" and of "rational beings" is likely to suggest creatures who are rational as opposed to irrational, or who are intellectual and unemotional as opposed to lowbrow and emotional. But the rational beings to all of whom the imperatives of morality apply, and "whose existence" might be said to have "in itself an absolute value," are not an exclusive band of Platonic dialecticians. Nor are they, what nothing could be, ends in themselves. What they are, are the very creatures we all are: creatures which are able to, and cannot but, form ends for themselves; creatures which in giving to themselves or to others their reasons for acting this way but not that way, however irrational or non-rational those reasons, are rational beings.

From these familiar non-moral facts of our human nature nothing can be immediately deduced about either any rights which must be possessed

by, or any obligations which must be laid upon, beings such as we. However, to borrow another characteristic concept from Kant, "as legislating members of the Kingdom of Ends," as creatures, that is, prescribing laws to apply to all creatures adopting and pursuing ends for themselves, we ourselves can lay it down that all rational agents are to be respected in their pursuit of their own chosen ends. Indeed, if we are committed to prescribing principles to apply equally to all such beings, principles which as ourselves such beings we could will to become universal law, then it would seem that we can scarcely fail to prescribe the following: individuals must have the right to pursue their own ends, save in so far as this pursuit violates the equal rights of others; and everyone must be under the reciprocal and corresponding obligation to respect those equal rights of everyone else. The notions of equality and of reciprocity enter here because no one can consistently claim such universal human rights for themselves except in so far as they concede to others the same rights, the same liberties.

At Whose Expense?

Now contrast with these option rights claims to welfare rights. All such claims should be challenged by putting a crucial question, followed by a more philosophical supplementary: "At whose expense?"; and, "What is the basis of the obligation supposedly falling upon the unspecified providers of all these desired and desirable benefactions?"

Again, natural or universal rights must, as such, be equally valid at all times and in all places. If, however, ought presupposes can, then there are no such rights to what is not, and cannot be made, universally available. While everyone everywhere and always could have enjoyed the option right to liberty, if only the others had been willing to respect these claims, there have been many periods, and there have been and are many places, where the total available resources could not satisfy even half of these fashionably proliferating welfare claims. And, furthermore, both the number of such less happy lands and the numbers of their poor inhabitants would surely tend to increase exponentially if a guarantee of generous welfare provision for all were to remove every prudential check upon human multi-

plication, thus automatically devaluing that guarantee.⁴

The questions put and objections raised in the previous two paragraphs bring out the hopelessness of attempting to construct a coherent and persuasive doctrine of welfare rights. But with option rights it is different. There the obligations rest as equally and fairly on everyone as the rights: everyone equally ought to, and can, respect everyone else's equal rights to liberty and against injury.

We conclude by quoting from a Sage. A disciple once asked Confucius whether his rule of conduct

might be embodied in a single word. The Master replied, "Is not 'reciprocity' the word?"⁵ □

1. For an examination of an Aristotelean source of the always more popular, contrary doctrine, see my *The Politics of Procrustes* (London and Buffalo: Temple Smith and Prometheus, 1981), chapter VI, 3.

2. Immanuel Kant, *Groundwork of the Metaphysics of Morals*, in *The Moral Law*, trans. H. J. Paton (London: Hutchinson, 1948), pp. 90 and 91.

3. Arthur Schopenhauer, *On the Basis of Morality*, trans. E. R. J. Payne (Indianapolis, IN: Bobbs-Merrill, 1965), p. 95.

4. Compare, perhaps, my Introduction to *Malthus: An Essay on the Principle of Population* (Harmondsworth and Baltimore: Penguin Books, 1971).

5. *The Analects*, trans. W. Soothill (Taiyuanfu, Shansi: Soothill, 1910), XV, 23g487

Basic Rights and Meta-Rights

by William B. Irvine

People are generally familiar with what might be called our *basic rights*. These include our economic rights, such as our right to own property and our right to start a business, and our political rights, such as our right to free speech and our right to life. Fewer people are aware of what might be called our *meta-rights*. These are rights we have with respect to our basic rights; they include, most importantly, our right to waive or transfer our basic rights.

Suppose, for example, that I own a car, but that I am no longer satisfied with it. If I trade it in on a new model, I am voluntarily exchanging my

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property right in the car for a property right in a new car; in so doing, I am exercising my meta-right to transfer my property right in my car. Similarly, when I apply for a job, my prospective employer might tell me that he will hire me only if I sign a document stating that I won't divulge a trade secret. What this employer is asking me to do is to waive certain aspects of my right of free speech; and if I accept the employment offer, I will be exercising my meta-right to waive the basic right in question.

Although these meta-rights are less well known than our basic rights, a case can be made that the preservation of our meta-rights is vital to our economic and political well-being; for unless

we have the meta-right to waive or transfer our basic rights, then these basic rights are much less valuable than they otherwise would be.

To see why I say this, imagine for a moment a world without the meta-rights described above. Imagine a world in which you could own things, but could never waive or transfer your ownership. In such a world, it is not at all clear how I could come to own a car (unless I built it myself—but where would I obtain the materials from which to build it?). And once I had a car, I would be stuck with it for life. I could never trade it in. I couldn't give it away. I couldn't even "junk" it.

It is clear that my ownership right in a car is much more valuable if, besides this basic right, I also possess the meta-right to trade or sell the car to others. For then my car, besides having value in terms of the transportation it provides me, has value in terms of the other things (e.g., other cars or cash) that I can trade it for. In having the meta-right to transfer ownership of my car, I gain the potential ownership rights to any number of useful things.

Or imagine a world in which I could not waive any of my political rights. In such a world I would presumably become unemployable, for as soon as my boss tried to tell me what to do, wouldn't he be infringing upon my right to self-determination, a basic right which, in the world described, I couldn't waive?

Even my right to life is more valuable if I have the meta-right to waive this basic right. Those who would deprive me of my meta-right to waive my right to life have done me a great disservice: They have transformed my *right* to live into a *duty* to remain alive.

Few people, one assumes, would be willing to live in a world in which people possessed the full complement of basic rights, but lacked the above-described meta-rights. It sounds a bit paradoxical, but one of the things that contributes most to the value of our basic rights is our ability to waive and transfer them. In short, basic rights are worth having largely because we can relinquish them.

This is a point that many people—and in particular, many politicians—fail to realize. These politicians may stand firm in their support of our basic rights (our basic political rights, if not our basic economic rights), while at the same time chiseling away at our meta-rights.

Thus, a politician who would never dream of taking away someone's apartment building (and thus violating his basic right to own property) might nevertheless advocate passing laws that limit the amount of rent the building owner can charge or laws that prevent the building owner from converting his apartments into condominiums. Such laws do not deprive the building owner of his property, but they do restrict what he can do with it; and because they interfere with the owner's ability to waive and transfer his property rights, they interfere with his meta-rights.

In the above example, we see how by depriving a person of his meta-rights, we lessen the value of his basic rights: Once laws are passed restricting what the building owner may do with his property, the market value of his apartment building is likely to fall.

Along these same lines, when politicians place limits on my ability to enter into contracts with others, they are depriving me of some of my meta-rights since they are interfering with my ability to contract away my basic rights. And when politicians impose restrictions on international trade, they are depriving me of some of my meta-rights since they are making it harder for me to exchange property with people in other countries.

Anyone who values rights, then, will not want his list of most valued rights to end where it traditionally does, *viz.*, with basic economic and political rights. For these rights, although valuable, derive much of their value from the meta-rights we have with respect to them. Furthermore, anyone who values his rights will defend his meta-rights at least as vigorously as he defends his basic rights; for he will realize that a basic right which cannot be relinquished is in many cases a right not worth having. □

“I’m Here to Help You”

by Stu Pritchard

Two time-honored professions, among others over the millennia, have been revered in history and extolled in poetry. “Medicine,” exclaimed Voltaire, “that most estimable of professions.” Longfellow wrote of farmers’ lives “darkened by shadows of earth, but reflecting an image of heaven.”

These two professions are among those now being throttled by bureaucratic government. “It’s insanity,” said a radiologist to me recently about trying to cope. “They’re taking away my livelihood,” lamented a farmer.

But how to explain? How can others in different professions, who see only their own oxen being gored, understand my problems as a physician and a farmer?

On one day alone, eight missives arrived by mail from Medicare. Page after computer-printed page added and deleted five-digit codes for myriad medical procedures and diagnoses. Cited were “violative procedures,” each bearing a possible \$2,000 fine. A clerk demanded copies of all my office notes and records for the past two years from my personal file on a long-standing heart patient. Of course, I refused.

Meanwhile, back at the farm, a young lady drove past the barn and stopped at the farmhouse. The legend, “Department of Agriculture,” on the side of her pickup caught my eye.

“I’m here to help you,” she announced, and then, “I see you have two cows in your pasture.” (“Heifers,” I corrected.) “And we’ve had a re-

port from Thurston County Health Department that you did some plowing last summer.”

“Yes,” said I. “That’s why more than 100 geese fly in frequently to nibble at the oats I planted. They are undisturbed by 13 deer who also like the feast.”

“Well,” she persisted, “we’re concerned about pollution in Oyster Bay.”

“I am, too, but I don’t think this valley that’s been a farm for more than 90 years contributes much pollution. Better to concentrate on human sources of pollution and contagion.”

Public-spirited, energetic regulators are sincerely motivated and increasingly “enabled” by politicians in legislative assembly. Although in both state and Federal constitutions, government is prohibited from using prior restraint to restrict freedom of speech and press, that same doctrine appears to be the method used by powerful bureaucrats to impose their views upon the citizenry.

“Your actions,” they seem to say, “might, even by a long stretch of the imagination, cause harm to others. There is no proof you have, but it is our supposition that you might cause harm. Therefore, you’re guilty, and we won’t allow you to prove yourself innocent of any wrongdoing.”

Prior restraint—a doctrinaire signpost on “The Road to Serfdom,” to quote the title of the famous book by Nobel Laureate Friedrich Hayek—can regulate to the point of non-production, destroy incentive and entrepreneurship, and enfeeble the industrious.

My local newspaper reports that every 100 public-sector jobs create 75 private-sector jobs. But wouldn’t it be more realistic to say that 75 of the latter create 100 of the former? After all, which sector supports the other?

Which is the sector that is mired down in license and permit fees, taxes, inquisitorial reports, and unannounced inspections on private property? And if employees in the public sector wall that they, too, pay taxes, ask the source of the money used to pay those taxes.

Yes, many who have loved their doctoring, their farming, and their other peaceful pursuits might pause to reflect: “Don’t let bureaucracy dim freedom’s light.” □

Stu Pritchard, M.D., of Tumwater, Washington, divides his time between practicing medicine and farming. An earlier version of this article appeared in The Olympian, published in Olympia, Washington.

Argentina at the Crossroads

by Richard A. Cooper

Statism has promised much to the Argentine people. But over the past 50 years, it has brought violence, corruption, unemployment, soaring inflation, and bitter disappointment. There is, however, a vibrant and growing Argentine movement that offers another choice—a classical liberal/libertarian movement dedicated to free markets and individual liberty.

For approximately 90 years, from 1853 to 1943, the classical liberal system of constitutional government, private property, and free trade held sway in Argentina. The country prospered. But not all Argentines were satisfied. Many of the urban masses felt cheated by the system. As time went by, their feelings of resentment and nationalism grew and merged. Different groups and leaders came and went, speaking for the disaffected Argentines. Then, in 1943, while Communism and Fascism menaced Europe, came the man whose legacy still haunts Argentina—Juan Perón.

Peronism as a doctrine is very vague, although Perón wrote many books and speeches. In essence, it is statist, protectionist, nationalist, and corporatist. Perón himself admired Franco and Mussolini. In 1949, Perón promulgated a constitution modeled after Fascist Italy, which enhanced presidential powers, increased central control, and contained corporatist features, especially regarding unions.

The Peronist system resembles that of PRI-dominated Mexico, seeking to integrate business and labor unions into a network of state-depen-

dent and politically connected parts of a statist political machine. Although Peronism directs its appeal to the masses with heavy doses of envy, it does not ignore businessmen, whom it supports with protectionist trade policies and state subsidies. Thus, there were and are Peronist businessmen. Unlike Mexico, however, Peronism relies on the charismatic personality of the leader to whip up enthusiasm against foreign and domestic enemies, especially Britain.

After the disgrace of the military junta in their failed 1982 invasion of the Falkland Islands, Argentina returned to democracy. The Radicals surprisingly defeated the Peronists and elected Raul Alfonsín, barred from re-election by the Constitution. The Radicals talked about privatization, but did little about it. The country has continued its slide, and the military is restive because of low pay and the trials of officers for their role in the “dirty war” of 1976-1983 in which thousands of leftists disappeared.

Argentina’s economic malaise is plain for all to see. While the country’s standard of living was comparable to Canada before World War II, Argentina is now slipping into the ranks of the Third World. Inflation is so high that advertisements for houses and cars quote prices in American dollars.

What went wrong? Perón and his successors, military or civilian, Peronist or Radical, built up a massive state apparatus and a private industrial sector sheltered by a rigidly protectionist system. There are 353 state enterprises, including those owned by the military. One such enterprise is LADE, offering airline service to civilians, but owned by the armed forces.

Mr. Cooper is an export/import manager in New York. He visited Argentina in November 1988.

When Argentina was rich, it built railroads, subways, and phone systems. Since statism took control, these have deteriorated. The Argentines have public services that don't serve. Three million dollars a day are lost on a rail system which should be visited by antique railroad buffs. YPF, the state oil monopoly, manages to lose money. Worst of all is the phone system, ENTEL, which has more employees than Nippon Telephone and Telegraph in a country with less than one-third the people. Twenty year waits for phones are normal. Journalist Bernardo Neustadt, a convert to the free market philosophy, proposed privatizing the phone system. Two hundred ENTEL unionists came to the radio station to physically attack him.

Pervasive state control and corruption go hand in hand. In frontier San Juan province, the former governor Leopoldo Bravo purged some independent-minded legislators from his Bloquista party. The newspaper *El Diario de Hoy* supported the legislators and their corruption charges. The newspaper's owners soon found themselves being pressured by the provincial tax bureau and other state agencies. The paper, however, still survives.

Who speaks out against the statism that has ruined Argentina? The *liberales* (liberals) represent the individualist, free market alternative to the dominant statist ideologies. Argentina possesses an individualist movement that is impressive in its activism and dedication. Like their American counterparts in the libertarian movement, the Argentines have pursued three paths: political, academic, and popular education.

Argentine individualists point to many national heroes as their forerunners, just as Americans do to the Revolutionary War heroes. Manuel Belgrano (1770-1820) and Mariano Moreno (1778-1811) fought to gain independence from Spain. Juan Bautista Alberdi (1810-1884) and Domingo F. Sarmiento (1811-1888) were admirers of the British classical liberals and the United States. They helped to overthrow the Rosas dictatorship in 1852. Alberdi drafted the 1853 Constitution, modeled after that of the United States. More recently, there was the writer Jorge Luis Borges (1899-1986).

Borges declared himself an individualist and "an anarchist in the Spencerian sense." Borges vigorously denounced Perón as a Fascist, and

strongly opposed nationalism and Communism. I had the pleasure of seeing a talk by Borges taped at ESEADE (a post-graduate business school emphasizing Austrian economic principles). Borges was asked by an unidentified American why he did not write more on politics and individualism. Borges replied, "I am a mere storyteller, not a politician."

UCeDe

The Argentine individualists take political action principally through the Union del Centro Democrático (Union of the Democratic Center, usually referred to as UCeDe), which together with other "liberal" parties, regionalist parties, and some conservatives form the Alianza de Centro (Alliance of the Center). The UCeDe was founded by Alvaro Alsogaray, who was the Alianza's candidate for president in 1989. The UCeDe's strength is growing, and although Alsogaray received only 6 percent of the popular vote in the May 1989 elections, the party did increase its seats in the Congress.

The UCeDe actively seeks new supporters. Literature tables selling the magazine *Tiempo de Acción Liberal* ("Time of Liberal Action") and campaign paraphernalia attract passers-by in Calle Florida and elsewhere. The UCeDe and its partners organize "Centros Cívicos" (civic centers) to promote individualism and democracy. A cook named Carlos Villalba formed the Centro Cívico "Obrero Liberal" (Liberal Worker) in a slum neighborhood and signed up 630 families out of 1200 for the UCeDe. Villalba is one of the many converts to classical liberalism won by Adelina de Viola, the successful UCeDe candidate for Congresswoman from the federal district of Buenos Aires.

The Argentines are fond of clubs and social gatherings. *Tiempo de Acción Liberal* runs a column by Susana Herrera reporting on local UCeDe activities, such as the pasta parties ("Noquis Liberales"—"Noquis" means "gnocchi") of the Movimiento de Acción Liberal (Movement of Liberal Action). These pasta parties feature political leaders, dancing, food, drink, and even a raffle. Two popular education groups of individualists, the Escuela de Educación Económica y Filosofía de la Libertad (School of Economic Education and Philosophy of Liberty) and the Cír-

culo de la Libertad (Circle of Liberty, a sort of individualist social club), both meet at the headquarters of the Movimiento de Acción Liberal in Buenos Aires.

The Argentine classical liberals/libertarians attract noticeably more women to their ranks of activists than seems common in the United States. Women participate actively in the Centros Cívicos and the youth arm of the UCeDe, Juventud Ucedeista (Young UCeDe's). The UCeDe's candidate for Senator from Buenos Aires was Maria Julia Alsogaray, a Congresswoman and daughter of Alvaro Alsogaray. And there is the highly popular Congresswoman Adelina de Viola.

The Argentine *liberales* rally to defend the 1853 Constitution against the changes proposed by the Peronists and Radicals, who seek to expand the government's (and their own) power. Although imperfect, the 1853 charter (which was brought back into force in 1957) is a brake on statism, according to Enrique Cerda Omiste of the Fundación Carlos Pellegrini (Carlos Pellegrini Foundation, named after the President who restored Argentina to solvency in the 1890s). Fundación Carlos Pellegrini is an educational group concerned with foreign affairs, values, and education, trying to combat the debasement of civic life inherent in statism.

The Centro de Estudios Sobre la Libertad (Center for Studies on Liberty) works diligently to propagate the ideals of individual liberty, private property, and free markets in Argentina. Founded by Alberto Benegas Lynch Sr. and some friends in 1957 under the name "Centro de Difusión de la Economía Libre," the Centro is perhaps the most important single classical liberal/libertarian organization in Argentina.

Still headed by Dr. Benegas Lynch, the Centro de Estudios Sobre la Libertad is modeled after the Foundation for Economic Education. Like FEE, the Centro publishes pamphlets, books, and a magazine like *The Freeman* named *Ideas Sobre la Libertad* (Ideas on Liberty). Dr. Benegas Lynch brought Ludwig von Mises, Friedrich Hayek, Leonard Read, and other free market luminaries to lecture in Argentina. The Mises lectures are now available in print, in both English and Spanish. (English title: *Economic Policy: Thoughts for Today and Tomorrow*)

Alberto Benegas Lynch graciously received me in his home in Buenos Aires. Dr. Benegas Lynch

expressed high hopes for the future as the competing brands of statism have all been discredited. He is cheered that young people are turning to free market individualism. Some of this shift can be attributed to Dr. Benegas Lynch and the Centro de Estudios Sobre la Libertad program of scholarships for study in the United States for many of the key professors of law and social sciences who are contributing to Argentine individualism today. Their efforts show in student elections at the University of Buenos Aires (UBA) where the *liberales* won in the faculty of law and three others.

The Centro de Estudios Sobre la Libertad presents seminars and lectures on free markets and individual liberty throughout Argentina. This program is directed by Dr. Eduardo Marty, professor of law and economics at UBA, with help from UBA law and accounting student, Alejandra Rojo.

ESEADE: An Emphasis on Austrian Economics

The Escuela Superior de Economía y Administración de Empresas (ESEADE, meaning Higher School of Economics and Business Administration) is a graduate business school emphasizing the Austrian school of economics. It publishes the journal *Libertas*, conducts a program of lectures taped on video (such as the one with Borges), and runs short seminars on economics and liberty for the general public. The president is Dr. Alberto Benegas Lynch Jr., one of the first students that the Centro de Estudios Sobre la Libertad sent to the United States.

The Instituto de la Economía Social de Mercado (Institute of the Social Market Economy) was founded by UCeDe leader Alvaro Alsogaray. Dr. Martin Krause, their Director of Programs, explained to me that they focus on human rights (including human rights violations in Cuba), privatization, and free trade. They publish a magazine and run essay contests for students with prizes of study in the United States. Their most recent winner, Dr. Alfredo A. A. Solari, professor of law at the University of Buenos Aires, studied at FEE in June and July of 1989.

The Instituto de Estudios Contemporáneos (Institute of Contemporary Studies) was founded by Marcos Victorica as a think tank like the Cato



RICHARD COOPER

Centro de Estudios Sobre la Libertad: From l-r: Rogelio Marty, Alejandra Rojo, Señora Marty, and Eduardo Marty.

Institute in Washington, D.C., with a public policy focus. It studies the informal economy, deregulation, and privatization. Most notably, it sponsored the book, *El Estado y Yo por Juan Garcia (taxista)* (*The State and Me by Juan Garcia, taxi-driver*), written by Faustino A. Fernandez Sasso.

I attended the presentation of the book at El Ateneo bookstore in Buenos Aires. About 160 people came to hear about a book they had never seen. People stood about 20 deep in the rear to listen to the four panelists (Sasso, Adelina de Viola, Marcos Victorica, and journalist Bernardo Neustadt) discuss the book.

El Estado y Yo presents a forceful and funny case for limiting the state in the interests of the people. Sasso writes in a popular style with famil-

iar stereotypes (the Japanese laundryman and the Galician Spanish bar owner). Juan Garcia, the story's taxi-driver, is Everyman, struggling to get by and lead his family to a better life. With facts and figures, Garcia shows the elephantine size of the state and its mammoth inefficiency. One memorable remark was "The country is full of functionaries, but nothing functions."

The Argentine classical liberal/libertarian movement is gaining ground. Over 50 percent of the public favor some privatization. Monica Maturano of the Instituto de Estudios Contemporáneos stresses how Argentines of her generation—in their 20s and 30s—have been disillusioned with statism, which simply doesn't work. The Argentine movement for liberty, like the nation itself, stands at a crossroads. □

The Survival of the Adversary Culture

by John Chamberlain

Paul Hollander was Hungarian-born, but educated in sociology in a "somewhat casual and unpremeditated manner" in England, in Illinois, and at Princeton. He is less interested, he says in *The Survival of the Adversary Culture* (New Brunswick, N.J.: Transaction Books, 299 pp., \$27.95), in exploring the injustices and defects of American society than he is in studying the injustices and deformities of other political systems, namely, those of the Soviet variety. He still manages to retain over the years "a naive astonishment and occasional indignation over the fact that Western intellectuals, including perhaps most American social scientists, show so little appreciation of or support for the institutions which sustain them."

He accepts it as a given fact that most people need a "Mecca," and if they can't find it in a religion they will find it on this earth. He quotes British novelist Doris Lessing with approval. Says Lessing, "it's fairly common among socialists [that] they are in fact God-seekers, looking for the kingdom of God on earth, trying to abolish the present in favor of some better future. If you don't believe in heaven you believe in socialism."

Hollander's curiosity led him to make an extended study of "political pilgrimage" among intellectuals. Currently they are turning to Nicaragua in default of anything better. They went along with Soviet Russia until Stalin made it impossible for them to deny their eyes and ears. Then they turned to China. But Mao, killing his millions in the name of culture, was no better than Stalin.

That left Cuba, with Fidel Castro, and Nicaragua, with Ortega. So an issue of *Sojourn-*

er's magazine says "we believe that something unprecedented in Central America is happening in Nicaragua." Hollander "wonders if it would have made any difference had they known that many similarly hopeful travellers also believed that something unprecedented was happening in the Soviet Union, China, Cuba, Albania, Bulgaria, Mozambique or many other countries of a similar political inspiration."

The behavior of intellectuals on political pilgrimage to Managua or Havana taxes one's credulity. The Reverend Jesse Jackson visited what he was told was a "model prison." The inmates played baseball. But "as soon as Jackson had left the balls and bats were taken away and the prisoners returned to their cells."

In Nicaragua the Sandinistas' Tomas Borg has two different offices. One is for meetings with religious delegations and delegations from democratic political parties. Before Borg meets with a religious delegation he memorizes Bible passages for quotation. But in his "real office" there are no crucifixes or Bibles—only Marxist literature and "posters of Marx, Engels, and Lenin."

Borg, of course, is the Marxist who said the Central American revolution recognizes no boundaries.

The palpable effort in Managua is to reproduce in Central America the atmosphere of the American college campuses of the 1960s. A Sandinista network in the U.S. funnels tour groups to Nicaragua. Hollywood types are welcomed.

George Kennan's changing views are thoroughly analyzed by Hollander. Kennan's famous 1947 article that set forth the policy of containment is no longer considered relevant. In 1981

Kennan had come to believe that the negative image of the Soviet Union is "a monster of our own creation." The Soviet leaders, says the "new" Kennan, are "ordinary men who share the horror of major war."

Hollander says that "perhaps we can share" Mr. Kennan's concern for the earth's limited resources, "but it is hard to see why tackling that problem and keeping the Soviet Union from expanding its influence should be mutually exclusive." □

PROSPERITY AND POVERTY: THE COMPASSIONATE USE OF RESOURCES IN A WORLD OF SCARCITY

by E. Calvin Beisner

Crossway Books, 9825 W. Roosevelt Road, Westchester, Illinois
60153 • 1988 • 304 pages • \$9.95 paperback.

Reviewed by Peter J. Hill

Despite protestations to the contrary by some economists, issues involving economic policy are extremely value laden. Questions of economic justice, appropriate levels of redistribution, and the moral foundations of rights continually arise. Hence it is not surprising that people who have a well-developed moral and religious framework attempt to integrate that value structure with their views on economic policy. Calvin Beisner fits very well in this genre as he has written a book that uses a biblical perspective to look at the world of economics.

Beisner's analysis is thoroughly Christian in the sense that he sees the Bible as the ultimate standard of truth by which all things must be measured, but he is also conversant with much of the recent scholarship in economics. Thus his work represents a careful attempt to integrate the two perspectives. He recognizes the need for compassionate people to address the problems of poverty, but he is also aware that one must couple biblical concern with a careful understanding of how the world works. Beisner avoids the trap that many Christians fall into of thinking that good intentions are all that matters, and that appropriate Christian concern will automatically lead to effective policy measures.

Beisner begins with the concept of stewardship, arguing that the believer must see God as

the owner of all things, and from that flows the responsibility to act appropriately in economic matters. He argues that we must not act wastefully and that the creation of wealth is very much a part of good stewardship. However, he also recognizes the dangers of wealth, clearly laying out where the allegiance of the Christian must lie. Beisner also does a thorough job of developing the concepts of work and rest as they relate to economic activity.

It is the second part of the book that many readers will find the most interesting. In it the author puts forth his standard of economic justice, and he departs considerably from most Christian ethicists on this issue. He argues that biblical justice does not demand equality, and, in fact, requires very unequal results in many cases.

A major part of Beisner's analysis deals with the controversial Jubilee Year provision of Leviticus 25, and he concludes that the passage does not require a radical equalizing of property or incomes. He does recognize that the text implies a significant constraint on the ability of people to alienate their productive capital, and it is in this sense that the passage has the most interesting implications for modern society. Although Beisner acknowledges the importance of translating biblical concepts to the modern setting, a fuller exposition of just what the injunction against the permanent sale of land would prohibit in today's society would have been appreciated.

Parts III and IV of the book give a fairly adequate explanation of how an economy functions with appropriate attention to issues of property rights, prices, and markets. Considerable attention is given to the questions of money and inflation, with the careful development of the argument that a decrease in the purchasing power of money represents both bad stewardship and theft. On the basis of the biblical injunctions protecting property rights, Beisner concludes that the government should have no positive role in the provision of money; in other words free market money represents the only truly moral form of currency.

The author reaches an equally radical conclusion with regard to coercive redistribution of wealth, namely that, by biblical standards, none should occur. A strong emphasis on the sanctity of property rights is at the basis of this conclusion. Fairly standard arguments against subsidies,

price controls, and import restrictions are also made.

The last section of the book presents Beisner's views on what should be done to alleviate poverty. He recognizes a clear biblical imperative to care for the deserving poor, but argues that the government should have no role in doing that other than preventing fraud and the violation of property rights. Therefore he proposes alternative anti-poverty measures involving church and personal voluntary action. Beisner calculates the number of poor people in the United States according to the biblical concept of poverty, which he argues is much more restrictive than the official government definition. Using rough estimates for per capita income of church members, he concludes that about one percent of their income, or one-tenth of the expected tithe, would be sufficient to eliminate poverty. Of course any such calculations are subject to numerous caveats, but the point is well taken; appropriate Christian concern could voluntarily solve most of America's poverty problem.

Of course Christians do not devote anywhere near this amount to poverty reduction, a shortcoming of which Beisner is appropriately critical. He also recognizes that his call for reduction of government involvement in income redistribution must be accompanied by a dramatic alteration in the attitude of many Christians toward voluntary measures.

Beisner's book is well worth reading. He takes his standard of justice and truth, the Bible, seriously and doesn't shirk from attempting to apply it to some of society's most vexing economic problems. He also is careful not to argue that the prevailing ethos of our capitalist society is biblical, while at the same time avoiding a utopian fascination with alternative institutional arrangements. One may wonder if the strength of his conclusions is fully warranted on some issues. For instance, is only free market money truly biblical, and can *no* coercive redistribution of income be considered legitimate from a Christian perspective? Nevertheless, Beisner develops well-reasoned positions grounded in a careful reading of Scripture to support these positions, and the reader who wishes to disagree must be ready to confront his arguments head-on. □

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ECONOMICS: BETWEEN PREDICTIVE SCIENCE AND MORAL PHILOSOPHY

by James M. Buchanan

Compiled with a preface by Robert D. Tollison and Viktor J. Vanberg. Texas A&M University Press, College Station, Texas 77843-4354 • 1987 • 413 pages • \$48.50 cloth.

Reviewed by Matthew B. Kibbe

A good economist will make one important theoretical contribution to his field in a lifetime of work. There are few individuals of this intellectual caliber. Far rarer is the economist who has written extensively and productively on a broad range of theoretical and practical issues, often crossing official boundaries into other academic disciplines. James Buchanan is such an economist.

In his distinguished career, Professor Buchanan has written extensively on the economics of public finance, welfare economics, the economics of cost and individual choice, economic methodology, and political philosophy. In 1986, he was awarded the Nobel Prize in Economics for his pioneering work in the field of "public choice," which revolutionized the way mainstream economists look at and evaluate the political decision-making process.

For the serious student interested in learning more about Buchanan's work, this book is a great place to start. It is a collection of previously published essays and journal articles that brings together a broad, well-rounded sampling of Buchanan's most important contributions to economics and political philosophy.

A student and *protégé* of Frank Knight at the University of Chicago, Buchanan reflects an eclectic mix of ideas borrowed from Ludwig von Mises, F. A. Hayek, G. L. S. Shackle, and others. Austrian economists in particular will find themselves sympathetic with Buchanan's primary goal of reviving and extending the study of political economy in the tradition of the 18th-century Scottish moral philosophers.

But Buchanan is still a neoclassical economist who often defends the orthodox tendencies to test, measure, and predict empirically. For example, he maintains that there is a strict dichotomy between the realm of "reactive" choice, where he views man's actions as analogous to the reactions

of rats, and the realm of true creative choice in the Austrian sense. He argues: “. . . Misesian praxeology, as I understand it, would seem to include both examples within the realm of human action that theory seeks to analyze and to explain. I submit, however, that they are categorically distinct. [Reactive] action need not reflect conscious, active, or creative choice; it can be interpreted as an animal-like response to a change in the external environment. It is. . . behavior that might have been scientifically predicted.”

Always challenging, often frustrating, it is this essential tension, the rift “between predictive science and moral philosophy,” that drives Buchanan’s system of thought. All the same, the reader will enjoy being introduced to one of the few truly original thinkers in economics today. □

Matthew Kibbe is a doctoral student in economics at George Mason University and a fellow at the Center for the Study of Market Processes.

LIBERTY, PROPERTY, AND THE FOUNDATIONS OF THE AMERICAN CONSTITUTION

Edited by Ellen Frankel Paul and Howard Dickman

State University of New York Press, State University Plaza, Albany, NY 12246 • 1989 • 181 pages • \$39.50 cloth, \$12.95 paper

Reviewed by Robert W. McGee

This book consists of eight essays, written by eight different scholars, and edited by Ellen Frankel Paul and Howard Dickman of the Social Philosophy and Policy Center in Bowling Green, Ohio. The unifying theme is the interrelationship between liberty and property, with special emphasis on how liberty and property were viewed by America’s Founding Fathers.

In the preface, Gordon S. Wood discusses the intellectual atmosphere that existed in the Colonies at the time of the Revolution. Property was seen not so much as a way to aggrandize profits, but as a source of personal independence. Property consisted not only of tangible goods but also of skills and anything else that made a person independent. At least some of the Constitution’s framers were very much aware of the danger posed by a legislative majority bent on usurping a minority’s property rights. In one of

the first Supreme Court cases, Justice Samuel Chase stated that a law exceeds its legislative authority if it takes property from A and gives it to B. Today, such laws are commonplace, and very few people question their validity or even their propriety. How things have changed in 200 years.

Michael Kammen writes about the rights of property and the property in rights. One of the primary functions of government is to protect property. The new Constitution aimed at protecting these rights, as did the various state constitutions. Liberty and property were thought to exist side by side. People couldn’t have one without the other. The best way to safeguard liberty was to safeguard property. While some patriots worried that a free society would produce inequality, wealth, luxury, extravagance, vice, and folly, curbing property rights to prevent these possible evils wasn’t seriously considered by most theorists of the day. Madison pointed out that property rights developed from the diversity in the faculties of men and that attempting to distribute property evenly is a wicked idea. Jefferson wanted to give 50 acres of land to every adult male who lacked property, so that a broad segment of the population would have a stake in the society. With the spread of property goes the spread of liberty.

Andrew J. Reck’s chapter discusses moral philosophy and the framing of the Constitution. Two influential works of political philosophy appeared between 1776 and 1789, John Adams’ *Defence of the Constitutions of Government of the United States of America* and the *Federalist Papers* by Hamilton, Madison, and Jay. By far the more influential of the two was the *Federalist Papers*, which argued for ratification of the Constitution in a series of essays that first appeared in newspapers. Reck outlines the origins of these two documents, portions of which can be traced back to the ancient Greeks and Romans. Other sections of this chapter focus on the convention debates, Forrest McDonald’s comprehensive study of the intellectual origins of the Constitution, the relationship between liberty and property, the compromise by which states retained equal representation in the Senate and representation by population in the House, and Hamilton’s speech at the convention. At the time of the convention, moral philosophy focused on the relationship of special interests to the general good, a relationship that the Public Choice School and others still

are studying today. The framers' moral philosophy synthesizes the extremes of virtue and interest.

Edward J. Erler's chapter compares the present view of property rights, as expounded by Justice William Brennan, with the view of the Founding Fathers. According to Brennan, the Fourteenth Amendment is perhaps as important as the original Constitution itself because it upgrades the importance of protecting life and liberty, and places property rights in a secondary position. The Founding Fathers, on the other hand, saw no inherent conflict between the right to property and the rights to life and liberty. Securing the right to property was the means by which the rights to life and liberty could be achieved. John Locke and the natural rights theorists played a very influential role in shaping the framers' view of property rights. Many documents of the Colonial era, such as the various state bills of rights, are Lockean in structure and content.

Jean Yarbrough focuses on Thomas Jefferson's view of property rights. One long-running dispute has been Jefferson's failure specifically to include property among the inalienable rights enumerated in the Declaration of Independence. Rather than life, liberty, and property (as per Locke), Jefferson used life, liberty, and the pursuit of happiness. Yarbrough points out that property is not inalienable, since it can be alienated—traded or given away. Inalienable rights are a special category of natural rights that cannot be transferred to another. Property can be transferred, so it is not inalienable, although it is a natural right. Other sections discuss the origin, meaning, and status of property and the place of property in a republican government. The final section presents an overview of Jefferson's agrarian republicanism.

Charles F. Hobson's chapter discusses republicanism, commerce, and private rights from a Madisonian perspective. Madison was committed to republicanism, the belief that government is derived from the consent of the governed. He was a believer in majority rule but worried that the majority would violate minority rights if not held in check by the chains of the Constitution. Throughout history, republics inevitably had declined into despotisms. Madison was determined that this fate would not befall the newly created

United States of America, so he built in checks and balances to protect minorities and to prevent any branch of government from being able to seize too much power. Virtue was needed to sustain republican government, and Madison believed that virtue was best protected in an agrarian society, where individuals could remain independent and need not rely on others for sustenance.

Bernard H. Siegan writes about the limitations placed on Federal and state economic powers by the Constitution. The Constitution protects property rights and a capitalist economic system. Having experienced the abuse of economic rights by state legislatures, the framers provided more specific protection against the Federal abuse of economic rights. States were not to interfere with contracts, although that clause has since withered away almost to the point of nonexistence. A common market between the states prevents jealous special interests within the states from using the power of government to protect their interests at the expense of everyone else.

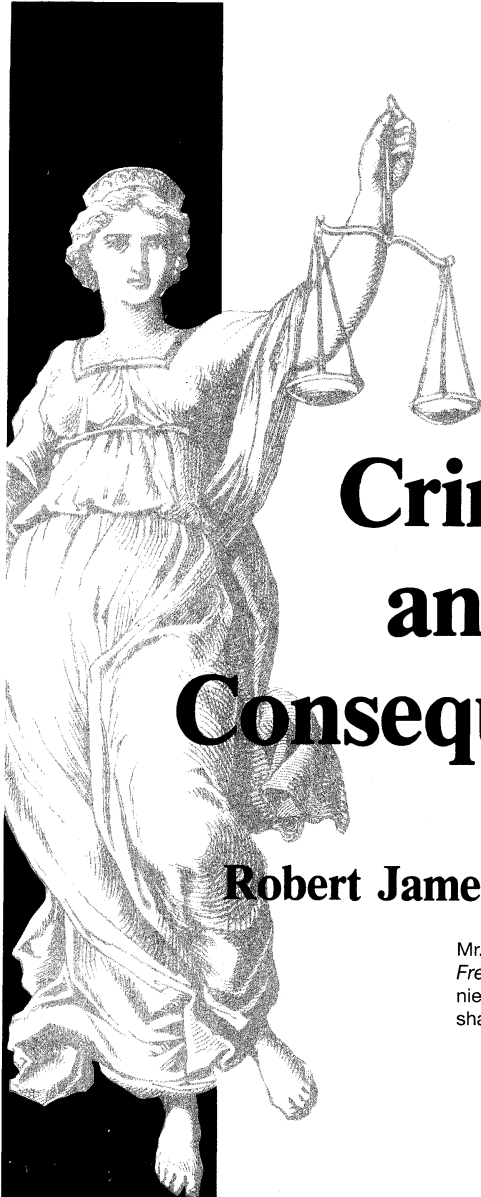
William Letwin expands on this theme when he addresses the Constitution's economic policies. While the term "capitalism" wasn't used in 1789, the concept of capitalism—that the means of production should be privately owned and controlled—was very much a part of the founders' philosophy. The due process, takings, commerce, and contract clauses all provide evidence that the founders intended individuals to own and control the means of production. Contemporary writings, such as the *Federalist Papers*, other writings of Madison and Hamilton, and the writings of others during the period, all provide substantial evidence that the founders intended to protect a free enterprise system. However, it cannot be said that the framers intended to found a laissez faire system. Indeed, as a group, they had no concept of such an idea. Their experience had been of mercantilism, and while the framers abhorred certain aspects of mercantilism, they did not come out in favor of a laissez faire system. But the Constitution did not say anything to prevent such a system either.

In the concluding chapter, Michael W. McConnell provides a case study in the relationship between individual liberties and Constitutional structure, focusing on contract and property rights. He goes into some of the history behind

contract, including a discussion of the Northwest Ordinance, the Treaty of Paris, the contract clause and the just compensation clause. He also discusses some possible explanations for the different treatments of contract rights and property rights, focusing primarily on the Hamiltonian and Madisonian views.

All in all, this book provides an adequate, though brief, introduction to the prevailing view of liberty and property at the time of the founding of the American republic. ☐

Professor McGee teaches accounting at Seton Hall University.



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January-December 1989

Prepared by
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